Oxford Cambridge and RSA

Monday 5 June 2023 – Morning

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.

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SECTION A

Write your answer to each question in the box provided.

1 What would a shift in the long run aggregate supply curve to the right be most likely to cause?

A A decrease in the level of income inequality

B A decrease in the rate of inflation

C An increase in the current account deficit

D An increase in unemployment

Your answer ☐ **[1]**

2 A Central Bank is operating a fixed exchange rate.

What intervention can it take to prevent the value of the currency falling?

A Decreasing the interest rate

B Imposing tariffs

C Quantitative easing

D Selling foreign currency reserves

Your answer ☐ **[1]**

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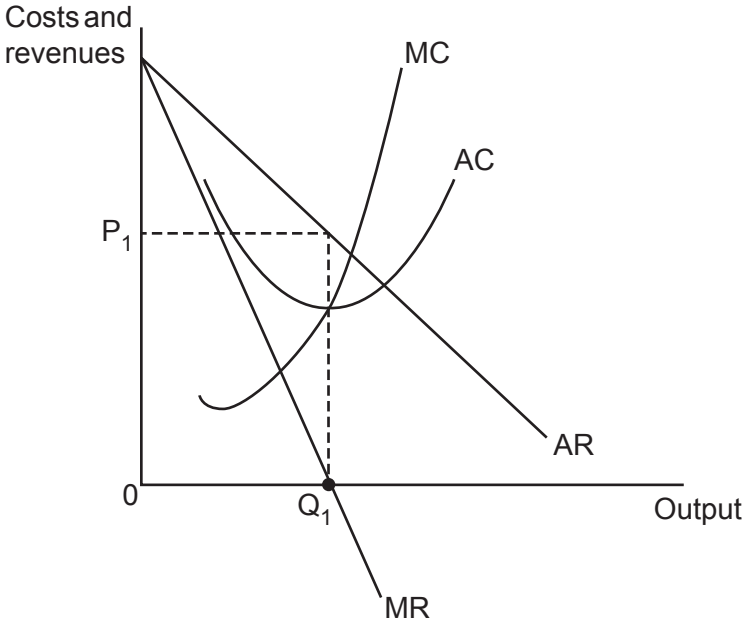
3 A firm is producing Q_1 units of output at a price of P_1 in the diagram below.

What objective is it likely to be pursuing?



A Profit maximisation

B Profit satisficing

C Sales revenue maximisation

D Sales volume maximisation

Your answer ☐ **[1]**

4 650 units of a good are demanded by consumers. If the income elasticity of demand is 0.4, what will the new quantity demanded of the good be if income decreases by 3%?

A 601 units

B 631 units

C 642 units

D 658 units

Your answer ☐ **[1]**

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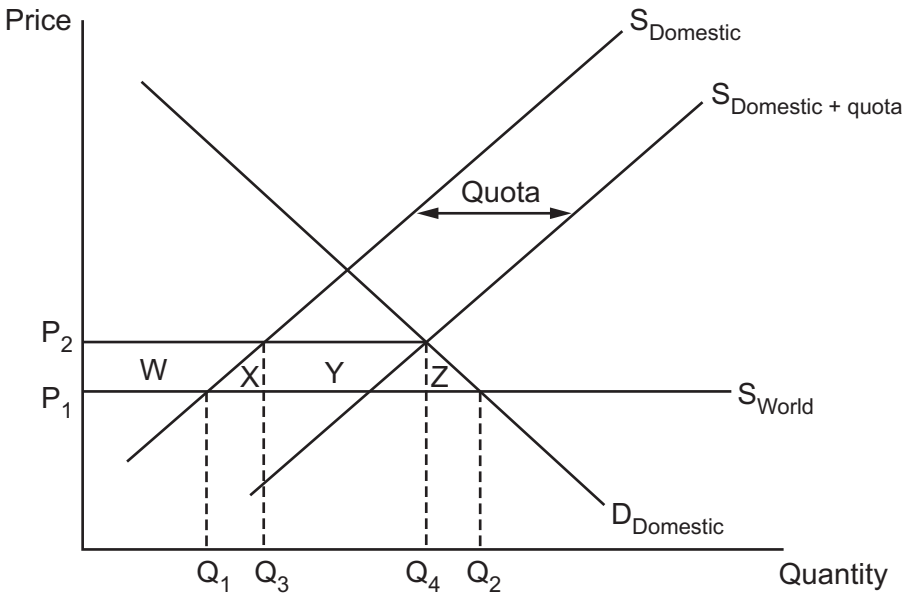
5 The diagram shows the impact of imposing a quota on imports, which causes the price of a good to increase from P_1 to P_2.

Which area(s) represents the net welfare loss to economic agents in the domestic economy from imposing this quota?



A W

B W + X + Y + Z

C X + Y + Z

D X + Z

Your answer ☐ **[1]**

6 What is relative poverty in the UK?

A Households are unable to afford the essentials needed for survival

B Household income is below 60% of median household income

C Individuals are not incentivised to work because of the high level of welfare benefits

D Individuals earn below the living wage

Your answer ☐ **[1]**

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7 What is **one** of the roles of a firm?

A To produce goods and/or services

B To regulate markets

C To supply labour

D To tax households

Your answer ☐ **[1]**

8 What does a country's terms of trade show?

A The ability to produce a good at a lower opportunity cost than another country

B The ability to produce a good using fewer resources than another country

C The ratio of export prices to import prices

D The value of exports minus the value of imports

Your answer ☐ **[1]**

9 Which of these types of government spending is an example of current expenditure?

A Construction of a new railway line

B Flood defence schemes

C New hospital equipment

D Universal credit

Your answer ☐ **[1]**

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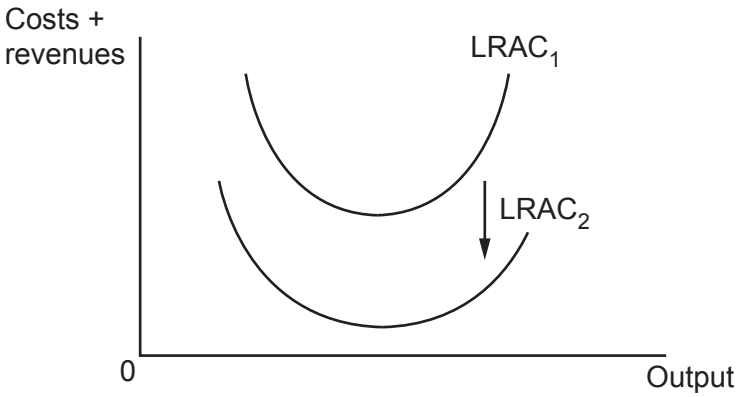
10 A firm experiences a shift in its long run average cost curve from $LRAC_1$ to $LRAC_2$ in the diagram.

What is the most likely cause of this?



A An increase in input prices resulting from new firms entering the market

B An increase in the availability of skilled labour as a result of growth in the industry

C Coordination problems arising as a result of an increase in the scale of production

D Greater division of labour occurring as a result of the growth of the firm

Your answer ☐ **[1]**

11 What is **one** of the causes of government failure?

A Externalities of consumption or production

B Policy short-termism

C The free rider problem

D The principal-agent problem

Your answer ☐ **[1]**

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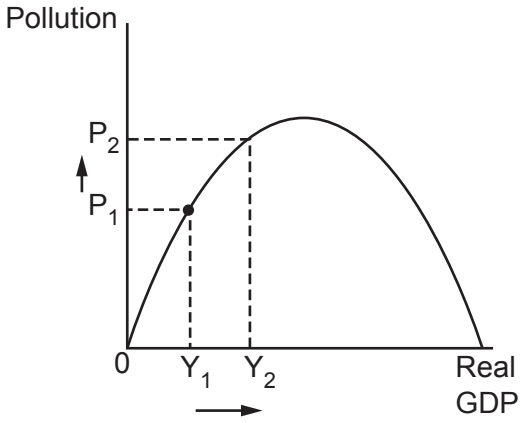
12 Which of the diagrams illustrates the impact of an increase in the Gini coefficient?



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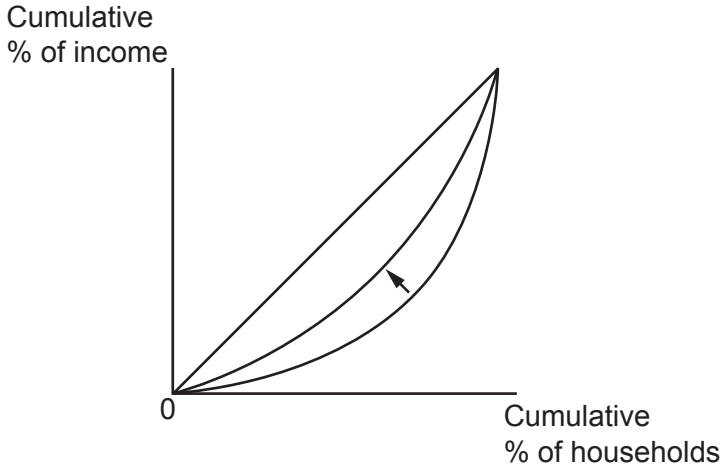

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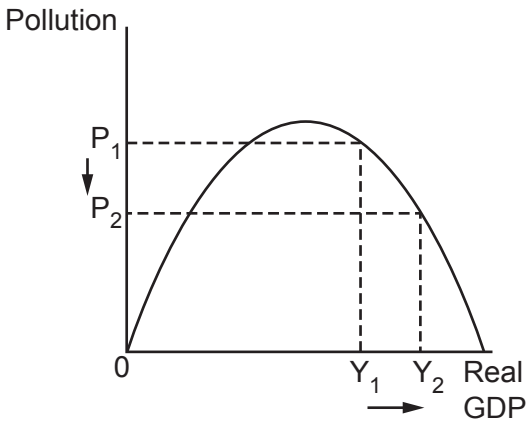

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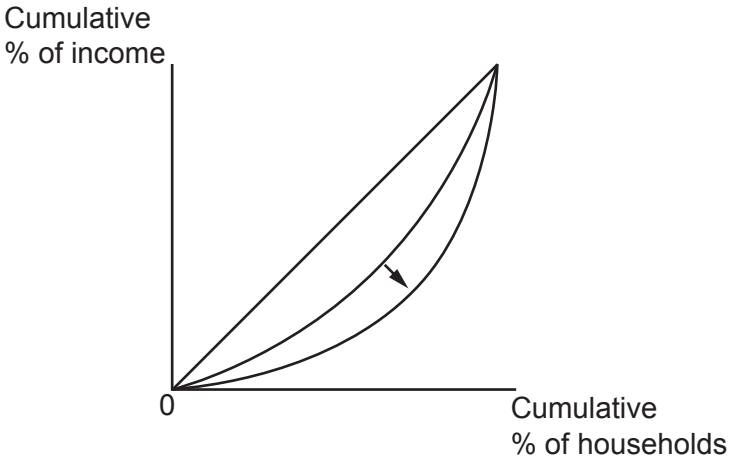

D

Your answer ☐ **[1]**

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13 What is the likely impact on the wage rate and level of employment of an increase in the marginal physical product of labour in an industry?

Option	Employment	Wage Rate
A	Decreases	Increases
B	Increases	Unchanged
C	Increases	Increases
D	Unchanged	Increases

Your answer ☐ **[1]**

14 A smartphone manufacturer sees the demand for its phone rise in response to a decision to reduce its price below that of a competitor.

How can this rise in demand be shown on a diagram?

A A contraction along the demand curve

B An extension along the demand curve

C The demand curve shifting to the left

D The demand curve shifting to the right

Your answer ☐ **[1]**

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15 Brazil has a progressive income tax system with the following income tax rates:

Income at or over (Brazilian real – BRL)	Up to (BRL)	Tax Rate (%)
0	22 849	0
22 850	33 920	7.5
33 921	45 012	15.0
45 013	55 976	22.5
55 977	and above	27.5

What is the marginal tax rate for an individual who gets a pay rise of 15 000 BRL having initially earned 51 000 BRL?

A 11.7%

B 22.5%

C 25.8%

D 27.5%

Your answer ☐ **[1]**

16 What type of efficiency is a profit maximising monopoly most likely to display?

A Allocative efficiency

B Dynamic efficiency

C Productive efficiency

D X-efficiency

Your answer ☐ **[1]**

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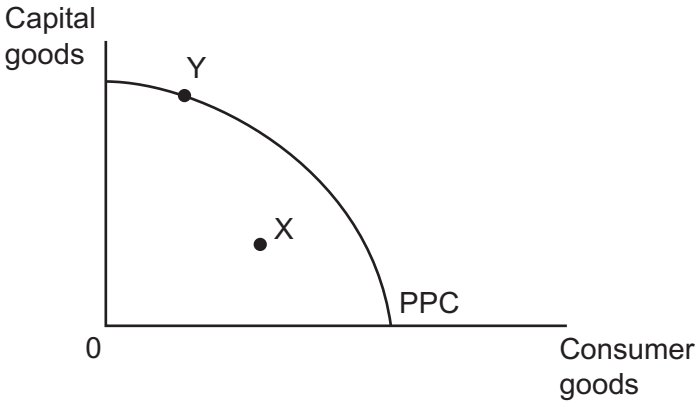
17 Output in an economy moves from point X to point Y in the diagram.

What does this represent?



A An increase in allocative efficiency

B An increase in productive efficiency

C An increase in the demand for capital goods

D An increase in the opportunity cost of producing consumer goods

Your answer ☐ **[1]**

18 What is the key insight from the Fisher equation using the quantity theory of money?

A Inflation is caused by increases in the money supply

B Money avoids the need for a double co-incidence of wants

C Output will return to the full employment level of output in the long run

D There is a trade-off between unemployment and inflation

Your answer ☐ **[1]**

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19 A firm is deciding whether or not to increase output by one unit.

What is this an example of?

A Economies of scale

B Opportunity cost

C Profit maximisation

D The marginal principle

Your answer ☐ **[1]**

20 What is most likely to cause a decrease in the size of the national income multiplier?

A A decrease in the top rate of income tax

B A decrease in interest rates

C An increase in consumer and business confidence

D An increase in the value of the domestic currency

Your answer ☐ **[1]**

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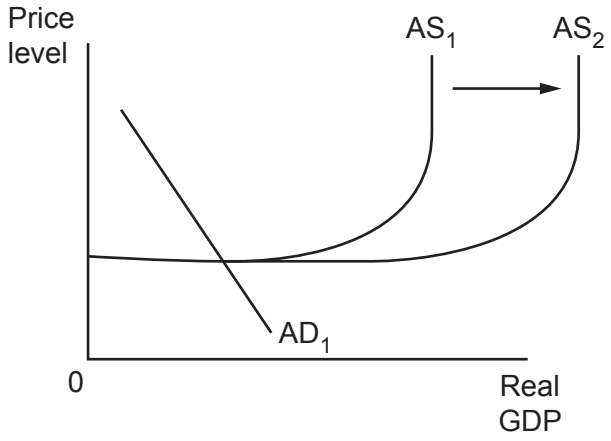
21 What is the impact of a shift in the aggregate supply curve from AS_1 to AS_2 in the diagram?



A Long run economic growth

B Neither short run or long run economic growth

C Short run and long run economic growth

D Short run economic growth

Your answer ☐ **[1]**

22 An individual renting a car for a week's holiday can pay a premium of £85 to the car rental company. If they damage the car during the rental period they do not need to pay.

Evidence suggests individuals are more likely to damage their rental cars as a result of paying this premium.

What is this an example of?

A Asymmetric information

B Moral hazard

C Negative externalities of consumption

D Negative externalities of production

Your answer ☐ **[1]**

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23 What is a barter system?

A Firms collude to agree on prices

B Goods and services are directly exchanged

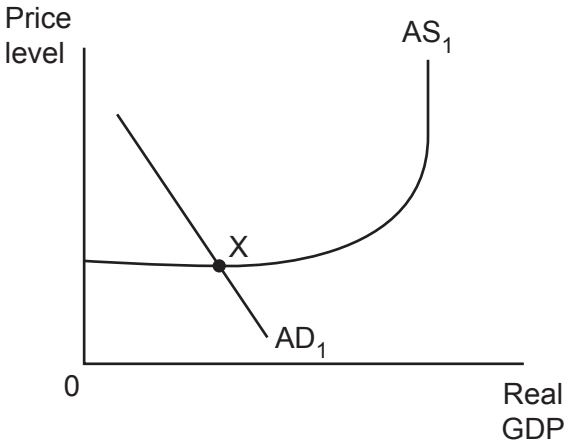
C The government intervenes in a commodity market to stabilise the price

D Workers are assigned to particular stages of the production process

Your answer ☐ **[1]**

24 A government managing an economy currently operating at point X in the diagram is considering pursuing demand-side economic growth.

Which macroeconomic policy objective is this most likely to conflict with?



A Economic development

B Full employment

C More even distribution of income

D Sustainable balance of payments position

Your answer ☐ **[1]**

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25 An individual recently lost their full-time job as an architect earning £60 000 a year.

They are seeking a similar job whilst temporarily on a zero hours contract at a distribution centre, where their hours have ranged from 4 to 18 hours a week.

Under which measure of unemployment would they be classed as being unemployed?

A Claimant Count

B Claimant Count and Labour Force Survey

C Labour Force Survey

D Neither Claimant Count or Labour Force Survey

Your answer ☐ **[1]**

26 A firm produces 85 units of output.

The fixed costs associated with running the business total £4000 with an average variable cost of £3.20.

If average variable cost is unchanged, what is the change in average total cost when the firm increases production to 86 units of output?

A Decreases by £46.51

B Decreases by £0.55

C Remains the same

D Increases by £3.20

Your answer ☐ **[1]**

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27 The European Central Bank aims to keep the price level in the Eurozone rising at a rate of below but close to 2% a year.

What is this an example of?

A A conflict between macroeconomic policy objectives

B A satisfactory balance of payments position

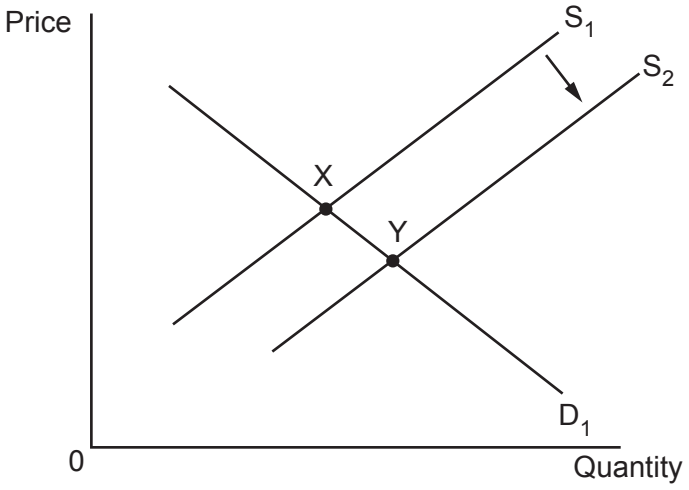
C A symmetric inflation target

D An asymmetric inflation target

Your answer ☐ **[1]**

28 The diagram shows the market for fried chicken.

What is the most likely cause of the market equilibrium moving from point X to point Y?



A A change in tastes and preferences

B An increase in labour productivity

C An increase in regulation

D A reduction in income tax

Your answer ☐ **[1]**

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29 Which of these is only seen in a planned economy?

A Government ownership and allocation of all resources

B Inequality in the distribution of income and wealth

C Profit maximising behaviour results in monopoly firms exploiting consumers

D The price mechanism fails to achieve allocative efficiency

Your answer ☐ **[1]**

30 What is the main role of the World Bank?

A To act as the banker to governments

B To promote free trade

C To provide finance for long-term development projects

D To provide short-term financing for countries experiencing balance of payments problems

Your answer ☐ **[1]**

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SECTION B

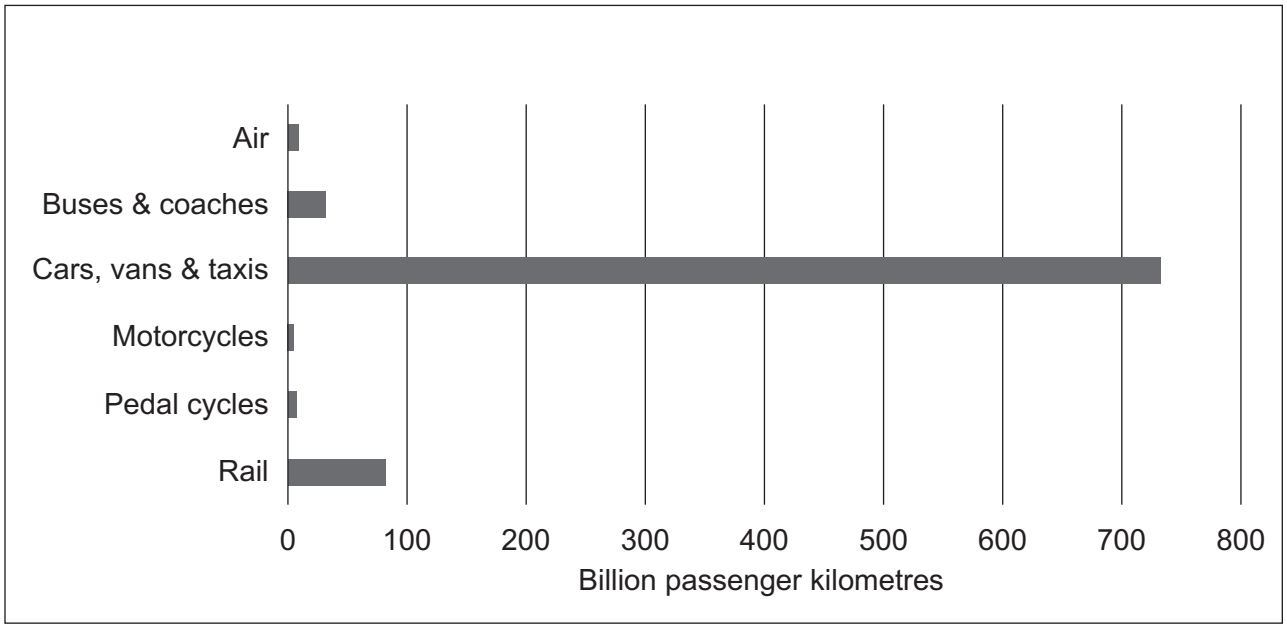
Read the extracts before answering the questions.

Extract 1

Transport in the UK

Investment in public transport is a significant area of government expenditure. Government intervention to tackle the market failure that arises from the use of private cars, which are overconsumed in the free market, is considered crucial in enabling the government to achieve its long-term environmental objectives, as well as in the short term reducing the problems caused by congestion. However, despite government spending of nearly £3.5bn in 2019/20, the data in Fig. 1.1 shows that private vehicles are still the primary mode of transport in the UK.

Fig. 1.1
Passenger transport by mode, 2019



For many individuals, the most viable substitute for travel by car is travel by rail. Whilst investment in infrastructure has contributed to increasing the quality and speed of train services, perhaps the biggest challenge has been trying to make it an affordable mode of transport. Fig. 1.2 illustrates what has happened to the price of train tickets and passenger numbers in recent years.

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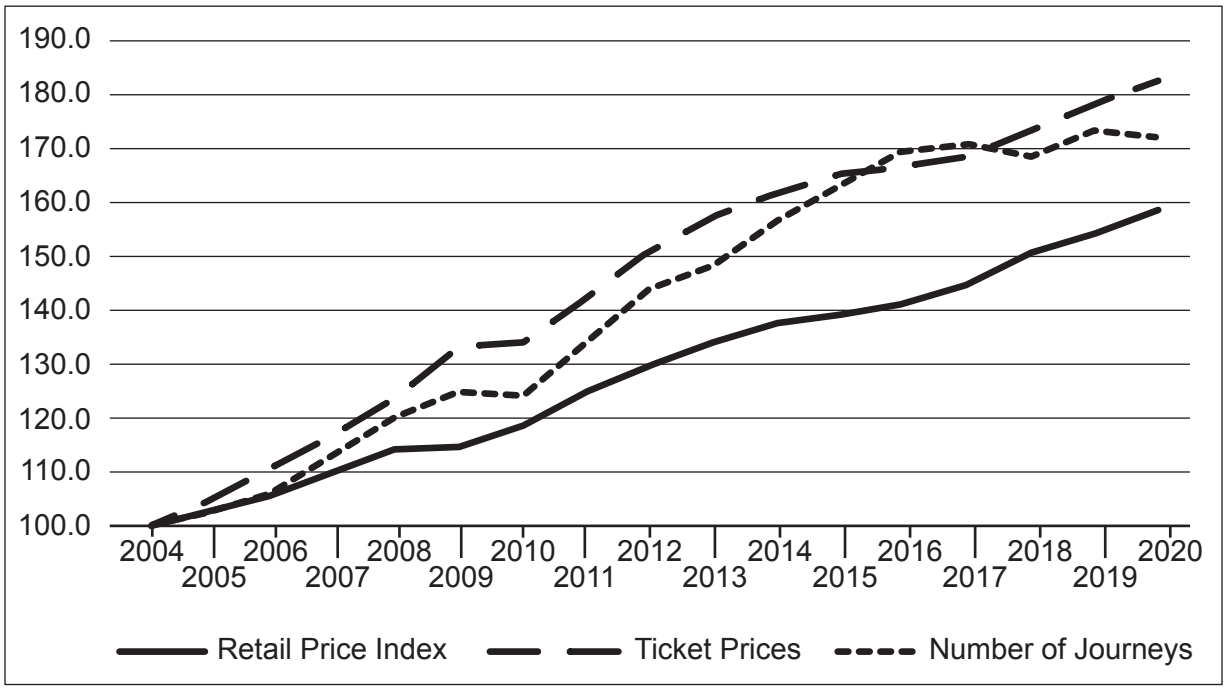
Fig. 1.2
Index of train prices and journey numbers 2014–2020 (Base Year 2014 = 100)



One of the biggest costs faced by train operating companies is the wages of their drivers, who have seen above inflation pay rises for many years. Trade Unions play a significant role in wage negotiations in this industry, with London Underground being a good example of this. Between 2010 and 2020, more than 36 000 days were lost due to strike action on the London Underground, with drivers and station staff striking over a range of issues including pay, working patterns and conditions. Some argue this intervention by unions has resulted in tube drivers earning well above their marginal revenue product of labour, with the starting pay in excess of £55 000 in 2020 almost double the average wage in the UK.

However, unions state the high wages simply reflect the demanding nature of the job, with drivers having significant responsibilities for public safety as well as having to work unsociable hours. They believe their intervention is necessary to protect their members from otherwise being exploited and underpaid by Transport for London.

The rail industry is one of only a handful where unions retain significant power, owing to the size of their membership and the fact that their members' jobs are critical to keeping the economy moving. Whilst in the 1970s more than two thirds of workers in the UK were members of a union, this has fallen to less than 25% in 2020. Alongside the impact of globalisation, this has meant the influence of trade unions has declined, with their bargaining power remaining high in only a limited number of occupations primarily in the public sector.

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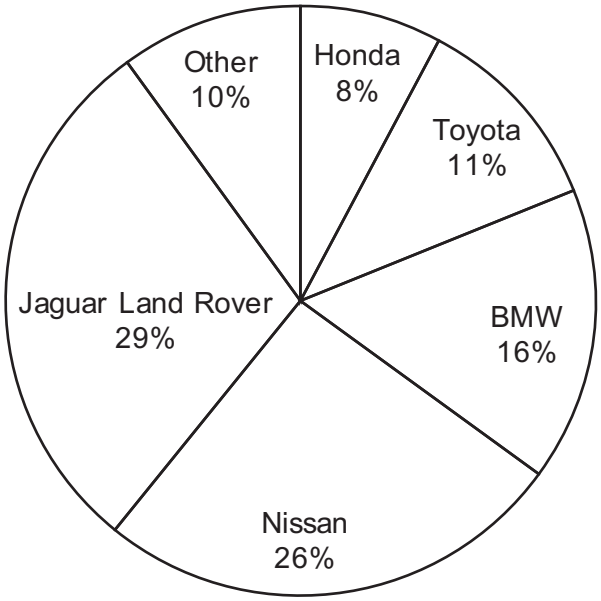
Extract 2

The automotive industry

Our continued reliance on travel by car is good news for the automotive industry, a vital part of the UK's economy which contributes more than £150bn to GDP. With the production of many other goods having moved abroad in recent decades the industry has become an increasingly important element of the manufacturing sector as a whole, now accounting for 10% of the UK's total manufacturing output. It is also a major source of employment, with 180 000 workers employed directly in car manufacturing and 864 000 employed across the wider industry. Fig. 2.1 illustrates how the production of cars in the UK is distributed by brand.

Fig. 2.1
Car production in the UK by brand, 2019



Output in the industry is relatively volatile, with demand particularly sensitive to the macroeconomic climate. The global economic downturn that resulted from the financial crisis saw car manufacturing output decrease by more than 25% in 2009 – a much more pronounced fall than in other manufacturing industries – whilst new car sales fell by almost 30% in 2020 when the economy experienced a deep recession.

The export market represents by far the biggest source of demand for the UK automobile industry, with 80% of cars produced in the UK exported. This accounts for 13% of the total exports of UK goods, making the industry a crucial component of the country's international trade. This is also the case in other developed European economies such as Germany, which is why for a number of years the UK and European governments have given annual subsidies in excess of £30bn to the industry.

There are concerns that the UK's new relationship with the European Union following Brexit poses a number of problems to the industry. This is because of its reliance on global supply chains being threatened by any barriers to trade imposed and a potential shortage of workers arising from the end of the free movement of labour. Some therefore argue that significant state aid (effectively acting as an export subsidy) is needed to ensure UK car manufacturing remains internationally competitive. However, critics are concerned such action goes against the principles of comparative advantage and could do more harm than good in the long run.

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Extract 3

The financial sector

Whilst the 2020 Trade and Cooperation Agreement between the UK and EU to an extent reassured domestic car manufacturers that they would continue to be able to export cars to the EU tariff-free, the agreement did little to facilitate access to the EU's single market for UK financial services firms. In particular, financial services firms lost their 'passporting' rights, which previously enabled them to sell their services into the EU without the need for additional regulatory clearances. Without such rights firms would be forced to comply with the requirements of different member states, which is likely to increase complexity and cost. Whilst it is hoped that over time equivalent agreements could be reached, there is no guarantee these will be long lasting, which has already caused some firms to relocate part of their operations away from London to places like Paris or Frankfurt.

This poses a major threat to the UK economy given the significant contribution financial services make to the UK's exports of services, which totalled £297.4bn in 2018. The current account surplus enjoyed in the trade in services is important in helping to offset the significant deficit on the current account in the trade in goods. Fig. 3.1 illustrates how the UK's exports of services breaks down by sector.

Fig. 3.1
UK export of services by sector, 2018

Sector	% of total UK exports in services
Financial	21.0
Insurance and pension services	6.6
Intellectual property	5.5
Other business	37.3
Telecommunication, computer and information services	7.5
Transport	9.9
Travel	12.2

One way in which the UK government could act to ensure the financial services sector remains competitive would be to deregulate. This could be achieved by, for example, removing the cap on bankers' bonuses imposed by the EU or looking again at capital adequacy requirements – the proportion of a bank's deposits they are required to keep as liquid assets. Such deregulation could fulfil former Chancellor Rishi Sunak's goal of making sure that "the City of London remains the most dynamic place to do financial services anywhere in the world". However, some suggest deregulation could create the very type of systemic risk that greater financial regulation was designed to overcome following the global financial crisis of 2008.

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31 Explain, using the information in **Extract 1**, why private car journeys may be overconsumed in the free market.

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32 Explain, using the information in **Fig. 1.2**, what has happened to the price of train tickets between 2004 and 2020.

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33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, the extent to which Trade Unions are responsible for labour market failure. **[15]**

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34 Explain, using the data in **Fig. 2.1**, the most likely market structure of the car manufacturing industry in the UK.

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35 Explain, using the information in **Extract 2** and a relevant diagram, the impact on the market for new cars of the 2020 recession.

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36 Explain, using the information in **Extract 2**, the impact on the UK economy of introducing export subsidies to the automotive industry in the UK.

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37 Using the data in **Fig. 3.1** and the information in **Extract 3**, calculate the value of UK financial services exports in 2018.

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38* Evaluate, using the information in **Extract 3**, the extent to which deregulation of financial services would benefit the UK economy. **[15]**

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END OF QUESTION PAPER

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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).

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