Oxford Cambridge and RSA

Thursday 14 October 2021 – 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.

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SECTION A

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

Write your answer for each question in the box provided.

1 What is a characteristic of positive economic statements?

A They are subjective opinions

B They can be proven true or false

C They explain correctly what is happening in an economy

D They explain the best outcome from a choice that can be made

Your answer ☐ **[1]**

2 Which of the industries below operates in the tertiary sector?

A Construction

B Fishing

C Leisure

D Manufacturing

Your answer ☐ **[1]**

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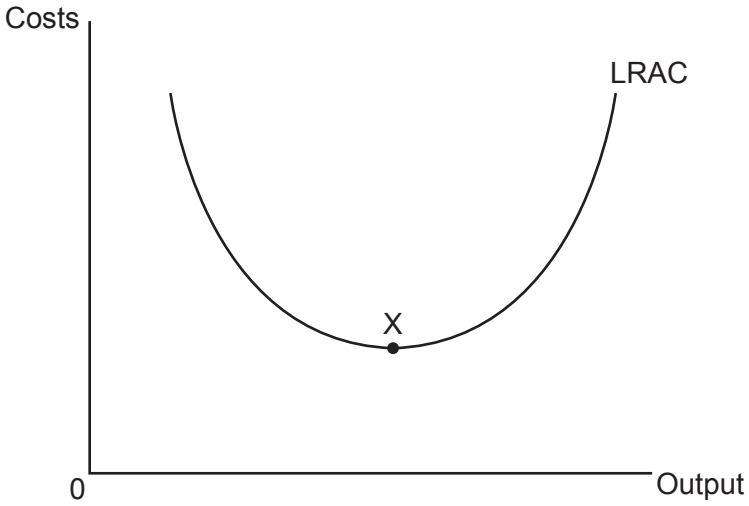
3 What does point X on the diagram below represent?



A Constant returns to scale

B Diseconomies of scale

C Economies of scale

D Minimum efficient scale

Your answer ☐ **[1]**

4 In 2020 Sony announced the launch of the PlayStation 5 games console. It was estimated that at a price of £500 Sony would sell 87 million consoles. Analysts suggested these sales would increase to 122 million if the price was reduced to £400. What is the price elasticity of demand?

A –2.01

B –1.61

C –0.50

D 0.71

Your answer ☐ **[1]**

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5 Many developing nations face the problem of a poorly developed financial sector. This is partly because individuals are unwilling to save their money in financial institutions. Some are worried that the financial institutions may go bankrupt, which will result in them losing their savings. How can a central bank help to overcome this problem?

A Act as a lender of last resort

B Issue banknotes and coins

C Maintain price stability

D Manage the government's borrowing

Your answer ☐ **[1]**

6 What is likely to be the most effective policy solution to overcome the market failure caused by the existence of positive externalities of production?

A Competition policy

B Regulation

C Subsidy

D Taxation

Your answer ☐ **[1]**

7 Which form of economic integration describes a situation in which there is free trade between members who set common external tariffs but each have different currencies?

A Customs union

B Economic union

C Free trade area

D Monetary union

Your answer ☐ **[1]**

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8 What does the accelerator effect show?

A An increase in a component of aggregate demand causes a greater final change in real GDP

B Economic growth will increase the rate of environmental degradation

C Firms undertake investment to replace depreciating capital and expand their capacity

D When the economy is approaching full capacity increases in aggregate demand cause inflation

Your answer ☐ **[1]**

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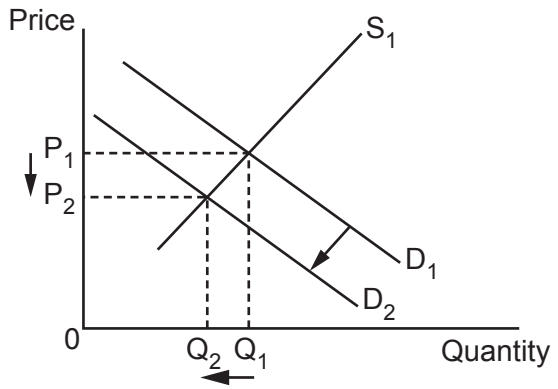
9 Which of the diagrams below is most likely to explain the impact on the market for domestic campsites of the government imposing a tax on individuals who choose to fly abroad?

A



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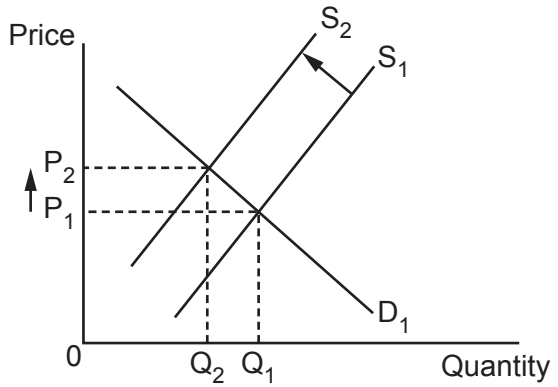

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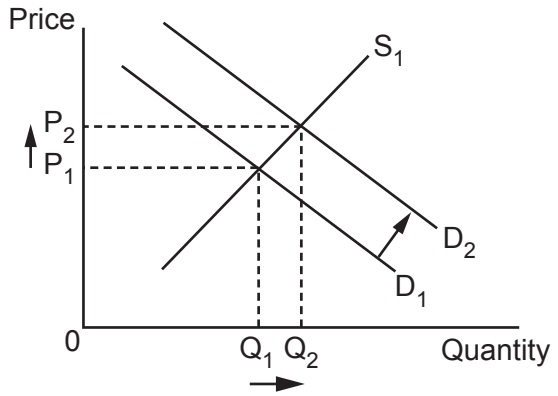

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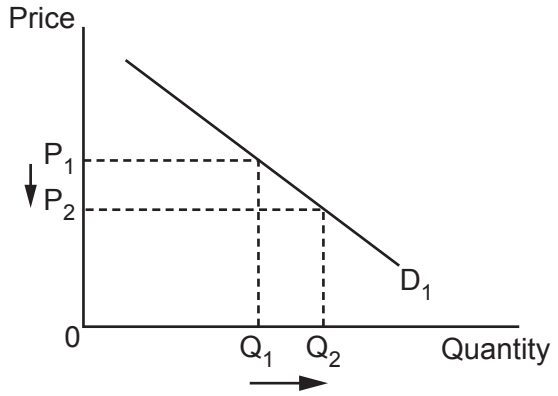

Your answer ☐ **[1]**

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10 What indicates a structural budget deficit?

A Government expenditure exceeds tax revenue in the downturn of a business cycle

B Government expenditure exceeds tax revenue when the economy is at full employment

C Tax revenue exceeds government expenditure in the downturn of a business cycle

D Tax revenue exceeds government expenditure when the economy is at full employment

Your answer ☐ **[1]**

11 In 2019 the price level in Nigeria increased by 11.4%, compared to a 12.1% increase in prices in 2018. What does this represent?

A Deflation and disinflation

B Disinflation and hyperinflation

C Hyperinflation and inflation

D Inflation and disinflation

Your answer ☐ **[1]**

12 What is marginal external cost equal to?

A Marginal private cost – marginal social cost

B Marginal social cost

C Marginal social cost + marginal private cost

D Marginal social cost – marginal private cost

Your answer ☐ **[1]**

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13 What does the neo-classical approach to aggregate supply suggest will be the impact of expansionary demand side policy in the long run?

A It will be purely inflationary

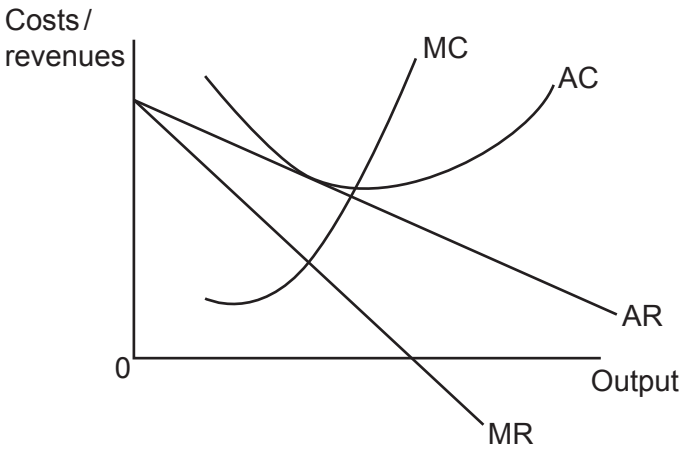
B It will cause economic growth and reduce the rate of inflation

C It will cause economic growth at the cost of higher inflation

D It will result in non-inflationary growth

Your answer ☐ **[1]**

14 What is the diagram below most likely to illustrate?



A Monopolistic competition in the long run

B Monopolistic competition in the short run

C Monopoly in the long run

D Monopoly in the short run

Your answer ☐ **[1]**

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15 Output is one way of measuring the level of economic activity in an economy. What is another way?

A Employment

B Expenditure

C Human Development Index

D Inflation

Your answer ☐ **[1]**

16 The table below outlines how import and export prices in a country have changed over time. How much has the country's terms of trade increased by between 2000 and 2020?

Year	Price index of exports	Price index of imports
2000	103	117
2020	109	119

A 3.6%

B 4.1%

C 10.8%

D 13.0%

Your answer ☐ **[1]**

17 A local restaurant employs five staff – a manager, a chef, a barman and two waiters. What economic theory is this an example of?

A Bilateral monopoly

B Comparative advantage

C Derived demand for labour

D Division of labour

Your answer ☐ **[1]**

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18 Which of the following is the most likely recipient of microfinance?

A Individuals in developed nations

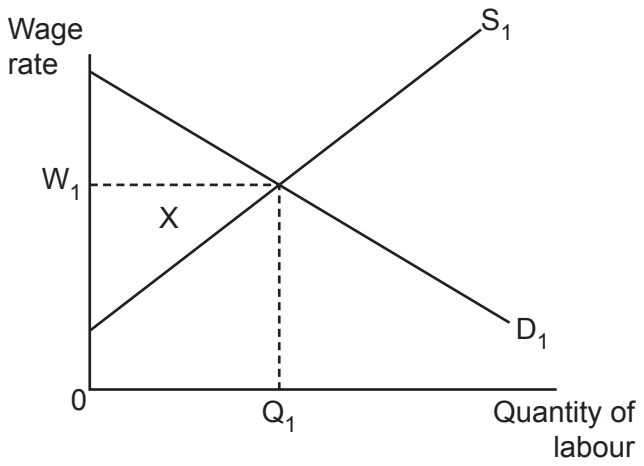
B Individuals in developing nations

C Public limited companies in developed nations

D Public limited companies in developing nations

Your answer ☐ **[1]**

19 What does area X in the diagram below represent?



A Consumer surplus

B Economic rent

C Producer surplus

D Transfer earnings

Your answer ☐ **[1]**

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20 A zoo charges £29.17 + VAT (payable at 20%) for admission, giving a total price of £35. The monthly running costs of the zoo are £675 000, with 30 000 visitors each month. In July 2020 the government announced a temporary reduction in the rate of VAT charged to zoos from 20% to 5%. If the zoo continued to price entrance at £35 and visitor numbers remained constant, what would the impact on its profit be?

A Increases by £124 900

B Increases by £200 100

C Increases by £325 000

D Remains unchanged

Your answer ☐ **[1]**

21 What is the most likely impact of an exchange rate appreciation?

A Aggregate demand shifts to the right

B Contraction along the aggregate demand curve

C Long run aggregate supply shifts to the left

D Short run aggregate supply shifts to the right

Your answer ☐ **[1]**

22 In March 2020, India announced it was increasing its fuel excise duty. What type of tax is this?

A Direct

B Indirect

C Progressive

D Proportional

Your answer ☐ **[1]**

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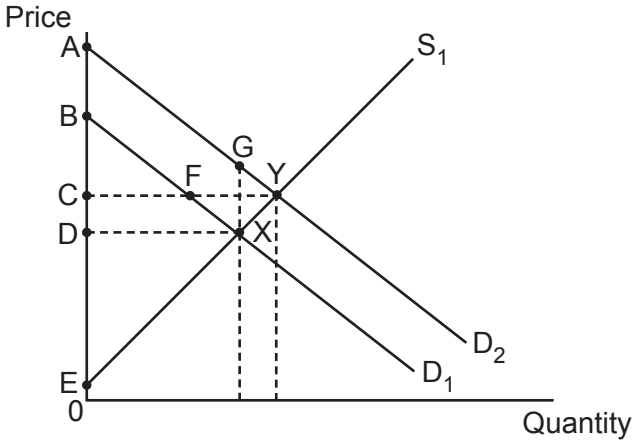
23 Equilibrium in a market changes from X to Y in the diagram below. What area represents the new consumer surplus?



A AYC

B BXD

C CYE

D CFXD

Your answer ☐ **[1]**

24 A firm manufactures and sells a limited edition watch at a price of £1000. Within minutes of launching the product online it has sold all its watches, with hundreds of potential customers left disappointed. What has occurred here?

A Ceteris paribus

B Disequilibrium

C Free rider problem

D Negative externalities of consumption

Your answer ☐ **[1]**

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25 The table below shows the income tax brackets in France in 2020:

Taxable Income	Tax Rate
€0 – €10 064	0%
€10 065 – €27 794	14%
€27 795 – €74 517	30%
€74 518 – €157 806	41%
Over €157 807	45%

What is the average tax rate for an individual who earns €110 000?

A 28.2%

B 30.0%

C 32.1%

D 40.0%

Your answer ☐ **[1]**

26 What is the problem caused by scarcity?

A Allocative inefficiency will occur

B Individuals have to make choices

C Productivity falls as a result of boredom from repetition

D There will be a missing market as no one is willing to pay for the good

Your answer ☐ **[1]**

27 What does the kinked demand curve in the oligopoly model show?

A A firm's revenue will decrease if it increases or decreases its price

B A firm's revenue will increase if it decreases its price

C A firm's revenue will increase if it increases its price

D A firm's revenue will remain constant if it increases its price

Your answer ☐ **[1]**

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28 What does the data in the table indicate has happened in the economy from 2016 to 2020?

Year	Gini-coefficient
2016	0.52
2017	0.49
2018	0.53
2019	0.58
2020	0.59

A Environmental degradation has decreased

B Environmental degradation has increased

C The distribution of income has become more equal

D The distribution of income has become more unequal

Your answer ☐ **[1]**

29 What type of firm is most likely to engage in profit satisficing?

A Charity

B Public limited company

C Public sector

D Sole trader

Your answer ☐ **[1]**

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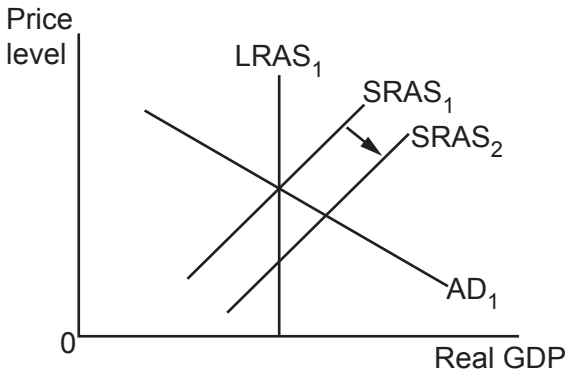
30 Which of the diagrams below illustrates the most likely impact of the end of free movement of labour in the EU on a member state that has net emigration to the EU?

A



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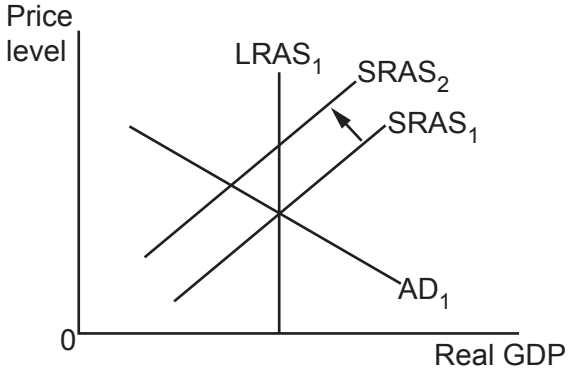

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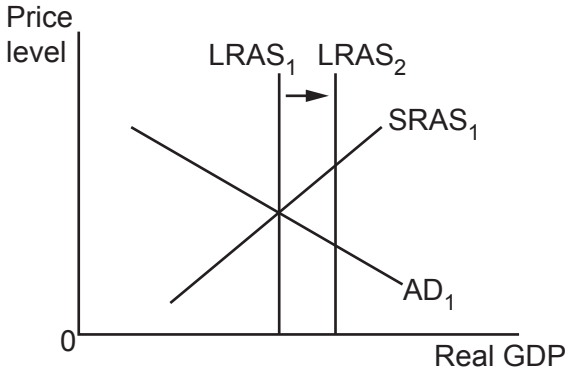

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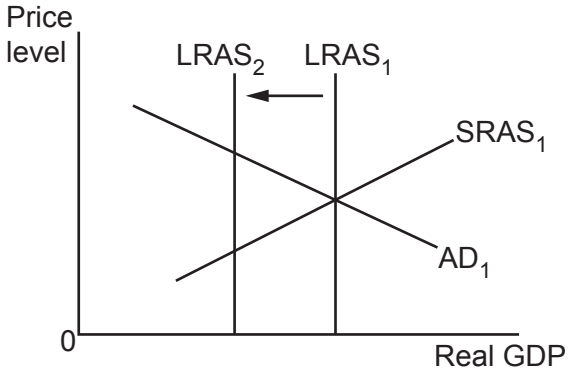

Your answer ☐ **[1]**

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SECTION B

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

Extract 1 – Public sector pay

In July 2020, the government announced it was offering significant wage increases for almost 900 000 public sector workers. Teachers and doctors received the largest annual increases, of 3.1% and 2.8% respectively. The government said that this not only rewarded public sector workers for the vital contribution they made during the Covid-19 pandemic, but would also help to attract and retain highly skilled individuals to work in the public sector.

The announcement was not universally well received, with trade unions representing members in these professions arguing that these wage increases did not go far enough to correct for the erosion of public sector pay that took place as a result of deficit-reducing policies implemented after 2010. They also pointed to the warning from the Treasury that it will need to "exercise restraint in future public sector pay awards" as evidence that public sector workers are likely to suffer from small pay increases in the years ahead as the government seeks to reduce the near record levels of debt it incurred as a consequence of locking down the economy in response to the global pandemic. Fig. 1.1 shows what has happened to public sector wages and the price level over the past decade.

	Average Annual Public Sector Wage	Consumer Price Index (2009 = 100)
2009	£23 296	100.0
2010	£23 868	103.2
2011	£24 284	107.9
2012	£24 752	111.0
2013	£24 908	113.7
2014	£25 272	115.5
2015	£25 584	115.5
2016	£26 000	116.3
2017	£26 416	119.4
2018	£27 092	122.3
2019	£27 976	124.5

Fig. 1.1 – Public Sector Pay & Consumer Price Index 2009–2019

Nevertheless, at a time of rising unemployment and stagnant wages in the private sector (with private sector wages falling 1.2% in the year to May 2020), it is certainly the case that public sector employment became more financially attractive as a result of the announcement.

Whether it would result in filling shortages in the teaching and medical profession was, however, more debatable. For example, doctors require many years of specialist training, whilst nursing is often described as being a 'vocation', a career individuals pursue because of their love of the job. Moreover, more than half of the adult population is excluded from supplying their labour as a teacher because they do not hold an undergraduate degree. This has led some to argue that the best way to increase the supply of workers to these professions is instead by offering more substantial training subsidies and, crucially, enabling foreign workers to immigrate to fill the skills shortages. In healthcare in particular the problem is becoming urgent, with the NHS unable to cope with rapidly rising demand.

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Extract 2 – Tackling obesity

One of the major contributors to increased strain on the health service has been rising levels of obesity. Almost two thirds of adults in the UK are overweight with more than a quarter categorised as being obese, with the government estimating this costs the NHS more than £6bn a year. In 2019, nearly a million people were admitted to hospital in England with obesity related conditions. The UK's obesity rate is significantly above the European average of 23% and indeed is one of the highest in the world. Fig. 2.1 illustrates the different levels of obesity seen in a number of Western countries.

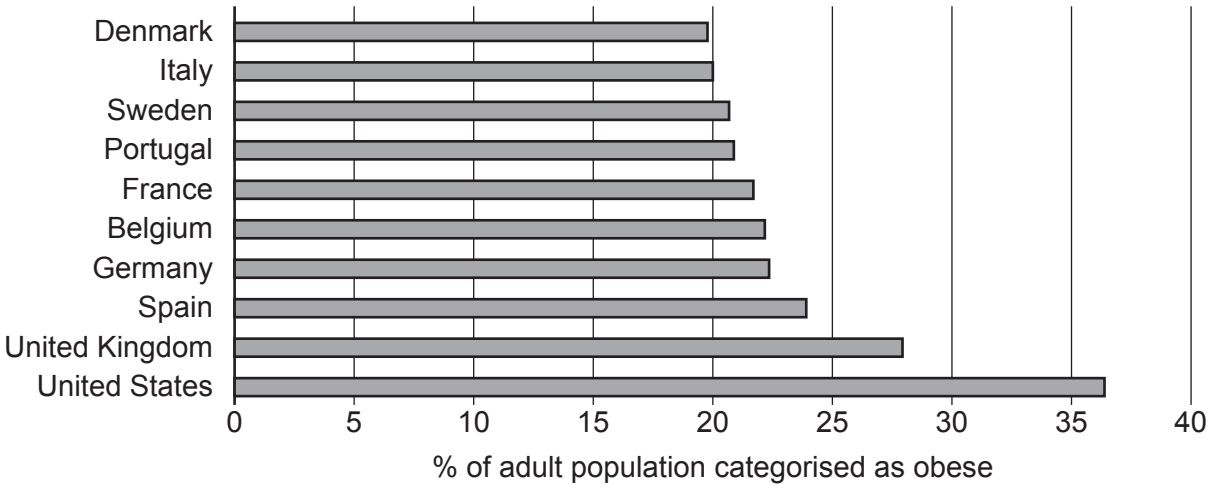

Fig. 2.1 – Adult obesity rates in selected countries (2017)

In an attempt to reverse the trend of rising obesity rates, the UK government announced a raft of measures as part of its "Better Health" campaign designed to help people lose weight and live healthier lives. Strategies included GPs being encouraged to prescribe cycling to those who would benefit from more exercise, whilst also banning unhealthy food adverts on television and online before 9 pm when children are most likely to see them. Evidence from the World Health Organisation suggests that exposure to these adverts can affect and shape what children eat both in the short term and as they transition into adulthood. However, the policy is not without controversy, with critics arguing this is an example of the "nanny state" – the government interfering with personal choice on an issue people already have sufficient information to make rational decisions about.

Others argue that these policy solutions fail to address the underlying cause of unhealthy diets, with many individuals turning to 'junk' food for the simple reason that it is available more cheaply than healthier alternatives. The food industry as a whole has undergone rapid change in recent years, with established supermarket chains offering promotions to ensure their market share is not eroded by the arrival of German discounters such as Aldi and Lidl or the potential of online retailers like Amazon expanding their market share. Consumers have also enjoyed more readily available access to takeaways than ever before, with the development of platforms such as Uber Eats and Deliveroo that deliver meals from outlets such as McDonald's and KFC direct to people's homes. The reduction in barriers to entry that have arisen from technological progress have contributed to making several submarkets in the food industry more contestable.

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Extract 3 – Emerging economies and international trade

Whilst much of the developed world grapples with the challenge of trying to reduce people's food intake to improve their health, it remains the case that in many of the world's least developed countries (LDCs), millions of citizens suffer from malnourishment as a result of living in absolute poverty. High and sustained rates of economic growth are considered essential in overcoming this problem, with the diet of individuals living in emerging economies noticeably improving as a result of the rapid economic growth they have seen in recent years. Fig. 3.1 illustrates how GDP and population size has changed in selected countries over the past 20 years.

Country	GDP (USD, billions at 2010 prices)		Population (millions)	
	2000	2019	2000	2019
Brazil	1538	2347	175	211
China	2232	11 537	1262	1398
Germany	3118	3959	82.2	83.1
Japan	5348	6210	127	126
US	12 620	18 318	282	328

Fig. 3.1 – GDP and Population of selected countries 2000–19

Brazil's high rate of economic growth is often credited to the way it has embraced export-led growth, having liberalised its trade policy in the early 1990s. It is one of the world's largest producers of soybeans and exports soy across the globe. This expansion in exports has contributed to Brazilians enjoying higher levels of income and a reduction in poverty. Indeed, it is often argued that it is emerging economies such as Brazil with plentiful natural resources and China with an abundant labour supply that have benefited most from international trade, whilst a number of developed nations, such as the UK, suffer from persistent current account deficits. Fig. 3.2 details the value of exports in the same countries listed in Fig. 3.1.

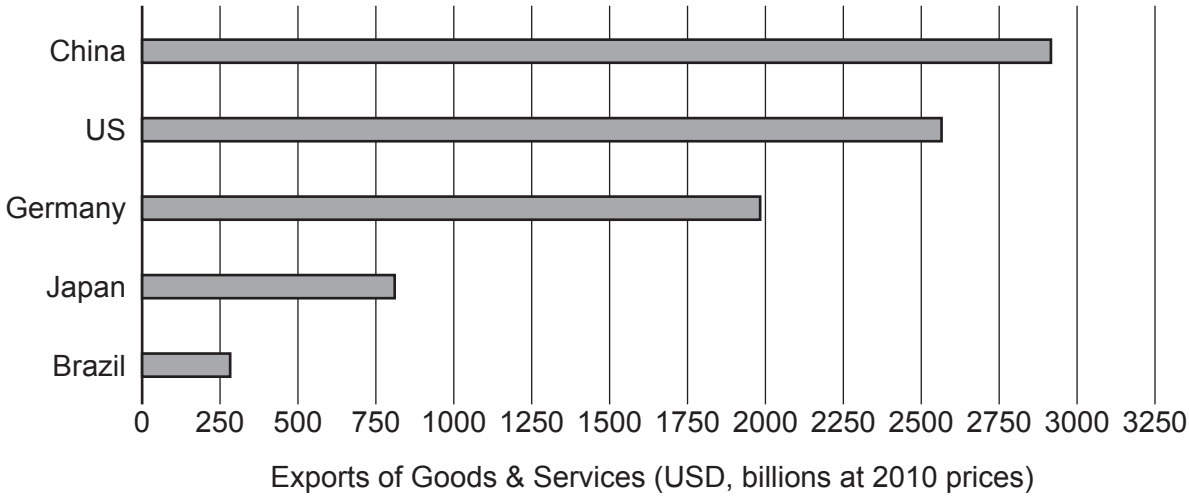

Fig. 3.2 – Exports of Goods & Services of selected countries in 2019

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However, it is not universally accepted that Brazil has benefited from international trade. The price volatility on world markets of the commodities it exports can be very damaging to the economy, whilst the rate of deforestation in the Amazon rainforest is often cited as an example of how emerging economies suffer from the intensive use of their natural resources. *25*

31 Using the data in **Fig. 1.1**, explain what happened to public sector wages after 2010.

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32 Explain, using information in **Extract 1**, **two** reasons why the wage elasticity of supply of labour for public sector workers is likely to be inelastic.

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33 Evaluate, using an appropriate diagram(s), whether unhealthy food is a demerit good.

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34* Evaluate, using the information in **Extract 2**, whether economic agents benefit from the food industry becoming more contestable. **[15]**

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35 Using the data in **Fig. 3.1**, calculate the growth rate in GDP per capita in Brazil between 2000 and 2019.

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36 Explain, using the data in **Fig. 3.1** and **Fig. 3.2**, in which country exports accounted for the greatest proportion of output in 2019.

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37* Evaluate, using the information in **Extract 3**, the extent to which emerging economies gain more from international trade than developed economies. **[15]**

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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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