Please write clearly in block capitals.

Centre number | | | | | |  Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____

# AS
# ECONOMICS

## Paper 1 The Operation of Markets and Market Failure

Monday 13 May 2019 Morning Time allowed: 1 hour 30 minutes

| For Examiner's Use | |
|---|---|
| Question | Mark |
| Section A | |
| Section B | |
| **TOTAL** | |

**Materials**

For this paper you must have:
- the insert
- a calculator.

**Instructions**
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

**Information**
- The maximum mark for this paper is 70.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

Do not write outside the box

## Section A

Answer **all** questions in this section.

Only **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ⬬ WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

**0 1** Which one of the following best describes the basic economic problem?

**A** Living standards are low for many people ⬭

**B** Resources are being depleted too rapidly ⬭

**C** Resources are scarce relative to needs and wants ⬭

**D** Resources are unequally distributed ⬭

**[1 mark]**

**0 2** A rise in the price of blueberries from £8 to £10 per kg encourages growers to increase their supply from 12 kg to 21 kg each week. Other things remaining the same, this suggests that the price elasticity of supply for blueberries is

**A** 0.22 ⬭

**B** 0.33 ⬭

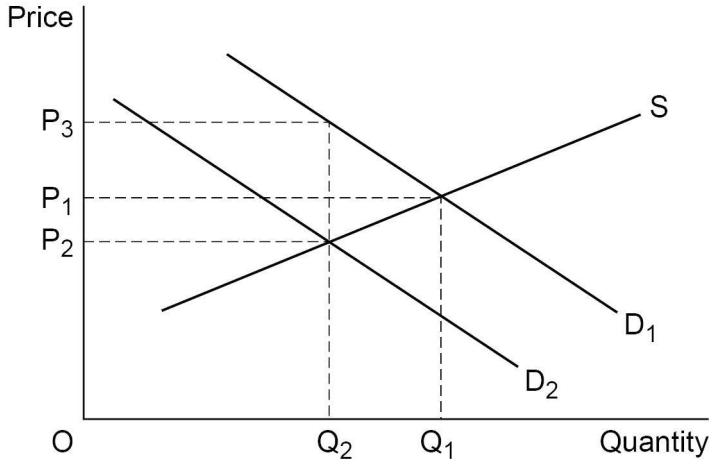
**C** 3 ⬭

**D** 4.5 ⬭

**[1 mark]**

Do not write outside the box

**0 3** The following diagram shows the free market supply (S) and demand ($D_1$) for a good when there is imperfect information. $D_2$ shows the level of demand if consumers had full information about the effects of consuming the good.




Which one of the following government policies is most likely to result in the social optimum level of consumption?

**A** A maximum price equal to $P_3$

**B** A minimum price equal to $P_2$

**C** A subsidy per unit equal to $P_1 – P_2$

**D** A tax per unit equal to $P_3 – P_2$

**[1 mark]**

**0 4** Firms in the steel industry in an economy move abroad to where costs are lower. The redundant steel workers are occupationally immobile. This situation represents a market failure because

**A** domestic steel production is replaced by imported steel.

**B** some factors of production will not be fully employed.

**C** there is no government provision of training schemes.

**D** there will be underproduction of a merit good.

**[1 mark]**

Do not write outside the box

**0 5** A government plans to build a new road to bypass a small town. The table below shows the costs and benefits of two possible routes for the new road.

| | **'Blue route'** | **'Green route'** |
|---|---|---|
| | **£ million** | |
| Private costs | 44 | 34 |
| Private benefits | 72 | 46 |
| External costs | 9 | 8 |
| External benefits | 18 | 17 |

The government intends to choose the route that has the higher ratio of social benefits to social costs. This ratio (correct to one decimal place) is

**A** 1.5:1 ⬭

**B** 1.7:1 ⬭

**C** 2.0:1 ⬭

**D** 2.1:1 ⬭

**[1 mark]**

**0 6** The market for crab sandwiches experiences an increase in the price and an increase in the output of crab sandwiches. Which of the following combinations of events is the only one that could have caused these changes?

**A** A fall in the price of tuna sandwiches and a fall in the price of crab ⬭

**B** A new tax on food packaging and a fall in labour productivity ⬭

**C** A rise in the price of prawn sandwiches and a rise in the price of bread ⬭

**D** New entry of firms into the sandwich market and a reduction in the minimum wage ⬭

**[1 mark]**

Do not write outside the box

**0 7** A construction firm uses workers, machines and raw materials to build new houses. One year the firm builds 20 more houses than in the previous year. It can be concluded that there must have been an increase in

**A** employment. ⬭

**B** production. ⬭

**C** productive efficiency. ⬭

**D** productivity. ⬭

**[1 mark]**

**0 8** The following table shows the market shares of the five leading manufacturers in a particular industry.

| Manufacturer | Market share (%) |
|---|---|
| Firm A | 13 |
| Firm B | 24 |
| Firm C | 11 |
| Firm D | 15 |
| Firm E | 7 |
| Others | 30 |

If Firm A and Firm C combine to become one firm, what happens to the three-firm concentration ratio and the five-firm concentration ratio?

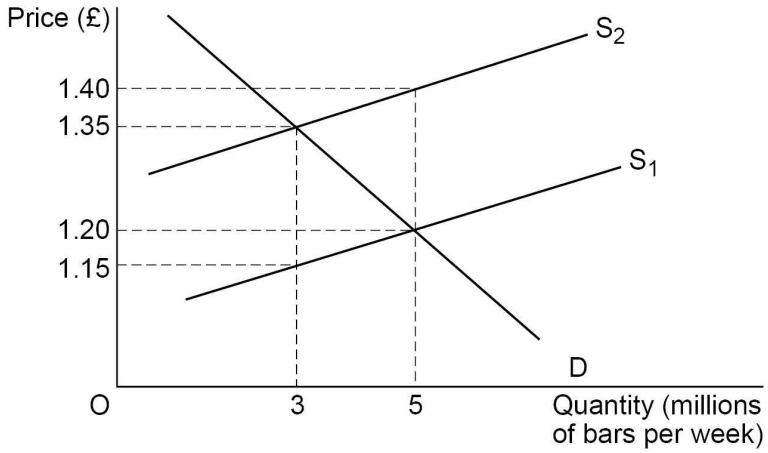
| | Three-firm concentration ratio | Five-firm concentration ratio | |
|---|---|---|---|
| **A** | Falls | Falls | ⬭ |
| **B** | Falls | Rises | ⬭ |
| **C** | Rises | Falls | ⬭ |
| **D** | Rises | Rises | ⬭ |

**[1 mark]**

**Turn over for the next question**

Do not write outside the box

**0 9** The following supply and demand diagram shows the impact of a government tax on chocolate bars.




The amount of tax revenue raised each week is

**A** £0.45 million

**B** £0.60 million

**C** £0.75 million

**D** £1.00 million

**[1 mark]**

**1 0** Two large firms dominate the market for manufacturing rail track. This means that

**A** abuse of monopoly power will result in diseconomies of scale.

**B** barriers to entry are low as neither firm is a pure monopoly.

**C** neither firm has monopoly power but benefits from economies of scale.

**D** the two firms have monopoly power but may also compete.

**[1 mark]**

Do not write outside the box

**1 1** A clothes retailer has experimented with changing the prices of various items of clothing sold in their shop. The table below shows the different prices per item in 2 years.

| | **Year 1** | **Year 2** |
|---|---|---|
| Socks | £6 | £8 |
| T-shirts | £15 | £11 |
| Trainers | £40 | £42 |
| Trousers | £33 | £38 |

Other things being equal, which one of the following changes from **Year 1** to **Year 2** is the retailer most likely to experience?

**A** A decrease in revenue from socks if the price elasticity of demand is minus one ⬭

**B** A decrease in revenue from T-shirts if the price elasticity of demand is elastic ⬭

**C** An increase in revenue from trainers if the price elasticity of demand is inelastic ⬭

**D** An increase in revenue from trousers if the price elasticity of demand is elastic ⬭

**[1 mark]**

**1 2** The benefit one person obtains from breathing clean air does not reduce the benefits other people can obtain from the clean air. This characteristic represents

**A** non-excludability of a public good. ⬭

**B** non-rivalry of a public good. ⬭

**C** optimum provision of a public good. ⬭

**D** the free-rider problem of a public good. ⬭

**[1 mark]**

**Turn over for the next question**

Do not write outside the box

**1 3** A pizza takeaway raises the price of its pizzas by 5%, resulting in a 10% fall in demand for their pizzas. Also, the next-door fish and chip shop sees the demand for its food rise by 10%. Which one of the following combinations of elasticities represents these events?

| | Price elasticity of demand for pizzas | Cross price elasticity of demand for fish and chips with respect to the price of pizza | |
|---|---|---|---|
| **A** | –0.5 | 0.5 | ⬭ |
| **B** | –0.5 | –0.5 | ⬭ |
| **C** | –2 | 2 | ⬭ |
| **D** | –2 | –2 | ⬭ |

**[1 mark]**

**1 4** The following table shows the price of spaghetti in 3 years.

| Year | Price of spaghetti £ per 500 g |
|---|---|
| 1 | 3.09 |
| 2 | 2.75 |
| 3 | 2.60 |

Over the 3 years, it can be concluded that there has been a fall in

**A** the average cost of producing spaghetti. ⬭

**B** the average revenue from sale of spaghetti. ⬭

**C** the consumer demand for spaghetti. ⬭

**D** the total revenue from sale of spaghetti. ⬭

**[1 mark]**

Do not write outside the box

**1 5** Which one of the following is a true statement about market structures?

Market structures

**A** are partly defined by the number of firms in the market. ⬭

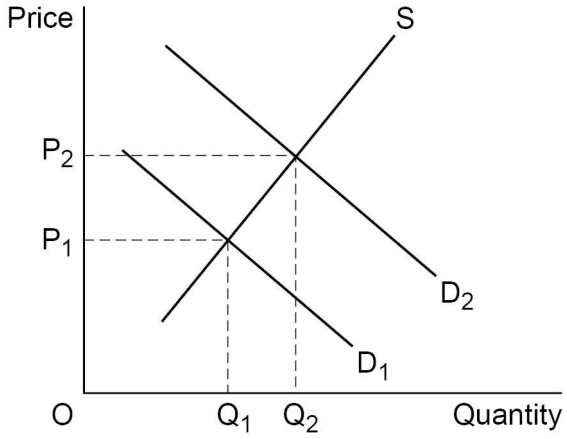
**B** are the rules imposed by governments which limit how firms behave. ⬭

**C** include concentrated markets but not competitive markets. ⬭

**D** include markets for goods but not markets for services. ⬭

**[1 mark]**

**1 6** The following diagram shows demand and supply in the market for roses. The demand for roses shifts from $D_1$ to $D_2$.




Other things remaining the same, it can be concluded that

**A** monopoly suppliers have pushed up the price of roses. ⬭

**B** the higher price of roses will cause demand to fall back to $D_1$. ⬭

**C** the income elasticity of demand for roses is positive. ⬭

**D** there is greater incentive to supply roses. ⬭

**[1 mark]**

**Turn over for the next question**

Do not write outside the box

**1 7** A government sets a maximum price below the current market price for rented housing. The likely long-run consequence is that

**A** fewer people can live in rented housing.

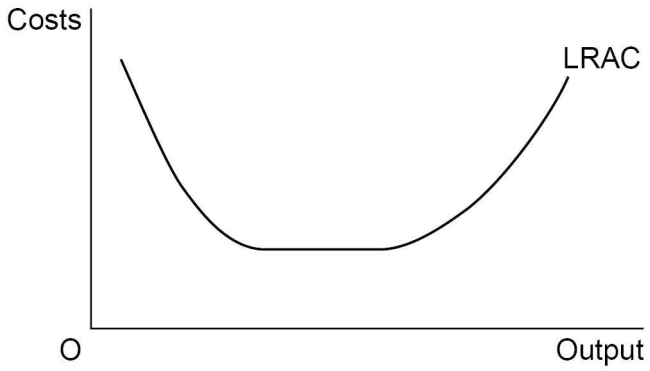
**B** the rationing function of prices will improve.

**C** there will be a fall in supply of owner-occupied housing.

**D** there will be excess supply of rented housing.

**[1 mark]**

**1 8** The following diagram shows the long-run average cost curve (LRAC) for a firm.




From the diagram it can be concluded that

**A** average fixed costs will fall and then rise.

**B** economies of scale are present at some levels of output.

**C** the firm will inevitably experience diseconomies of scale.

**D** total costs must first fall and then rise.

**[1 mark]**

Do not write outside the box

**1 9** 'Large pay bonuses received by top executives have caused income inequality to increase.' This statement

**A** is an example of a normative statement. ⬭

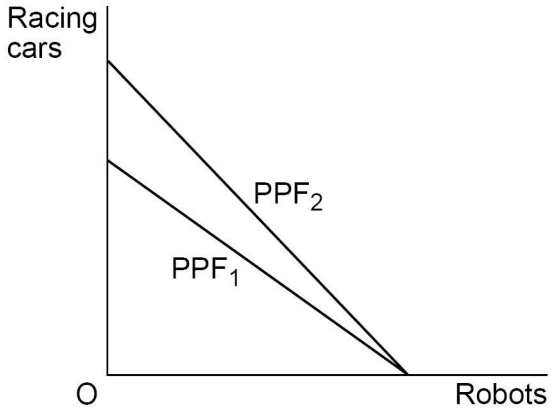
**B** is an example of an hypothesis that can be tested. ⬭

**C** shows that income tax is not sufficiently progressive. ⬭

**D** shows that the distribution of income is inequitable. ⬭

**[1 mark]**

**2 0** An economy produces racing cars and robots. The economy's initial production possibility frontier ($PPF_1$) is shown in the diagram below.




The economy's production possibility frontier shifts to $PPF_2$ and as a result of this change the

**A** number of racing cars that can be produced for each robot given up has increased. ⬭

**B** opportunity cost of producing robots is now lower. ⬭

**C** output of racing cars will be higher than the output of robots. ⬭

**D** productive efficiency of producing robots has risen. ⬭

**[1 mark]**

20

**QUESTION 20 IS THE LAST QUESTION IN SECTION A**

Do not write outside the box

## Section B

Look at the insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

**OR**

Questions 27 to 32 on pages 23 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context **0 1** ⬭ Context **0 2** ⬭

WRONG METHODS ⊗ ⊙ ≋ ✓ CORRECT METHOD ●

**EITHER**

**Context 1** **Total for this context: 50 marks**

**PALM OIL**

Use the insert provided to study **Questions 21** to **26** and **Extracts A**, **B** and **C**, and then answer the questions in the spaces which follow.

**2 1** Define 'specialisation' **Extract B** (line 15).

**[3 marks]**

Do not write outside the box

**2 2** **Extract B** (lines 15–16) states: 'Another important reason for the increased popularity of palm oil with growers is that it is the most productive oil crop…'

If 4 hectares of land yield 15 tonnes of palm oil, calculate, to **one** decimal place, the expected yield of sunflower oil from 6 hectares of land.

**[4 marks]**

**Turn over for the next question**

Do not write outside the box

**2 3** Use **Extract A** to identify **two** significant features of the changes in the area used for certified sustainable palm oil production over the period shown.

**[4 marks]**

Feature 1 _____

_____

_____

_____

_____

Extra space _____

_____

Feature 2 _____

_____

_____

_____

_____

Extra space _____

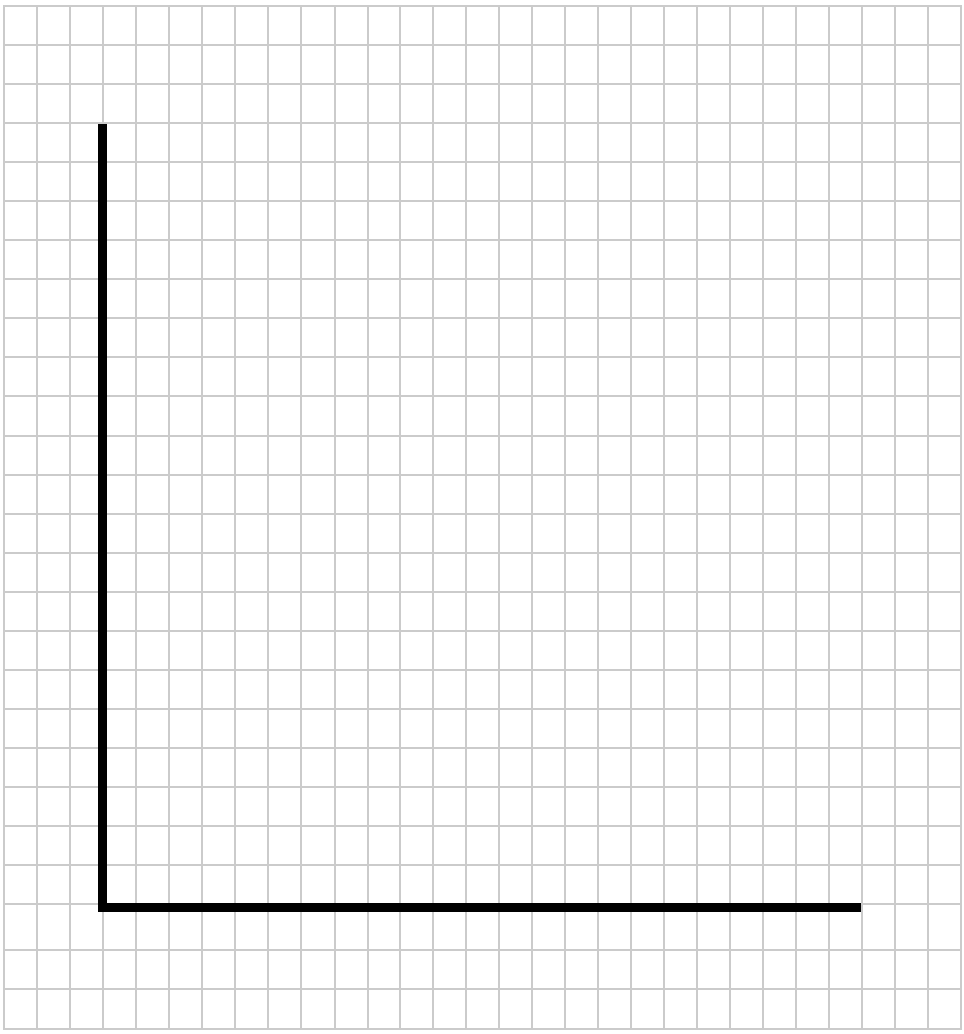
_____

Do not write outside the box

**2 4** **Extract B** (line 3) states: 'Palm oil can be used as a cheap substitute for butter'.

Draw a supply and demand diagram showing the effects on the market for butter of a fall in the price of palm oil.

**[4 marks]**



**Turn over for the next question**

Do not write outside the box

**2 5** **Extract C** (lines 18–19) states: 'should there be limits on the use of palm oil for biofuel, the so-called 'food versus fuel debate'?'

Explain how the increased demand for palm oil used for biofuel is likely to affect the market for palm oil used for food.

**[10 marks]**

Extra space

*Do not write outside the box*

**Turn over ►**

Do not write outside the box

**2 6** **Extract B** (lines 18–19) states: 'the palm oil industry has much to offer to both consumers and producers in a variety of industries.'

Use the extracts and your knowledge of economics to evaluate whether more should be done to control the palm oil industry.

**[25 marks]**

*Do not write outside the box*

**Turn over ►**

Do not write outside the box

Extra space

*Do not write outside the box*

**Turn over ►**

*Do not write outside the box*

50

Do not write outside the box

Do **not** answer Context 2 if you have answered Context 1.

**OR**

**Context 2** **Total for this context: 50 marks**

**DENTAL CARE**

Use the insert provided to study **Questions 27** to **32** and **Extracts D**, **E** and **F**, and then answer the questions in the spaces which follow.

**2 7** Define 'competitive market' **Extract F** (line 17).

**[3 marks]**

**2 8** **Extract F** (line 6) states: 'Currently, about 60 000 people are admitted to hospital each year because of tooth decay…'

If the population increases by 2.25% in the following year, other things being equal, calculate, to the nearest child, the number of children expected to be admitted to hospital because of tooth decay.

**[4 marks]**

Do not write outside the box

**2 9** Use **Extract D** to identify **two** significant features of the number of courses of dental treatment (CoT) per 100 000 population in 2016–17.

**[4 marks]**

Feature 1 _____

_____

_____

_____

_____

Extra space _____

_____

Feature 2 _____

_____

_____

_____

_____

Extra space _____

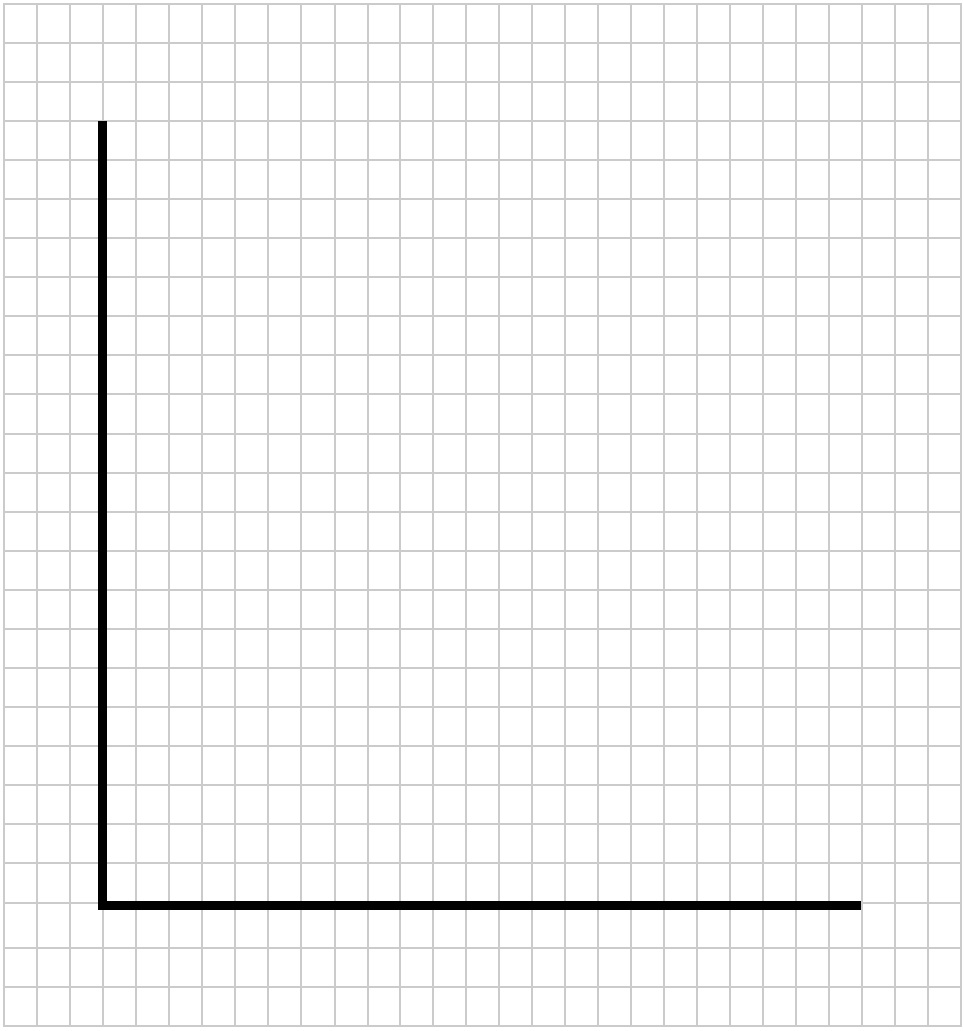
_____

Do not write outside the box

**3 0** **Extract F** (lines 13–14) states: 'Prices for many dental treatments in Hungary, for example, are about half those of the UK'.

Draw a supply and demand diagram showing the effects on the market for UK dental care of a fall in the price of dental care abroad.

**[4 marks]**



**Turn over for the next question**

Do not write outside the box

**3 1** **Extract E** (line 9) states: 'a growing population is increasing the demand for dental care.'

Explain how the increasing demand for dental care is likely to affect the market for dentists.

**[10 marks]**

Extra space

Do not write outside the box

Do not write outside the box

**3 2** **Extract F** (lines 19–20) states: 'is there a need for the government to take more action to improve dental health in the UK, and if so, what should be done?'

Use the extracts and your knowledge of economics to evaluate whether the UK government should take more action to improve dental health in the UK.

**[25 marks]**

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

50

**END OF QUESTIONS**

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