



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2022

Economics

Assessment Unit AS 1
assessing
Markets and Market Failure



SEC11

[SEC11]
MONDAY 16 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 (25 marks)

Answer all questions

- 1 Twisty Puzzles is a small independent manufacturer of bespoke puzzles and games. The table below shows the total cost of producing various quantities of its new Puzzle Cube.

Quantity	Total cost (£)
1	8
2	11
3	12
4	13
5	17
6	22

With reference to the production of the 6th Puzzle Cube, explain the meaning of the term marginal cost. [3]

- 2 The table below shows price and income elasticity of demand estimates for cartons of cigarettes and packets of loose tobacco in Bulgaria in 2018.

Product	Price elasticity of demand	Income elasticity of demand
Cartons of cigarettes	-0.48	1.60
Packets of loose tobacco	-0.98	-0.80

- (a) Using the information in the table above, explain the difference between a normal good and an inferior good. [4]
- (b) Using the information in the table above, calculate the expected percentage change in the quantity demanded of a carton of cigarettes as a result of an increase in price from 56 Bulgarian Lev to 63 Bulgarian Lev. [4]

- 3** In the first quarter of 2019, more than two million used cars were sold in the UK with approximately 11% of these sales occurring online, up from less than 1% just five years ago. However, over the same period there has been a tenfold rise in the number of complaints and disputes between buyers and sellers regarding the quality of the cars purchased.

With reference to the source above, explain the term information asymmetry. [4]

- 4** In April 2019, the National Living Wage increased from £7.83 to £8.21 per hour. This new rate meant that the National Living Wage represented 59% of the UK's median wage rate, up from 46% when it was first introduced.

Using the information in the source above:

- (a)** Calculate (to the nearest penny) the median hourly wage rate for UK workers in April 2019. [2]

- (b)** Calculate the economic rent that would be earned in April 2019 by a worker on the National Living Wage who was willing to work for £7.00 per hour. [2]

- 5** In June 2019, Republic of Ireland Health Minister Simon Harris pledged to push ahead with plans to introduce a minimum price for alcohol along the lines of that introduced by the Scottish government in May 2018.

With the aid of an appropriate diagram, explain the likely impact on the consumer surplus of alcohol consumers of the introduction of a minimum price on alcohol. [6]

Section B (35 marks)

Answer all questions

The following article was written in January 2019. Read it carefully and answer the questions which follow.

6 Scotland drug death crisis

Drug-related deaths in Scotland soared by 27% in 2018 to reach a staggering 1,187, the highest figure since records began. On a per capita basis, Scotland's drug death rate is higher than in any EU country as shown in **Fig. 1** below. The 2018 drug death rate even puts Scotland above the USA, which was previously considered to be the highest in the world.

1

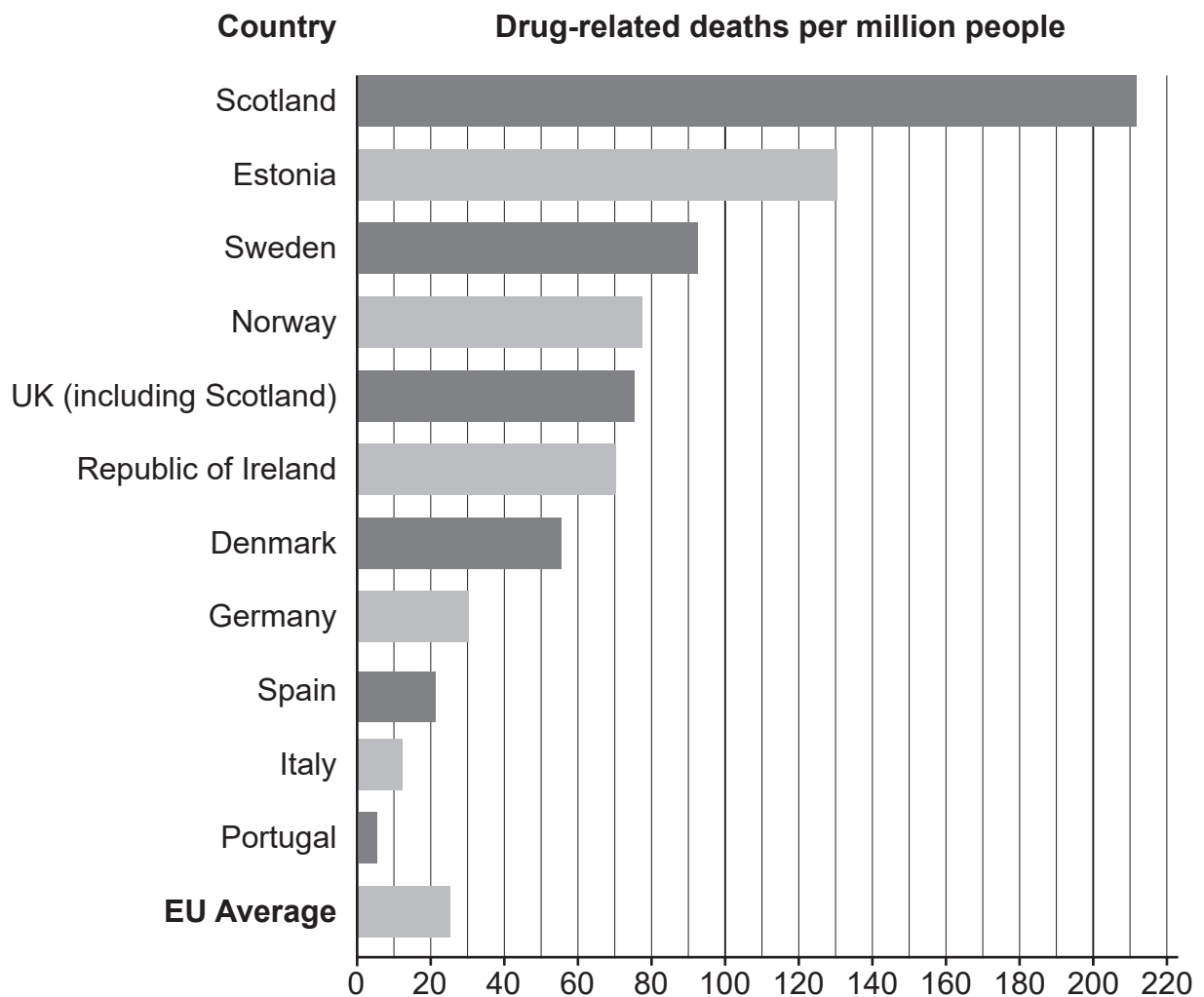


Fig. 1: Drug deaths per million people – selected countries 2018

Source: © Office for National Statistics. Contains public sector information licensed under the Open Government Licence v3.0

The figures caused the Scottish government to launch an inquiry into the causes and consequences of drug use in Scotland in an attempt to reduce the deaths. A preliminary report highlighted the significant negative externalities associated with drug use. The report claimed that excessive drug use was not only damaging drug users, but also the Scottish economy through lower productivity and output and increased public spending on health as a result of having to treat drug users. The report also highlighted the link between drug misuse and inequality. Figures published in the preliminary report suggest that drug use is 17 times higher in Scotland's poorer areas than in its richest. Dr Budd, a GP who contributed to the report, stated "if you look at drug and alcohol-related deaths these are very focused on people in deprived areas".

2

Scottish newspaper the *Daily Record* launched a campaign calling for the decriminalisation of drug use. Its editorial pointed out that Germany, Spain and Portugal were among 25 nations worldwide which had relaxed drug regulations and they also had some of the lowest drug death rates in the EU. It also suggested that the current UK policy of criminalising users and suppliers was failing to reduce either drug supply or drug use. The editorial claimed "the fact that the street price of drugs is continuing to fall despite rising demand suggests that the current policy of trying to punish both users and sellers is failing miserably".

3

Andy Cowan, a campaigner at pressure group "Anyone's Child", went even further and called for the full legalisation of drugs. He stated, "These recently published figures show that Scottish people of all ages and social classes are buying unsafe and in many cases lethal drugs from criminals and then consuming them without advice or supervision. This is resulting in a record number of deaths and misery for Scottish families. The government need to seize control of the manufacture and distribution of drugs such as heroin and cocaine from these criminal gangs by legalising their production, supply and use".

4

- (a) Using the information in **Fig. 1**, compare the drug death rate in Scotland with that in the UK, Germany, and Portugal. [5]
- (b) With the aid of an appropriate diagram, explain why the street price of drugs could fall even when demand is rising (paragraph 3). [6]
- (c) With the aid of an appropriate diagram, explain why drug use could be considered an example of market failure. [9]
- (d) Critically examine the proposal put forward by Andy Cowan that the government should legalise the production, supply and use of drugs such as heroin and cocaine. [15]

Section C (20 marks)

Answer one question

- 7** In 1965 economists categorised more than 20 countries as being centrally planned economies. By 2019 this number had fallen to just a handful, with most of the remaining countries having introduced significant market reforms in an attempt to increase economic growth and improve living standards.

Critically examine the view that centrally planned economies are ultimately detrimental to all economic agents. [20]

- 8** In 2019 the UK government spent over £17 billion on higher education, which represented approximately £7,400 per student enrolled at a higher education institution. Critics have argued that this level of government funding is unsustainable and that higher education should be left entirely to the free market.

Critically examine the view that the government should cease to fund higher education in the UK. [20]

THIS IS THE END OF THE QUESTION PAPER

Permission to reproduce all copyright material has been applied for.
In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA
will be happy to rectify any omissions of acknowledgement in future if notified.