Oxford Cambridge and RSA

Monday 13 June 2022 – Afternoon

A Level Economics

H460/03 Themes in economics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

Please write clearly in black ink. **Do not write in the barcodes.**

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

First name(s) _____

Last name _____

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions.

INFORMATION
- The total mark for this paper is **80**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **28** pages.

ADVICE
- Read each question carefully before you start your answer.

© OCR 2022 [601/4799/4]
DC (ST/SW) 300884/4
OCR is an exempt Charity

SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1 What is the impact of a decrease in price?

A An increase in quantity demanded

B An increase in quantity supplied

C A shift to the right of the demand curve

D A shift to the right of the supply curve

Your answer ☐ **[1]**

2 If real GDP in 2019 was $482bn and $476bn in 2020, what was the rate of economic growth in 2020?

A –1.26%

B –1.24%

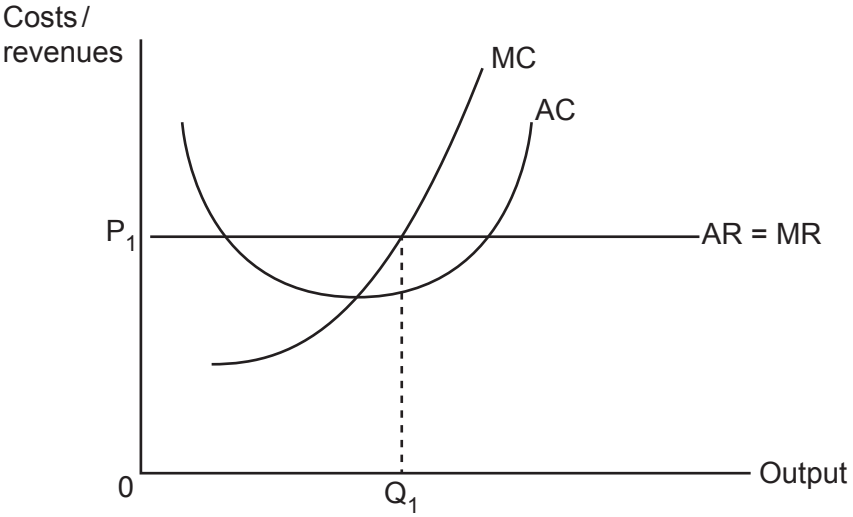
C 1.24%

D 1.26%

Your answer ☐ **[1]**

© OCR 2022

3 The diagram below shows a firm producing Q_1 units of output at a price of P_1 at a particular point in time. What is likely to happen next?



A New firms enter the market, causing a shift in the average and marginal cost curves

B New firms enter the market, causing a shift in the average and marginal revenue curve

C Some firms leave the market, causing a shift in the average and marginal cost curves

D Some firms leave the market, causing a shift in the average and marginal revenue curve

Your answer ☐ **[1]**

4 What is the relationship between accounting and economic profit?

A Accounting profit will be equal to economic profit

B Accounting profit will be larger than economic profit

C Economic profit will be larger than accounting profit

D There is no relationship between accounting profit and economic profit

Your answer ☐ **[1]**

© OCR 2022

5 The table below shows the output of corn and golf clubs Country X and Country Y could produce if they used all of their resources to produce one of these goods. What can be concluded about Country X from the data?

	Corn	Golf clubs
Country X	1000 units	450 units
Country Y	5000 units	900 units

A It has an absolute advantage in the production of corn and golf clubs

B It has an absolute advantage in the production of golf clubs

C It has a comparative advantage in the production of corn

D It has a comparative advantage in the production of golf clubs

Your answer ☐ **[1]**

6 What could cause the natural rate of unemployment to decrease?

A An increase in corporation tax

B An increase in government spending on welfare benefits

C An increase in government spending on education and training

D An increase in the price level

Your answer ☐ **[1]**

7 *'There are insufficient resources to meet society's wants.'*

What does this statement describe?

A Positive externalities of consumption

B Positive externalities of production

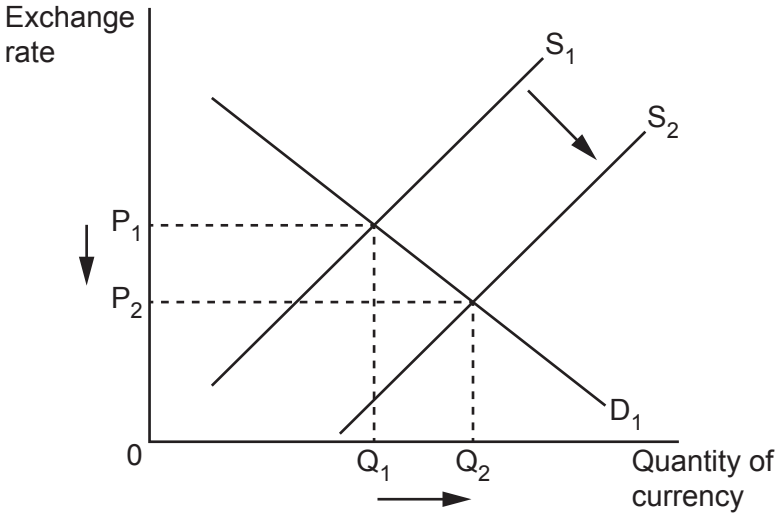
C The basic economic problem

D The free rider problem

Your answer ☐ **[1]**

© OCR 2022

8 The diagram below shows the value of a country's currency. What is most likely to have caused the change illustrated here?



A A decrease in the marginal propensity to import

B Contractionary monetary policy

C Expansionary monetary policy

D Supply side policy designed to increase labour productivity

Your answer ☐ **[1]**

9 What type of good is described as being excludable and rival?

A Free good

B Private good

C Public good

D Quasi-public good

Your answer ☐ **[1]**

© OCR 2022

10 If the marginal rate of taxation is 0.34, the marginal propensity to import is 0.18 and the multiplier is 1.42, what is the marginal propensity to save?

A 0.18

B 0.30

C 0.48

D 0.90

Your answer ☐ **[1]**

11 What is one of the key roles of the financial sector?

A Facilitate investment by firms

B Increase interdependence between countries

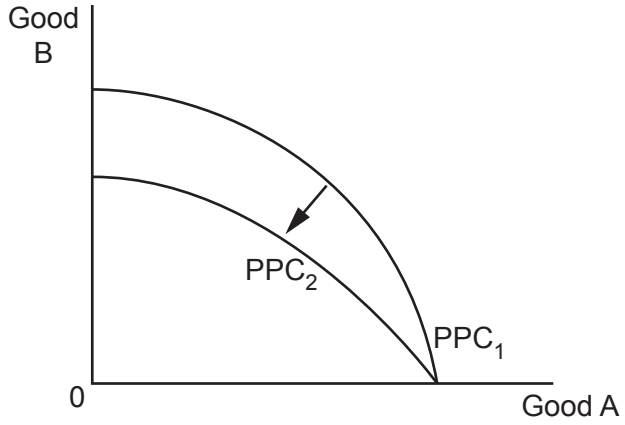
C Promote free trade

D Reduce income inequality

Your answer ☐ **[1]**

© OCR 2022

12 What does the shift of the PPC from PPC_1 to PPC_2 in the diagram below show?



A A fall in the production of good A

B A fall in the production of goods A and B

C An increase in the opportunity cost of producing good A

D An increase in the opportunity cost of producing good B

Your answer ☐ **[1]**

13 What is one of the stages in the process of calculating the rate of inflation in the UK?

A Goods and services are weighted according to the level of utility they bring society

B Prices of goods and services are compared to prices in other countries

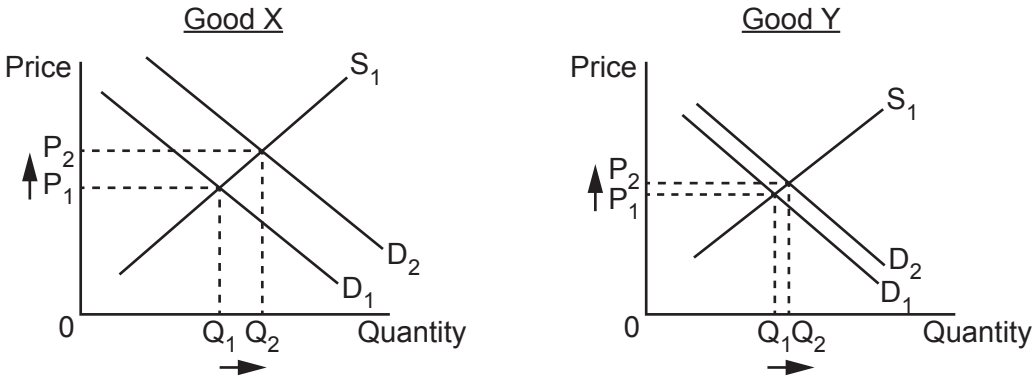
C Survey data is used to establish the most commonly consumed goods and services

D The amount of quantitative easing introduced by the Bank of England is recorded

Your answer ☐ **[1]**

© OCR 2022

14 The diagrams below show how the markets for goods X and Y respond to a change in one of the determinants of demand. What might it be possible to conclude from this?



A Demand for good X is more cross elastic than the demand for good Y

B Demand for good X is more income elastic than demand for good Y

C Demand for good X is more price elastic than the demand for good Y

D Supply of good X is more price elastic than supply of good Y

Your answer ☐ **[1]**

15 What would cause the demand for labour to increase?

A An increase in the minimum wage

B An increase in the price of complementary factors of production

C An increase in the price of the product the labour produces

D An increase in unit labour costs

Your answer ☐ **[1]**

© OCR 2022

16 An individual going on holiday to Spain exchanges £100 into euros when the exchange rate was 1.26 euros to 1 pound. They spend 82 euros and when they return from holiday exchange what they have left into pounds. By this point the exchange rate has changed to 1.14 euros to 1 pound. How many pounds are they left with?

A £34.92

B £38.60

C £44.00

D £50.16

Your answer ☐ **[1]**

17 Which elasticity is the availability of stock of the product likely to impact?

A Cross elasticity of demand

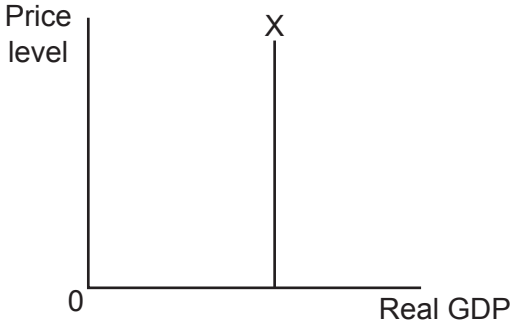
B Income elasticity of demand

C Price elasticity of demand

D Price elasticity of supply

Your answer ☐ **[1]**

18 What does curve X represent?



A Long run Aggregate Supply

B Long run Phillips Curve

C Short run Aggregate Supply

D Short run Phillips Curve

Your answer ☐ **[1]**

© OCR 2022

19 The separation between ownership and control means managers are likely to be more incentivised to pursue sales revenue maximisation over profit maximisation. What type of firm is this most likely to describe?

A Public limited company

B Public sector company

C Small business

D Voluntary organisation

Your answer ☐ **[1]**

20 Money fulfils a number of important functions, including acting as a medium of exchange. What characteristic would prevent money from fulfilling this function?

A Durable to use

B Portable to carry

C Scarce in supply

D Volatile in value

Your answer ☐ **[1]**

21 Who is most likely to be categorised as being unemployed?

A 19 year old full time student.

B 38 year old father who chooses to stay at home to be a home-maker.

C 42 year old former bank worker who is economically active.

D 68 year old who worked in the steel industry and who is now claiming the state pension.

Your answer ☐ **[1]**

© OCR 2022

22 A firm is considering increasing its output from 239 to 240 units of a good. What is the marginal cost of doing this?

Quantity	Average Cost
238	£360
239	£356
240	£362
241	£371
242	£382

A £1.51

B £6

C £1796

D £86 880

Your answer ☐ **[1]**

23 What is most likely to cause the international price competitiveness of a country's goods and services to decrease?

A Exchange rate depreciates

B Minimum wage decreases

C Productivity increases

D Trade union power increases

Your answer ☐ **[1]**

© OCR 2022

24 Kai purchases a second-hand car for £12 000. However, they only derive £7000 utility from the car during the five years that they own it. What is likely to have occurred at the point of purchase to cause this?

A Information failure

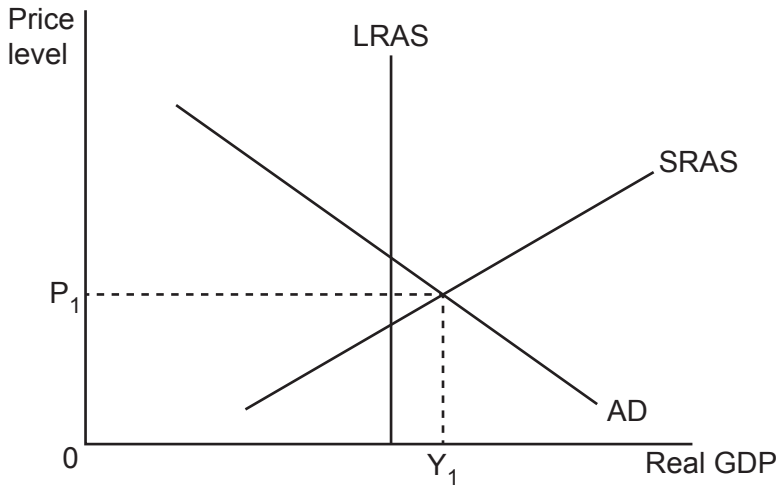
B Moral hazard

C Negative externalities of consumption

D Opportunity cost

Your answer ☐ **[1]**

25 An economy is producing at Y_1, P_1. What is happening at this point?



A Deflation

B Inflation

C Negative output gap

D Positive output gap

Your answer ☐ **[1]**

© OCR 2022

26 A group of firms reaches an agreement on prices and output. What sort of collusion is this?

A A cartel

B Price leadership

C Strategic alliances

D Tacit collusion

Your answer ☐ **[1]**

27 What is an example of an automatic stabiliser in response to a period of negative economic growth?

A A decrease in the corporation tax rate

B An increase in expenditure on education and training

C An increase in expenditure on unemployment benefits

D An increase in the income tax-free personal allowance

Your answer ☐ **[1]**

28 What is likely to be an irrational act?

A Consumption decreasing when the interest rate increases

B Consumers demanding more of an inferior good when their income falls

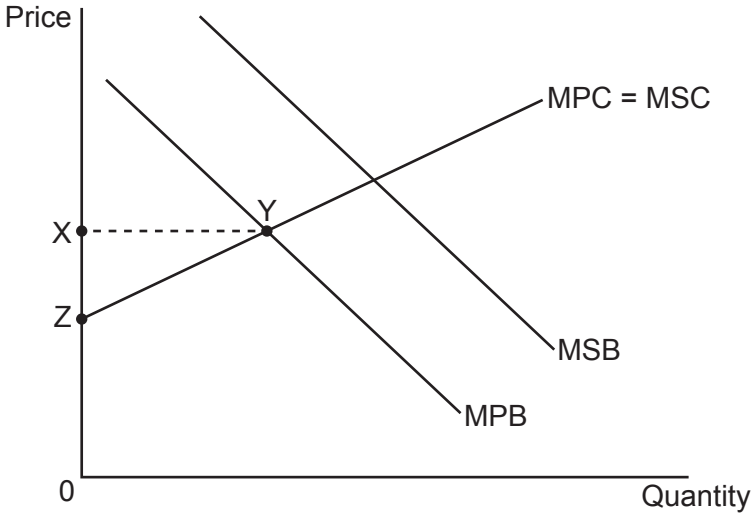
C Firms engaging in predatory pricing to increase their market share

D Firms increasing the price of a product with price elastic demand

Your answer ☐ **[1]**

© OCR 2022

29 The diagram shows the market for a good which is allocated in the free market without government intervention. What is represented by area XYZ?



A Allocative inefficiency

B Consumer surplus

C Deadweight loss

D Producer surplus

Your answer ☐ **[1]**

30 What is the most likely impact of a policy decision to reduce the amount of protectionism in a country?

A Domestic firms face higher tariffs on their exports

B Sunset industries experience a decrease in the demand for their products

C The rate of inflation increases

D The volume of international trade decreases

Your answer ☐ **[1]**

© OCR 2022

BLANK PAGE

PLEASE DO NOT WRITE ON THIS PAGE

© OCR 2022

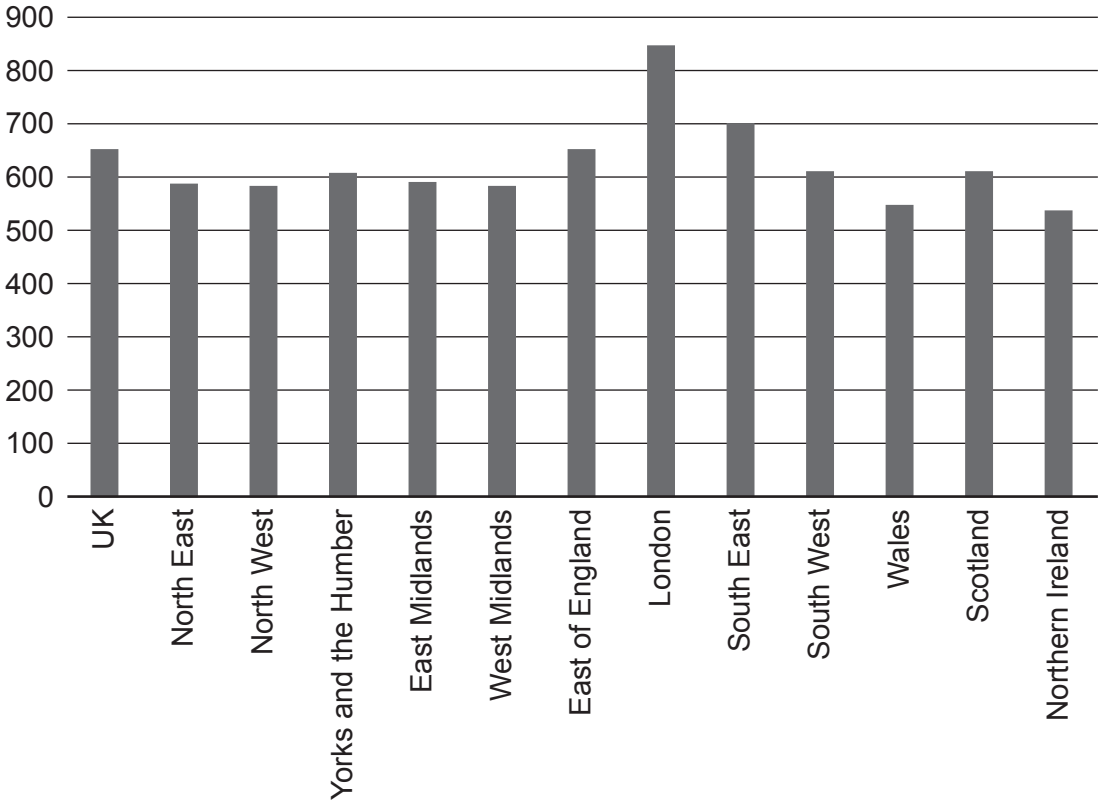
SECTION B

Read the following extracts and answer **all** the questions which follow.

Extract 1 – The 'levelling up' agenda

In December 2019 Boris Johnson's Conservative Party won a majority in the General Election, in large part because it secured the votes of people in the North and Midlands that had never voted Conservative before. The government attracted these voters with a promise to 'level up' the UK, reducing the inequality that exists between regions. Whilst the country's large cities and towns are amongst the most productive and prosperous in Europe, other parts of the country lag far behind, resulting in stark wage differentials between regions illustrated in Fig. 1.1. 5

Fig. 1.1
Average Weekly Wage (£s) by region in 2020



© OCR 2022

It is argued that a decrease in labour market flexibility is partly responsible for the widening regional inequality. A significant cause of this is the increasing gap between house prices in different parts of the country, as shown by the data in Fig. 1.2. This makes it harder for individuals to relocate to high wage areas, preventing market forces from reducing wage differentials.

Fig. 1.2
House Prices by Region 1995–2020 (base year = 1995)

	Average House Price Index		
Region	**1995**	**2005**	**2020**
East Midlands	100	216	294
East of England	100	211	345
London	100	209	422
North East	100	203	262
North West	100	177	248
Northern Ireland	100	193	259
Scotland	100	164	255
South East	100	198	316
South West	100	229	318
Wales	100	184	243
West Midlands	100	180	254
Yorkshire and the Humber	100	179	250

There are other factors that further explain labour market inflexibility. The UK's relatively poor transport infrastructure, individuals being unaware of job opportunities outside of their local area and perhaps more significantly a lack of transferable skills trapping workers in low paid jobs, all contribute to the problem. However, it could be said that technological progress is helping to make the labour market more flexible over time.

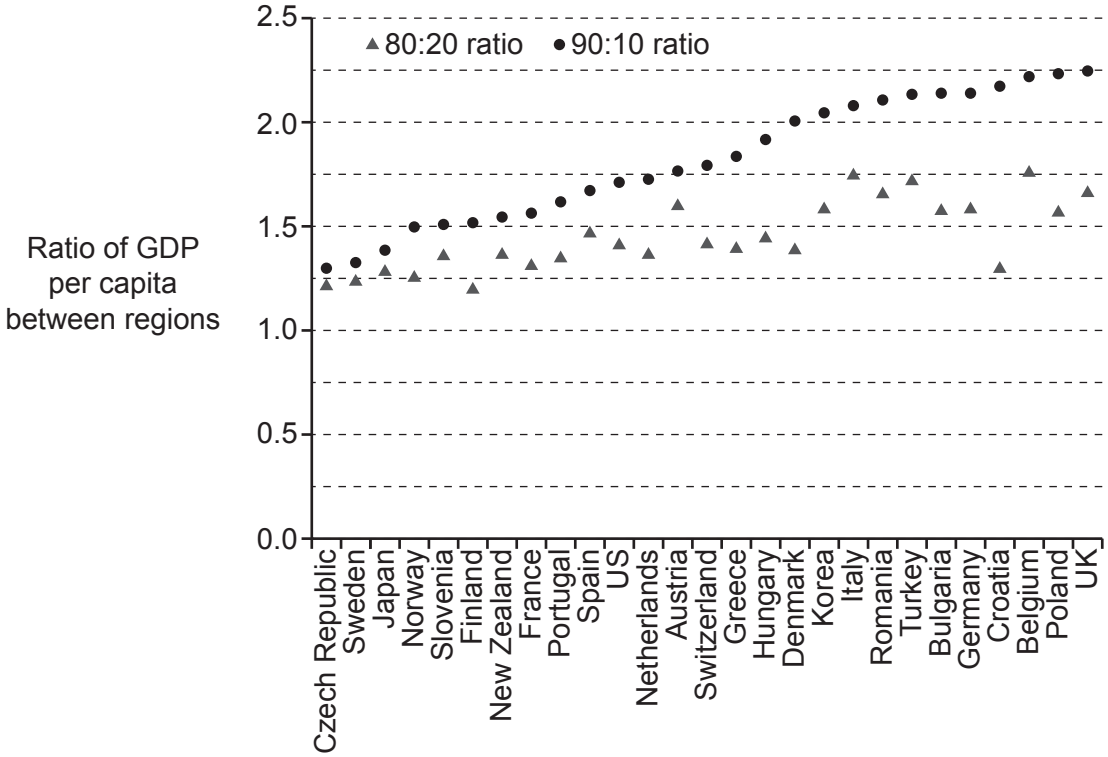
Some therefore argue there are other causes of regional wage differentials beyond the flexibility of the labour market. Whilst the proportion of the workforce with an undergraduate degree has been rising in recent decades, this is not spread evenly across the country, with much of the increase concentrated in London. The nature of employment has changed dramatically in recent years; technology has seen labour substituted in some semi-skilled occupations whilst at the same time increasing demand for highly skilled workers. This makes the distribution of skills across the UK particularly relevant. The impact of large multinationals in the financial and scientific sectors typically choosing to locate in the South of England must also not be underestimated.

© OCR 2022

Extract 2 – The policy response

The data in Fig. 2.1 compares the level of regional inequality around the world. For example, the 90:10 figures denote the ratio between regional GDP per capita in the 90th percentile (income level which only 10% of the country's regions exceed) to the 10% percentile (the level which only 10% of the country's regions have less than).

Fig. 2.1
Measures of inequality in regional GDP per capita, by country



It demonstrates the need for an urgent policy response by the UK government. In November 2020 a £4 billion fund was announced, which prioritised the need to upskill much of the population to address low productivity levels and invest heavily in improving the public transport network.

The commitment to this fund follows a report by the Institute of Fiscal Studies in October 2020, which presented a number of policy options the government could implement to address regional inequality:

- Invest in high speed rail in the North, in doing so addressing current inequality in government spending on transport which is 2.8 times per capita higher in London than in the rest of the UK.

- Subsidise research and development to create prosperous, knowledge-based local economies in left behind regions to tackle unbalanced spending in this area (research and development spending in the South East of England is 1.8 times higher per capita than in the rest of the UK).

- Move a number of government departments and civil service jobs away from London to the regions to address the fact that at present 20% of all civil servants are based in London, along with 64% of the most senior government jobs.

© OCR 2022

- Provide targeted funding for specific towns to put towards local priorities, including retraining and skills support as well as investment in culture and heritage, partially to address the problem of struggling high streets in these towns.

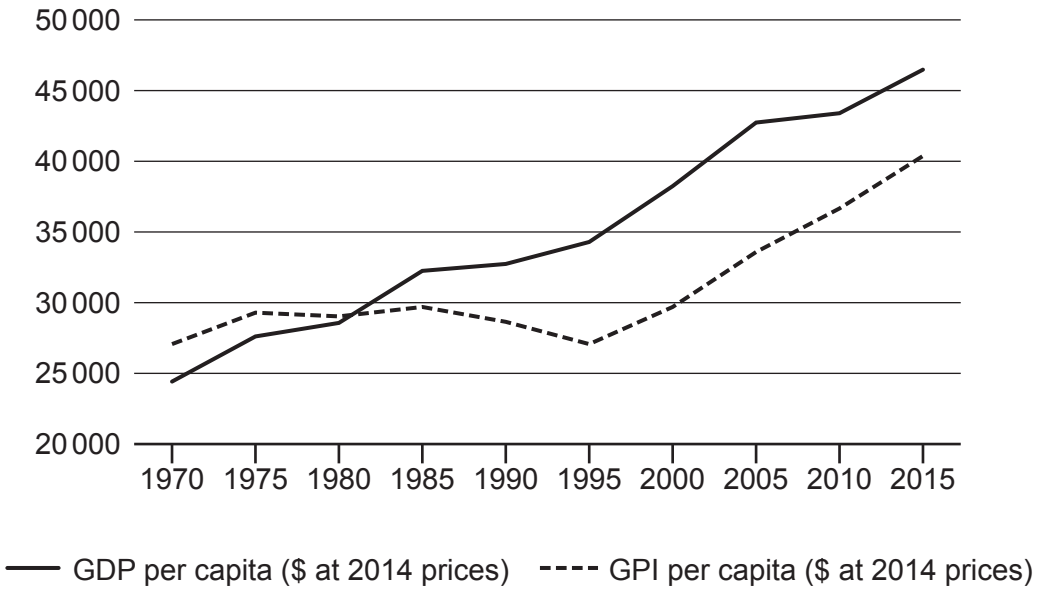
Deciding on the most appropriate policy response is complicated by the wider challenges presented to the labour market by Brexit. On the one hand it is argued that tighter controls on immigration will benefit low skilled workers, but on the other there are serious concerns that the same group of workers in manufacturing towns already scarred by persistent long term unemployment resulting from deindustrialisation will suffer from the negative employment consequences that could result from more barriers to trade with the EU.

© OCR 2022

Extract 3 – Growth at all costs?

The UK government has been very clear that 'levelling up' is not about redistributing income from London to the North but by increasing incomes across the UK, with incomes in the North rising faster than in London to enable them to catch up. However, the principle underpinning this – that economic growth is desirable – is increasingly coming under question. It can be argued that economic growth will not always lead to an improvement in welfare, with some economists suggesting the Genuine Progress Indicator (GPI), which includes factors such as the distribution of income, environmental standards and the cost of crime, is a more effective measure of standard of living. Fig. 3.2 charts the relationship between GDP and GPI in New Zealand between 1970 and 2015.

Fig. 3.1
GDP and GPI per capita in New Zealand, 1970–2015



There is growing support for the 'degrowth' movement, which criticises the global capitalist system that pursues growth at all costs, causing human exploitation and environmental destruction. The degrowth movement instead argues in favour of prioritising social and ecological well-being over profits and consumption. Achieving this would require a strong commitment to reducing global GDP, in doing so utilising less natural resources and requiring us to live our lives differently to the way we do today. Supporters point to data in many developed countries that shows despite significant economic growth welfare has largely stagnated since the 1970s as powerful evidence in favour of this approach. However, such action would clearly require a radical change to the way economists think – virtually no attempt has been made to develop an economic model that doesn't rely on long term growth.

© OCR 2022

31 Using the data in **Fig. 1.1**, describe the regional wage differentials that exist in the UK.

.....

.....

.....

.....

.....

..... **[2]**

32 Using the data in **Fig. 1.2**, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020.

.....

.....

.....

.....

.....

..... **[2]**

33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether low labour market flexibility is the main cause of wage differentials between the North and South. **[15]**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

© OCR 2022

© OCR 2022

34 Explain, how the data in **Fig. 2.1** can be used to measure the level of income inequality in the UK.

.....

.....

.....

.....

.....

..... **[2]**

35 Explain, why infrastructure such as high speed rail is unlikely to be provided in a market economy without government intervention.

.....

.....

.....

.....

.....

.....

.....

.....

..... **[3]**

© OCR 2022

36 Evaluate, using the information in **Extract 2**, whether subsidising research and development in 'left behind regions' would be the most effective macroeconomic policy option for the government to achieve its objective of a more even distribution of income.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... **[8]**

© OCR 2022

37 Explain, whether **Fig. 3.1** supports the view that "economic growth will **not** always lead to an improvement in welfare".

.....

.....

.....

.....

.....

.....

.....

.....

..... **[3]**

38* Evaluate, using the information in **Extract 3**, the impact of removing economic growth as one of the government's primary macroeconomic objectives. **[15]**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

© OCR 2022

END OF QUESTION PAPER

© OCR 2022

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

© OCR 2022

OCR
Oxford Cambridge and RSA

Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact The OCR Copyright Team, The Triangle Building, Shaftesbury Road, Cambridge CB2 8EA.

OCR is part of Cambridge University Press & Assessment, which is itself a department of the University of Cambridge.

© OCR 2022