



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2019

Economics

Assessment Unit AS 1
assessing
Markets and Market Failure



SEC11

[SEC11]
TUESDAY 14 MAY, MORNING

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Sections **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **5**, **6(b)**, **(c)** and **(d)**, **7** and **8**. Quantitative skills will be assessed where appropriate.

Section A

Answer all questions (25 marks)

- 1 The table below shows the weekly production possibilities for a firm which produces just two products: washing machines and dishwashers. The firm currently has 22 employees, each of whom assembles the products from components purchased from a range of suppliers.

Washing machines	Dishwashers
245	0
210	75
185	130
150	170
100	200
50	225
0	235

- (a) With reference to the table above, calculate the opportunity cost to the firm of increasing the production of dishwashers from 130 per week to 170 per week. [2]
- (b) With the aid of an appropriate diagram, explain the likely impact on these production possibilities if the firm implemented a system of specialisation and the division of labour. [4]

- 2 A Belfast restaurant has seen its trade double since the introduction of an “all you can eat buffet”, where customers can refill their plates as often as they like for a fixed price of £7.99.

With reference to the example above, explain the term diminishing marginal utility. [3]

- 3 The table below shows the estimated ticket sales for a music concert at a range of ticket prices. The concert is scheduled to take place in the Waterfront Hall, which has a maximum capacity of 2250.

Ticket price (£)	Estimated sales
85	895
80	1260
75	1980
70	2250
65	2890
60	3450

(a) Calculate the total revenue the concert promoter will earn at the equilibrium price. [2]

(b) Calculate the price elasticity of demand for this concert when the price increases from £60 to £65. [4]

- 4 Figures published by the Institute of Public Policy Research show the impact of obtaining residential planning permission on land prices. Agricultural land in the UK sells for an average price of £20,000 per hectare, whereas land with residential planning permission sells for £1.87 million per hectare.

With reference to the statement above, explain the terms economic rent and transfer earnings. [4]

- 5 High street sandwich chain Subway has announced that it is to start charging customers more for toasting their sandwiches to reflect the fact that hot food attracts 20% VAT while cold food does not.

With the aid of an appropriate diagram, analyse the likely impact on consumer surplus of the imposition of VAT on toasted sandwiches. [6]

Section B: Data response

Answer all questions (35 marks)

The following passage was written in August 2017. Read it carefully and answer the questions which follow.

6 Demand for electric cars soars

Demand for electric and plug-in hybrid cars is growing at an exponential rate according to the Society of Motor Manufacturers and Traders (SMMT). Figures released by the SMMT today (August 2017) show that, while the UK auto market as a whole has grown by 6.3% over the last 12 months, demand for pure electric vehicles rose by 48%, while the demand for plug-in hybrids rose by a staggering 133%! 1

These impressive growth figures are not confined to the UK; the global trend shows a very similar story. Sales of electric vehicles are booming right across the EU and are really beginning to take off in the US and China, with Morgan Stanley predicting that electric vehicles will make up around 60% of all vehicles sold around the world by 2040. 2

This increased demand for electric vehicles is having significant impacts on a wide range of other markets, not least on the market for commodities used in the production of electric batteries such as lithium. **Fig. 1** below shows the trend in lithium prices since 2002, with some predicting that lithium prices could double over the next five years. 3

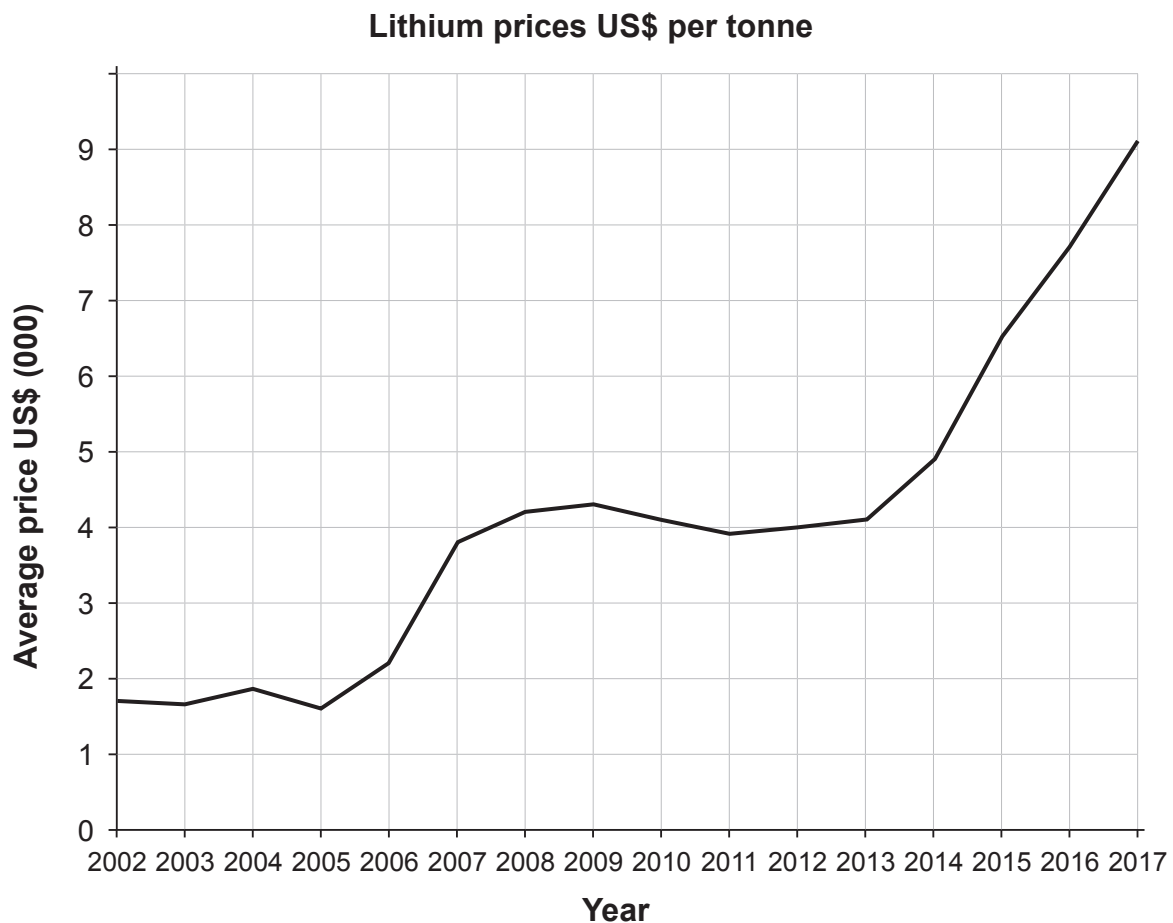


Fig. 1

Not everyone is convinced, however, that lithium prices will reach such dizzy heights. Commodity trader Leo Toner claims that lithium prices are nearing their peak. "Lithium prices have really taken off in the last five years as demand has outstripped supply," he said. "However, recent investment in infrastructure and capacity by the world's biggest mining corporations means that supply will be much more elastic in the long-run. As a result I expect prices to peak around the middle of 2018 before falling back to more normal levels as supply catches up with demand."

4

While the move towards electric and plug-in hybrid vehicles is widely considered to be a positive move from an environmental perspective, concerns have been raised that the environmental benefits have been overstated. Free market commentator Steven Huston stated, "Governments around the world have been providing incentives, both financial and otherwise, to encourage drivers to dump their combustion engines in favour of electric cars in the mistaken belief that they are better for the environment. What these interfering politicians fail to realise is that these cars run on electricity generated by burning fossil fuels, while their batteries contain huge amounts of lithium, cobalt and copper which must be mined from the earth's surface. Surely most people accept now that government intervention in markets causes greater problems than it solves. Remember it was only 10 years ago that the government were providing incentives to get us to switch to diesel cars as they were supposed to be cleaner than petrol cars. Now they are deemed so environmentally damaging that they plan to ban them completely by 2040!"

5

- (a) Using the information in **Fig. 1**, describe the trend in lithium prices between 2002 and 2017. [4]
- (b) Explain why lithium supply is likely to be more price elastic in the long-run than in the short-run (paragraph 4). [6]
- (c) With the aid of diagrams where appropriate, analyse the likely impact of the increased demand for electric vehicles on other markets. [10]
- (d) Critically examine the view expressed in paragraph 5 that government intervention in markets causes greater problems than it solves. [15]

Section C: Essay section

Answer one question (20 marks)

- 7** In 2017, the UK was one of the most unequal economies in the EU in terms of both income and wealth distribution according to a report by an EU think tank. The report stated that the UK had the highest income inequality in the EU and was fifth highest in terms of wealth inequality. Trade unionists used the report to call on the government to take decisive action to reduce both income and wealth inequality.

Critically examine some of the policies the UK government could implement to reduce both income and wealth inequality. [20]

- 8** German supermarket Lidl has announced a new plan for sales growth. The company plans to redesign its stores and raise prices. Retail analysts have backed the plan and claim that the higher prices are likely to lead to an increase in sales rather than a fall. They argue that the higher prices will change the negative perception some people have of the brand and hence will attract consumers who would not previously have shopped there.

Critically examine the view that the demand curve for some products is just as likely to slope upwards as downwards. [20]

THIS IS THE END OF THE QUESTION PAPER

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