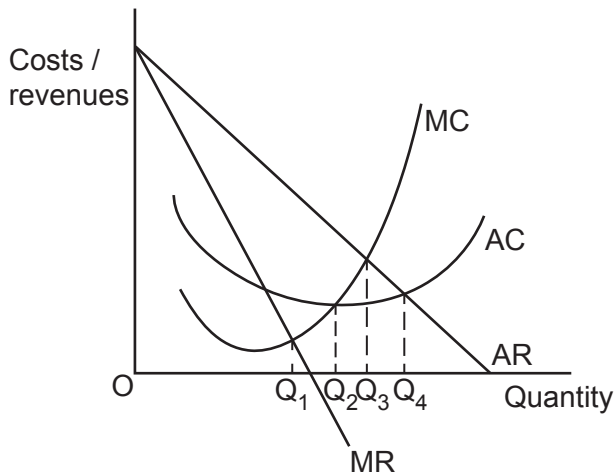


Section A

Write your answer to each question in the box provided.

- 1 Which point on the diagram represents productive efficiency for the firm?



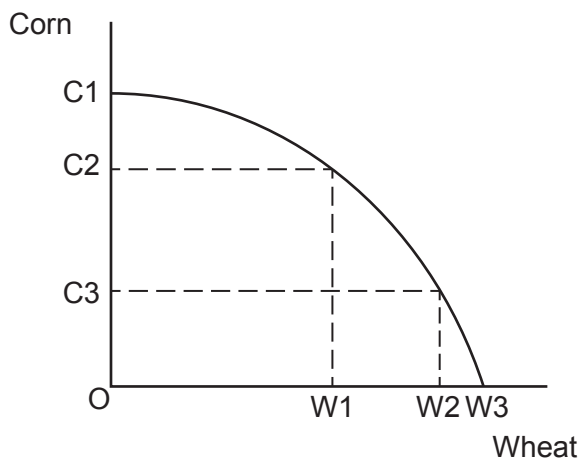
- A Q_1
 B Q_2
 C Q_3
 D Q_4

Your answer

B

[1]

- 2 In the diagram what represents the opportunity cost of increasing production of wheat from W1 to W2?



- A C1 to C2
 B C1 to C3
 C C2 to C3
 D W2 to W3

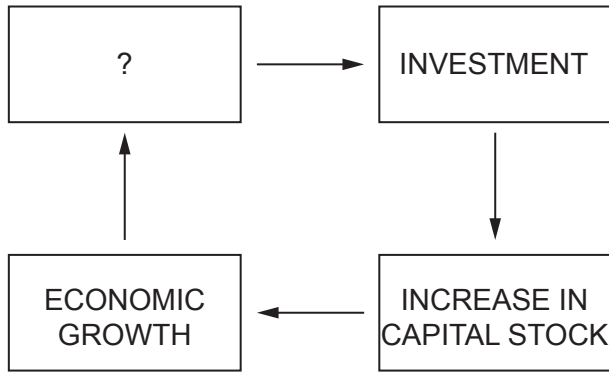
Your answer

C

[1]

3

3 What is missing from the Harrod-Domar model?



- A Banks
- B Exports
- C Microfinance
- D Saving

Your answer

D

[1]

4 The UK government imposes a tariff on imports of steel from Japan. In retaliation the Japanese government imposes protectionist policies on UK firms.

What is a likely outcome for the UK economy?

- A An increase in exports to Japan
- B An increase in imports from Japan
- C An increase in the consumer surplus in the steel market
- D An increase in unemployment in UK exporting industries

Your answer

D

[1]

- 5 Country A is experiencing a long-term improvement in the terms of trade. Country B is experiencing a long-term deterioration in the terms of trade.

What is the likely impact?

- A An increase in inequality between country A and country B
- B An increase in inequality within country A and within country B
- C An increase in living standards in country B
- D An increase in the number of exports country A needs to sell in order to buy the same quantity of imports

Your answer

A

[1]

- 6 Which of these are in joint supply?

- A Beef and leather
- B Carrots and potatoes
- C iPhones and iPhone chargers
- D Buildings and brick layers

Your answer

A

[1]

- 7 The price elasticity of supply (PES) of tomatoes is 0.2.
At a price of £2.40 per Kg the supply of tomatoes is 130 000 Kg.

What would be the new quantity of tomatoes supplied if the price of tomatoes increased to £3.00 per Kg?

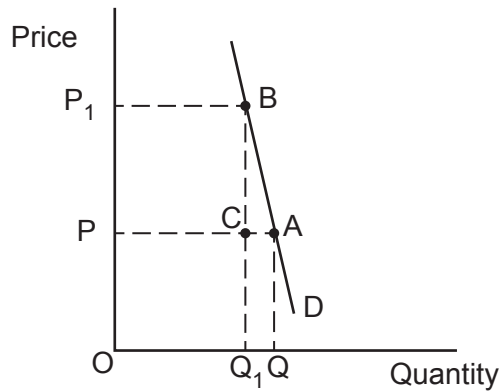
- A 132 600 Kg
- B 135 200 Kg
- C 136 500 Kg
- D 292 500 Kg

Your answer

C

[1]

- 8 The diagram shows the price of the good increase from P to P_1 .



What is the change in the total revenue for the firm?

- A C B A
 B $P A Q O - P C Q_1 O$
 C $P_1 B C P - C A Q Q_1$
 D $P_1 B Q_1 O$

Your answer

C

[1]

- 9 At what quantity of labour do diminishing returns set in?

Units of Labour	Total Product	Marginal Product
1	5	5
2	12	7
3	20	8
4	26	6
5	28	2
6	27	-1

- A 3
 B 4
 C 5
 D 6

Your answer

B

[1]

10 When is a firm most likely to be x-efficient?

- A It operates under monopolistic competition in the short run
- B It operates under monopoly
- C It operates under oligopoly
- D It operates under perfect competition in the long run

Your answer

D

[1]

11 Which components of aggregate demand (AD) could a change in interest rates affect?

- A C
- B $C + I$
- C $C + I + G + (X - M)$
- D $C + I + (X - M)$

Your answer

C

[1]

12 Which country has the highest terms of trade?

	Index of export prices	Index of import prices
Australia	110	108
Nigeria	84	92
Sri Lanka	106	97
UK	102	96

- A Australia
- B Nigeria
- C Sri Lanka
- D UK

Your answer

C

[1]

- 13 A firm increases the price of the good from £5 to £6.

Price	Quantity Demanded
£3	10
£4	9
£5	8
£6	7
£7	6

What is the marginal revenue as a result of this price change?

- A £1
- B £2
- C £4
- D £42

Your answer

B

[1]

- 14 Workers spend 90% of an increase in their income.

What is most likely to explain this significant increase in their consumption?

- A Interest rates will remain high
- B The change in their income is temporary
- C Their jobs will remain secure
- D There will be deflation

Your answer

C

[1]

- 15 What type of unemployment could be caused by the imposition of a minimum wage that is significantly higher than the equilibrium wage rate?

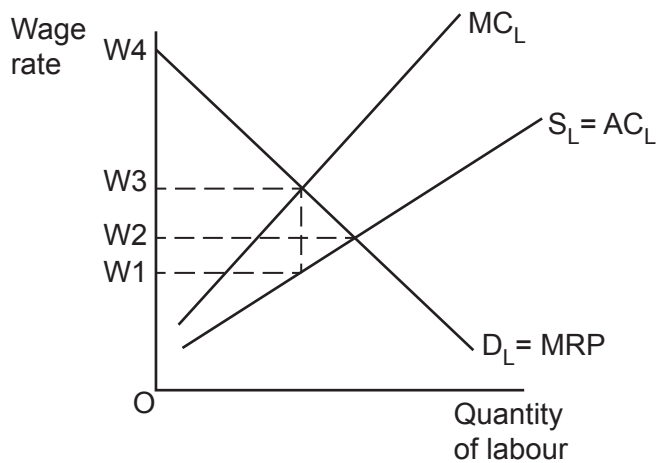
- A Cyclical
- B Frictional
- C Real wage
- D Structural

Your answer

C

[1]

16 On the diagram what is the wage rate that a monopsony employer will pay?



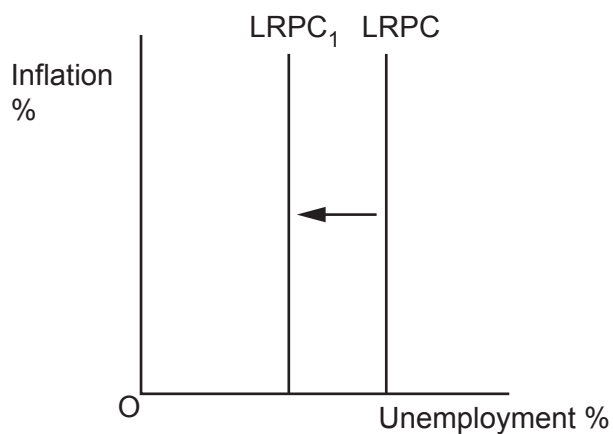
- A W1
- B W2
- C W3
- D W4

Your answer

A

[1]

17 What could have caused the shift in the long run Phillips curve in the diagram?



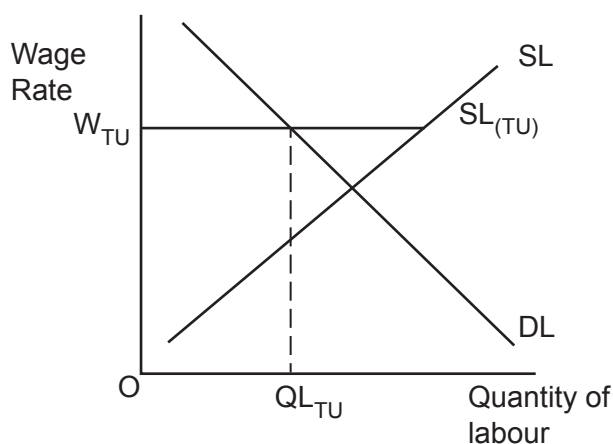
- A A fall in energy prices
- B An increase in corporation tax rates
- C An increase in emigration
- D An increase in spending on education and training

Your answer

D

[1]

18 The diagram shows the effect of trade union activity on a labour market.



What assumption does the diagram make about the trade union?

- A All workers and potential workers in the industry are members of the trade union
- B The firm does not have an available capital substitute for the workers in the trade union
- C The public are sympathetic to the cause of the trade union
- D The trade union charges workers a fee to be a member

Your answer

A

[1]

19 Which of these is an example of a supply side policy?

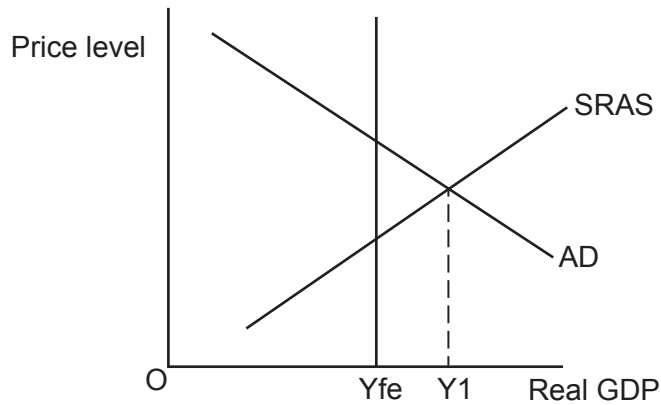
- A A programme of quantitative easing
- B Devaluing the currency
- C Increasing income tax rates
- D Investing in infrastructure

Your answer

D

[1]

20 What is a consequence of an economy operating with the output gap shown in the diagram?



- A A fall in imports
- B A fall in wage rates
- C An easing in inflationary pressure
- D A shortage of labour

Your answer

D

[1]

21 Which of these characteristics would be found in a perfectly contestable market in the long run?

A	High entry barriers	Normal profit
B	Many firms	Supernormal profit
C	No entry barriers	Normal profit
D	Supernormal profit	Low entry barriers

Your answer

C

[1]

- 22** A teacher leaves their £40 000 per year job to start a business. In the first year the business makes £80 000 in revenue and incurs costs of £50 000. The teacher used a property that they owned as their business premises. The property was previously rented out for £12 000 per year.

What was the economic profit for the first year of the business?

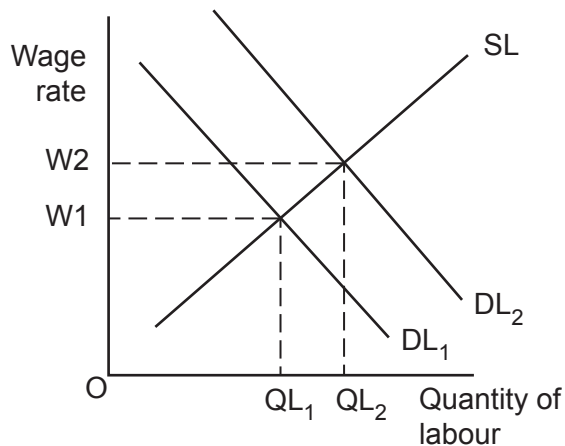
- A** – £22 000
- B** £18 000
- C** £30 000
- D** £58 000

Your answer

A

[1]

- 23** What is the most likely cause of the change in the labour market shown on the diagram?



- A** A fall in demand for the good the labour produces
- B** An increase in the productivity of workers
- C** An increase in the wage rate in a related labour market
- D** A reduction in the entry barriers faced by workers to enter the market

Your answer

B

[1]

24 According to neo-classical economists, what is the most effective way to increase long run aggregate supply (LRAS)?

- A** Increasing government current expenditure
- B** Increasing spending on education and training
- C** Lowering indirect tax rates
- D** Lowering the rate of interest

Your answer

B

[1]

25 What stage of the economic cycle was the UK in between Q3 2008 and Q3 2009?

- A** Boom
- B** Recession
- C** Recovery
- D** Slowdown

Your answer

B

[1]

26 If a government operates a fixed exchange rate system it might encounter which of these problems?

- A** A conflict of objectives when setting monetary policy
- B** A loss of revenue from the removal of tariffs
- C** An increase in uncertainty leading to a fall in international trade
- D** An increase in uncertainty leading to a fall in investment

Your answer

A

[1]

- 27 Which characteristic of a firm operating under conditions of oligopoly is **not** also a characteristic of a pure monopolist?
- A The firm is a price maker
 - B The firm is productively inefficient
 - C The firm may engage in non-price competition
 - D The firms may make a supernormal profit

Your answer

C

[1]

- 28 In 2021, the population of Argentina was 45 million and GDP was \$485 billion. In 2022, the population increased by 1% and GDP rose to \$499.95 billion.

What was the increase in the GDP per capita from 2021 to 2022? Round to the nearest whole number.

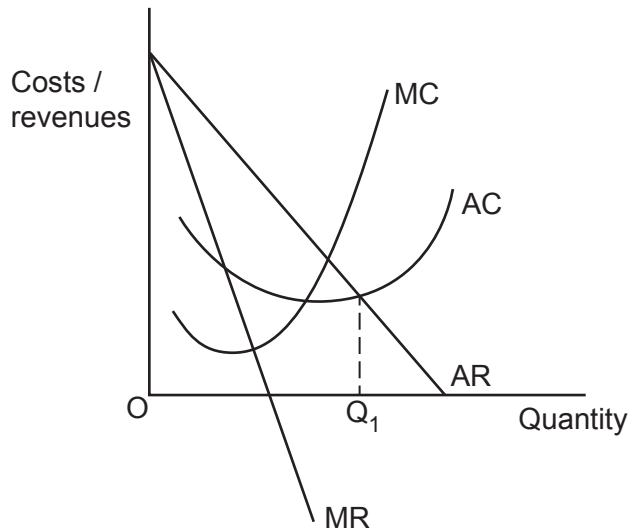
- A – \$678
- B \$90
- C \$222
- D \$332

Your answer

C

[1]

29 If a firm is operating a quantity of Q_1 which objective is it most likely pursuing?



- A Corporate social responsibility
- B Profit maximisation
- C Sales revenue maximisation
- D Sales volume maximisation

Your answer

D

[1]

30 The financial regulator increases the reserve ratio imposed on banks.

How might this affect market interest rates?

- A They might decrease as banks are likely to try to attract more borrowers
- B They might decrease as households are likely to save less
- C They might increase as households are likely to hoard cash to maintain their liquidity
- D They might increase as the supply of loanable funds provided by banks are likely to fall

Your answer

D

[1]

15
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Section B starts on the next page

Section B

Read the extracts before answering the questions.

Extract 1

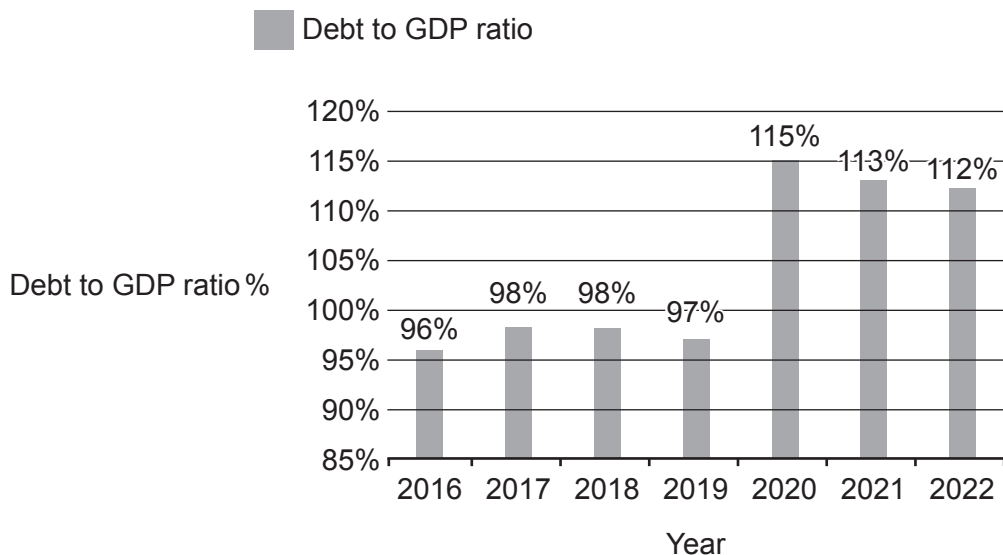
Pension age in France

In April 2023 French President, Emmanuel Macron, raised the age at which French citizens could claim their state pension from 62 to 64. This came after months of protests across France since Macron first announced the policy change which would see workers needing to work an additional 2 years before receiving their pension.

Macron pointed to the cost of pensions being unsustainable with the tax burden on those of working age being too great. The number of working age people per pensioner has decreased from 2.1 to 1.7 in the last 20 years due to increasing life expectancy. Macron has expressed concern about France's national debt which can be seen in Fig. 1.1.

5

Fig. 1.1 France government debt to GDP ratio 2016 to 2022



France's GDP has increased post-pandemic and was \$3125 billion in 2022 but the debt to GDP ratio has not fallen significantly.

10

Supporters of the policy have also pointed to potential improvements it could make to the labour market. These include a larger labour force and possible improvements in labour market flexibility.

However, the policy met fierce criticism from many French people. Trade unions took strike action and demonstrators took to the streets. Many were concerned about the impact on older people who may find it more difficult to find or retain jobs past the age of 62. Others mentioned the negative effects on labour markets with older workers staying in jobs longer meaning it would be more difficult for young people to find employment. Firms could be adversely affected if older workers had lower productivity than younger workers.

15

The impact on inequality was also a concern. The policy could have a greater impact on those on low incomes who do not have a private pension or asset wealth to fall back on. Also, those in manual jobs would find it harder to work past 62 than those in office-based jobs.

20

- 31 Using the data in **Fig. 1.1** and information in **Extract 1**, calculate France's national debt in 2022 in US Dollars (\$).

Debt to GDP ratio in 2022 = 112% and GDP in 2022 = \$3125 billion.

National debt = $1.12 \times \$3125 \text{ billion}$

= \$3500 billion (= \$3.5 trillion)

[2]

- 32 Explain, using an appropriate diagram, the impact on the French labour market of an increase in the pensionable age.

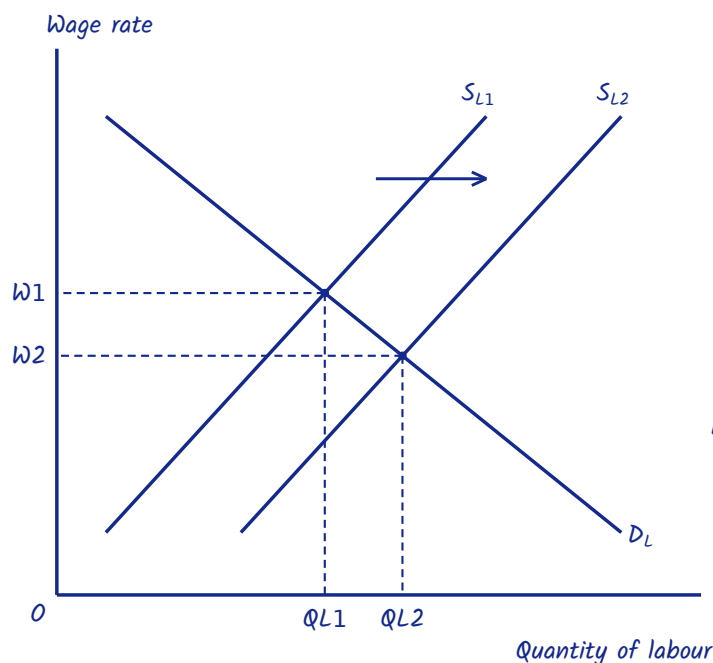


Fig. A: labour market in France

Raising the pension age from 62 to 64 means more people of working age stay in the labour force for an extra 2 years, so the supply of labour increases and the supply curve shifts right from S_{L1} to S_{L2} .

In Fig. A the wage rate falls from $w1$ to $w2$ and the quantity of labour employed increases from $QL1$ to $QL2$.

[4]

- 33* Evaluate, using the information in **Extract 1**, whether raising the pensionable age in France will benefit the macroeconomy. [15]

The pensionable age is the age at which workers can claim a state pension. Raising it from 62 to 64 increases the size of the French labour force, as people of working age stay in work for two more years.

A larger labour force increases the quantity of factors of production available, so productive capacity rises and LRAS shifts to the right. This allows long-run economic growth to take place without inflationary pressure, which is important as the ratio of working-age people per pensioner has fallen from 2.1 to 1.7 in 20 years. The extra supply of labour may also improve labour market flexibility and put downward pressure on wages, reducing costs for French firms. This makes French exports more price competitive, improving the current account and raising net exports, a component of AD, so short-run growth rises too. Greater flexibility could also attract FDI, creating jobs.

Second, the policy reduces the cost of pensions, which Macron says is unsustainable. The government pays pensions for two fewer years, and those working longer pay more income tax, so the budget deficit falls. Fig. 1.1 shows the debt to GDP ratio rose from 96% in 2016 to 115% in 2020 and was still 112% in 2022, so a lower deficit helps bring debt down and avoids future austerity, making growth more sustainable. The savings could fund lower taxes on those of working age, whose tax burden is said to be too great, raising disposable income, consumption and AD, with a multiplier effect on real GDP. Older workers earning a wage rather than a smaller pension may also spend more, and their experience may raise productivity.

However, the benefits may be smaller than expected. Many older people may find it difficult to find or keep jobs past 62, especially those in manual jobs. Instead of pensions the government may have to pay unemployment or disability benefits, which could cancel out much of the saving. If older workers stay in jobs longer, it may be more difficult for young people to find employment. Youth unemployment can cause

hysteresis, as young people lose skills and work habits, which reduces LRAS in the long run and raises welfare spending.

Also, firms could be adversely affected if older workers have lower productivity than younger workers. Unit labour costs would rise, making French exports less competitive and worsening net trade. Lower wages from the extra supply of labour would reduce real incomes for those already in work, reducing consumption and AD. Workers may also save more during their working lives so that they can still retire at 62, increasing the marginal propensity to save, lowering the multiplier and consumption.

The policy may increase inequality, as it hits hardest those on low incomes with no private pension or asset wealth, and the strikes and protests may themselves have reduced output in the short run.

On balance, raising the pension age is likely to benefit the macroeconomy in the long run, mainly through its effect on the public finances and on LRAS, since ageing means the old system cannot be afforded. However, the size of the benefit depends on whether new jobs are created for both older and younger workers and on the current level of unemployment: if unemployment is high, the extra labour simply adds to it. It also depends on the number of 62 to 64 year olds, on the nature of jobs in France (manual or office based), on how many people have private pensions, and on future life expectancy and immigration. If the government spends some of the savings on retraining older workers and helping manual workers, the benefits should outweigh the costs.

Extract 2

Taxing Tourism

France has, for over 100 years, been imposing a specific tax on tourist stays, the *taxe de sejour*. In April 2023 Manchester became the first UK city to impose such a tax. Tourists to Manchester now need to pay £1 per room per night if staying within the city. Estimates suggest this tax could raise as much as £30 million and that if the tax was applied across the UK it would raise over £400 million. Many countries across Europe already impose tourist taxes and other UK cities including Edinburgh, Bath and Oxford have considered introducing one.

5

Although cities, such as Manchester, are keen to attract tourists there may be some disadvantages for local residents. Tourists may cause congestion on roads and public transport as well as generating waste that needs to be cleaned up. Some cities complain that properties being used for tourist accommodation reduces the supply of affordable housing for local residents.

10

There have been some critics of tourist taxes. Plans to introduce further tourist taxes in Venice were met with protests from locals who were worried that it would reduce the number of visitors. Other people have questioned whether UK residents should have to pay the tax in Manchester if they are visiting the city.

15

Annie Brown, the Chair of the organisation set up in Manchester to administer the new tax, is positive about its impacts. She said the tax revenue could be used to 'improve the visitor experience' including being able to fund future events and festivals in Manchester. She said the £1 per night tax was not off-putting for visitors and is a small amount compared to that charged by other European cities.

20

Tourist spending in the UK is counted as an export on the current account of the balance of payments. In recent years there has been concern about falling numbers of tourists visiting the UK. Research by Visit Britain has found that, post-Brexit, French and German tourists have been avoiding the UK due to increased restrictions on travel. Fig. 2.1 shows the export revenue from tourist spending in the UK alongside the total value of all exports.

25

Fig. 2.1 Tourist revenues and total export revenues for UK (2015 to 2018)

Year	Value of tourist spending (£m)	Value of total exports (£m)
2015	£23 898	£123 200
2016	£25 343	£142 700
2017	£28 176	£162 100
2018	£26 691	£185 300

- 34* Evaluate, using an appropriate diagram(s) and the information in **Extract 2**, the impact on the tourism market in Manchester of the introduction of a specific tax on providers of tourist accommodation.

[15]

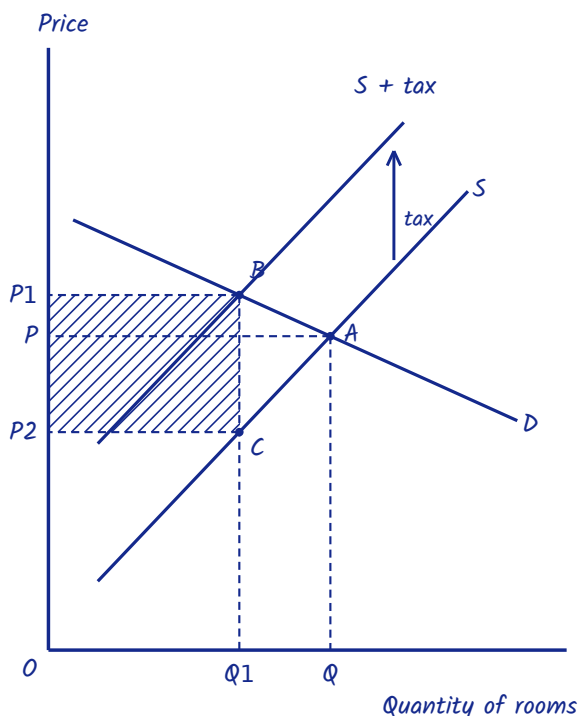


Fig. B: price elastic demand

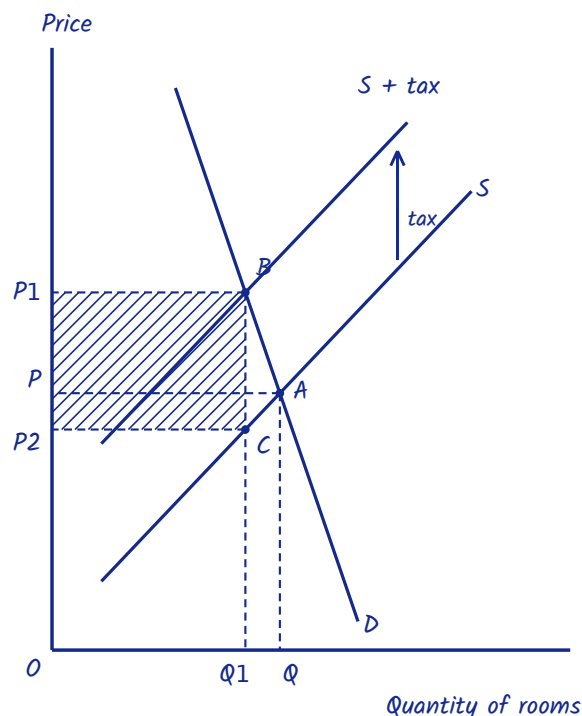


Fig. C: price inelastic demand

A specific tax is a fixed amount per unit, here £1 per room per night. It is an indirect tax on providers, so it raises their costs and the supply curve shifts vertically upwards by the amount of the tax, from S to $S + \text{tax}$ (Figs. B and C).

In Fig. B the price of a room rises from P to P_1 and demand contracts from A to B , so the number of room nights falls from Q to Q_1 . Fewer visitors stay in Manchester, reducing demand for tourist accommodation and the revenue of hotels, and tourists may spend less in local restaurants and shops, so some workers in the tourism market may lose jobs. Locals in Venice protested for this reason: a tax may reduce the number of visitors. The tax is also regressive, as £1 is a larger proportion of a cheap room price, so budget hotels, where demand is more price elastic, will be hit hardest. With falling numbers of tourists visiting the UK and tourism counted as an export, any fall in visitors also worsens the current account. However, tourists create negative externalities such as congestion on roads and public

transport and waste that must be cleaned up, so the market price is below the true social cost and too many room nights are consumed. The tax internalises part of this external cost, moving the market closer to the socially optimal output and reducing market failure. Fewer tourist properties may also mean more affordable housing for local residents.

The tax also raises revenue, shown by the hatched area P_1BCP_2 , estimated at up to £30 million. Annie Brown says this can be spent to 'improve the visitor experience' and fund events and festivals. This would increase demand for tourism in Manchester in the future, shifting the demand curve to the right, which could more than offset the initial fall in visitors.

The size of the fall in visitors depends on the price elasticity of demand. £1 per night is very small compared with the total cost of a trip and with taxes charged in other European cities, so demand is likely to be price inelastic, as in Fig. C. Here most of the tax is passed on to tourists, P to P_1 , but the quantity falls only slightly from Q to Q_1 and the tax raises a lot of revenue. Business visitors, whose firms pay, will be particularly unresponsive, while leisure visitors on a budget may stay outside the city boundary instead.

Overall, the tax is likely to have only a small negative impact on the quantity of tourism in Manchester, while raising significant revenue and reducing negative externalities. The final impact depends on whether other UK cities such as Edinburgh, Bath and Oxford also introduce a tax, which would reduce substitution away from Manchester, on how much revenue is raised and how it is spent, and on the type of accommodation, as budget and leisure visitors are more price sensitive than business visitors.

- 35 Using the data in **Fig. 2.1**, explain what has happened to tourist revenues as a share of total exports in the UK from 2015 to 2018.

2015: $(£23\,898 \div £123\,200) \times 100 = 19.4\%$

2018: $(£26\,691 \div £185\,300) \times 100 = 14.4\%$

Tourist revenues as a share of total exports have fallen by 5 percentage points (a fall of 25.8%), because the value of total exports grew much faster (by about 50%) than tourist spending, which rose until 2017 and then fell in 2018.

[3]

Turn over for the next question

Extract 3

Restaurants in Paris

Despite weeks of protests on the streets of Paris, over the raising of the pensionable age, locals and tourists continued to enjoy the cafes and restaurants across the city. In one photo diners could be seen enjoying their dinner outside a restaurant while a fire, set by protesters, burned in the middle of the road behind them. France has one of the most innovative and creative restaurant markets in the world, valued at €57 billion, it is the largest restaurant market in the European Union.

5

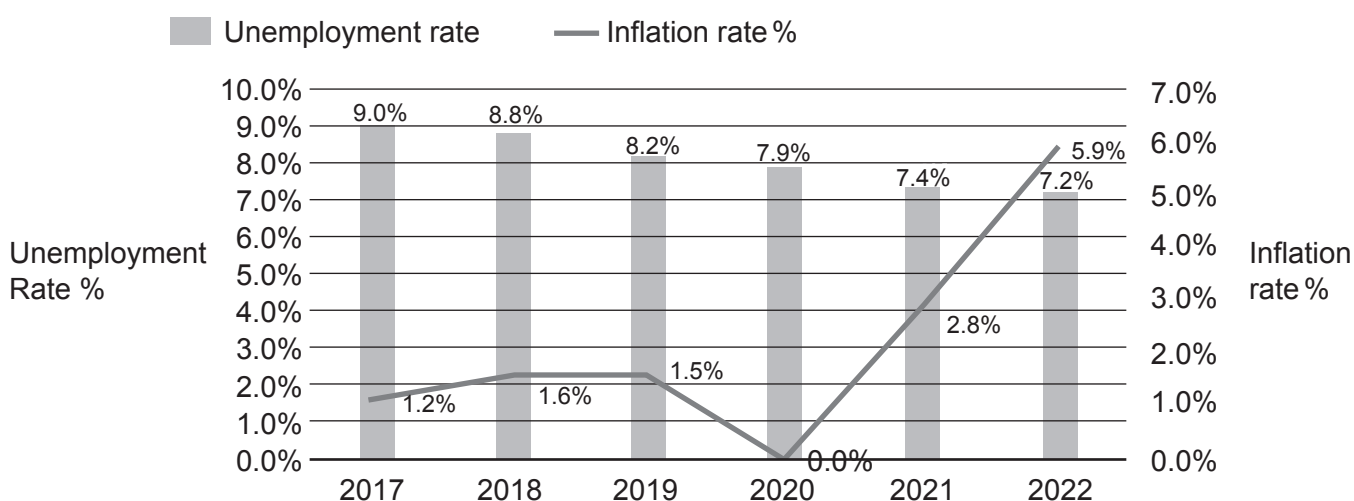
There are over 44,000 restaurants in Paris serving customers not just traditional French cuisine but different food from all over the world. Restaurants range from the award winning and experimental to accessible street food. New restaurants open all the time and entry barriers are relatively low compared to other markets. The market is a tough one for entrepreneurs though, some research suggests up to 60% of new restaurants fail in their first year.

10

Restaurants, like all businesses in France, have been operating against a back drop of mixed macroeconomic performance in recent years. Macron and his government have had success in achieving some, but not all, of their macroeconomic objectives. Fig. 3.1 shows the recent changes in two of the main measures of macroeconomic performance in France.

15

Fig. 3.1 Unemployment rate and inflation rate in France from 2017 to 2022



- 36 Explain, using the data in **Fig. 3.1**, whether the short run Philips Curve holds in France between 2017 and 2022.

Overall, yes; the short run Phillips curve shows an inverse relationship between unemployment and inflation. From 2017 to 2022 unemployment fell from 9% to 7.2% while inflation rose from 1.2% to 5.9%. However, it does not hold for part of the data: between 2018 and 2020 both fell, as unemployment fell from 8.8% to 8.2% to 7.9% and inflation fell from 1.6% to 1.5% to 0%.

[3]

Turn over for the next question

- 37 Evaluate, using an appropriate diagram(s) and the information in **Extract 3**, whether monopolistic competition such as that which exists in the restaurant market in Paris can be efficient in the long run.

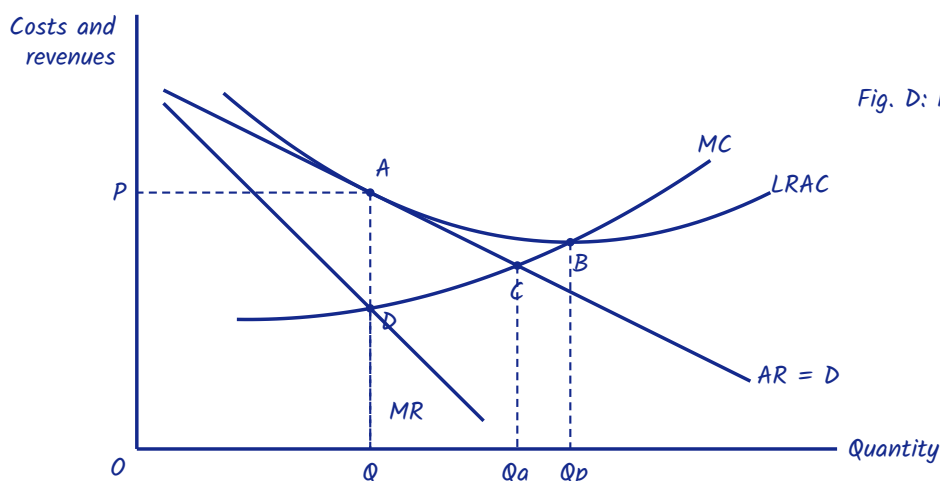


Fig. D: long run equilibrium

Monopolistic competition has many firms selling differentiated products with low entry barriers, like the over 44,000 restaurants in Paris serving food from all over the world, from award winning to street food. In the long run new restaurants enter while supernormal profit is made, shifting each firm's AR left until it is tangent to LRAC (point A in Fig. D), so firms make only normal profit at P , Q . The firm is not productively efficient, as it produces at Q , not at the minimum of LRAC where $MC = AC$ (point B, Q_p), so there is excess capacity, e.g. empty tables. It is not allocatively efficient either, as at Q price P is above MC (point D), rather than producing where $MC = AR$ (point C, Q_a). Small restaurants are also unlikely to benefit from economies of scale, and with only normal profit in the long run they may lack the funds to be dynamically efficient. However, the firm is x-efficient: if any restaurant produced at Q with costs above the LRAC curve it would make a loss and leave the market, which helps explain why up to 60% of new restaurants fail in their first year. Supernormal profit made in the short run by innovative restaurants gives an incentive to reinvest and create new dishes, so the market can be dynamically efficient. Product variety also gives consumers choice, which is valued.

[8]

END OF QUESTION PAPER

EXTRA ANSWER SPACE

If you need extra space use these lined pages. You must write the question numbers clearly in the margin.

37

On balance, the market is closer to productive and allocative efficiency in the long run than in the short run, and it is perhaps the most statically efficient realistic market structure, since perfect competition rarely exists. How efficient it is depends on how low entry barriers really are: start-up costs and regulation for opening a restaurant still exist, so some firms may keep supernormal profit and be less efficient.

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