

OCR A-LEVEL ECONOMICS • H460

ECONOMICS



EXAM QUESTION PACK

THEMES IN ECONOMICS

SCORE

/80

PERCENTAGE

%

STEMUP

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1 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.

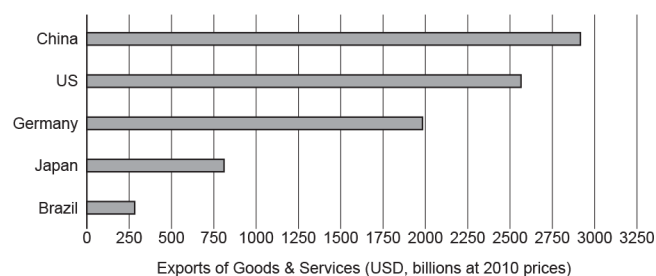


Fig. 3.2 – Exports of Goods & Services of selected countries in 2019

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

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

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

2 **Extract 3 – Emerging economies and international trade**

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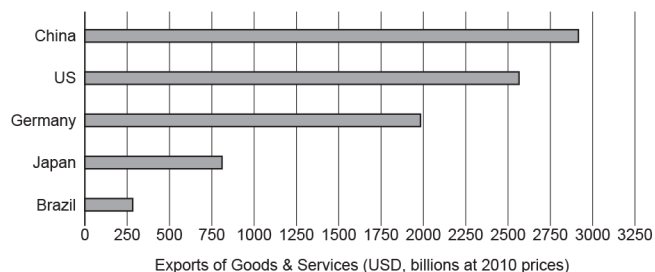


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25

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.

[3]

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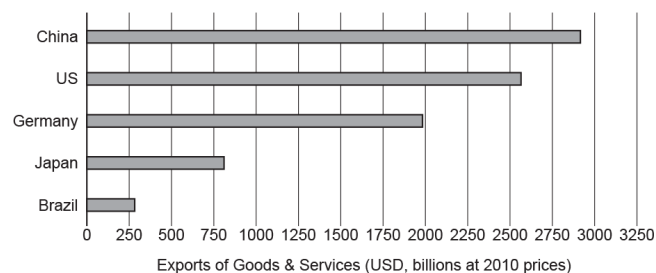


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Using the data in Fig. 3.1, calculate the growth rate in GDP per capita in Brazil between 2000 and 2019.

[3]

4 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.

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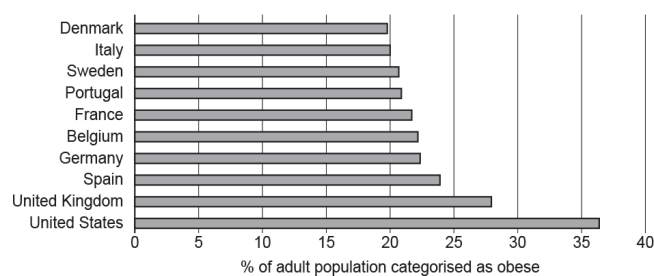


Fig. 2.1 – Adult obesity rates in selected countries (2017)

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.

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

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5 **Extract 2 – Tackling obesity**

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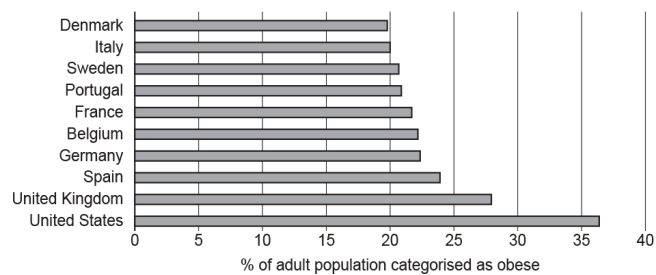


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Evaluate, using an appropriate diagram(s), whether unhealthy food is a demerit good.

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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.

5

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.

10

	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

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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

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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.

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.

1

2

[4]

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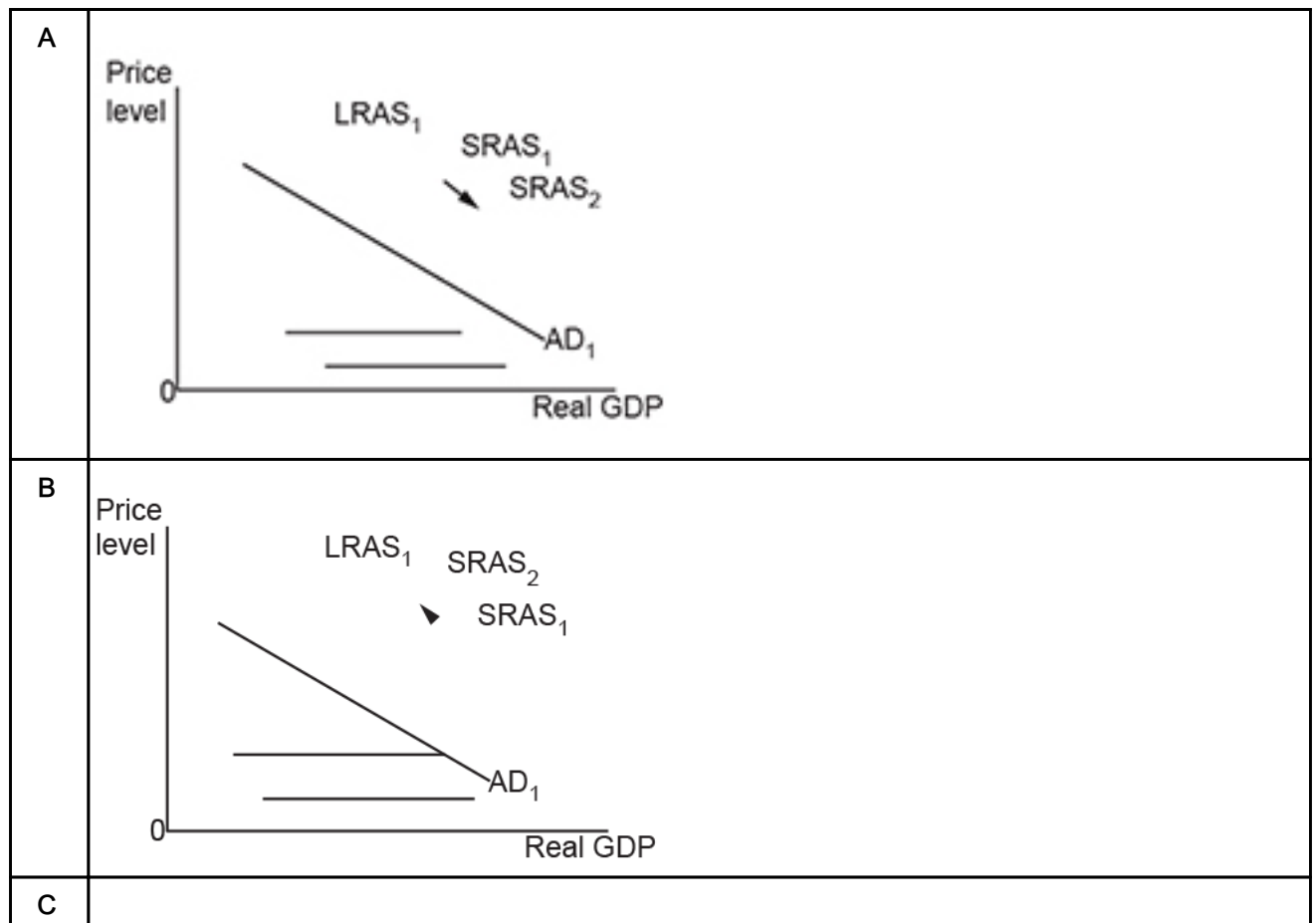
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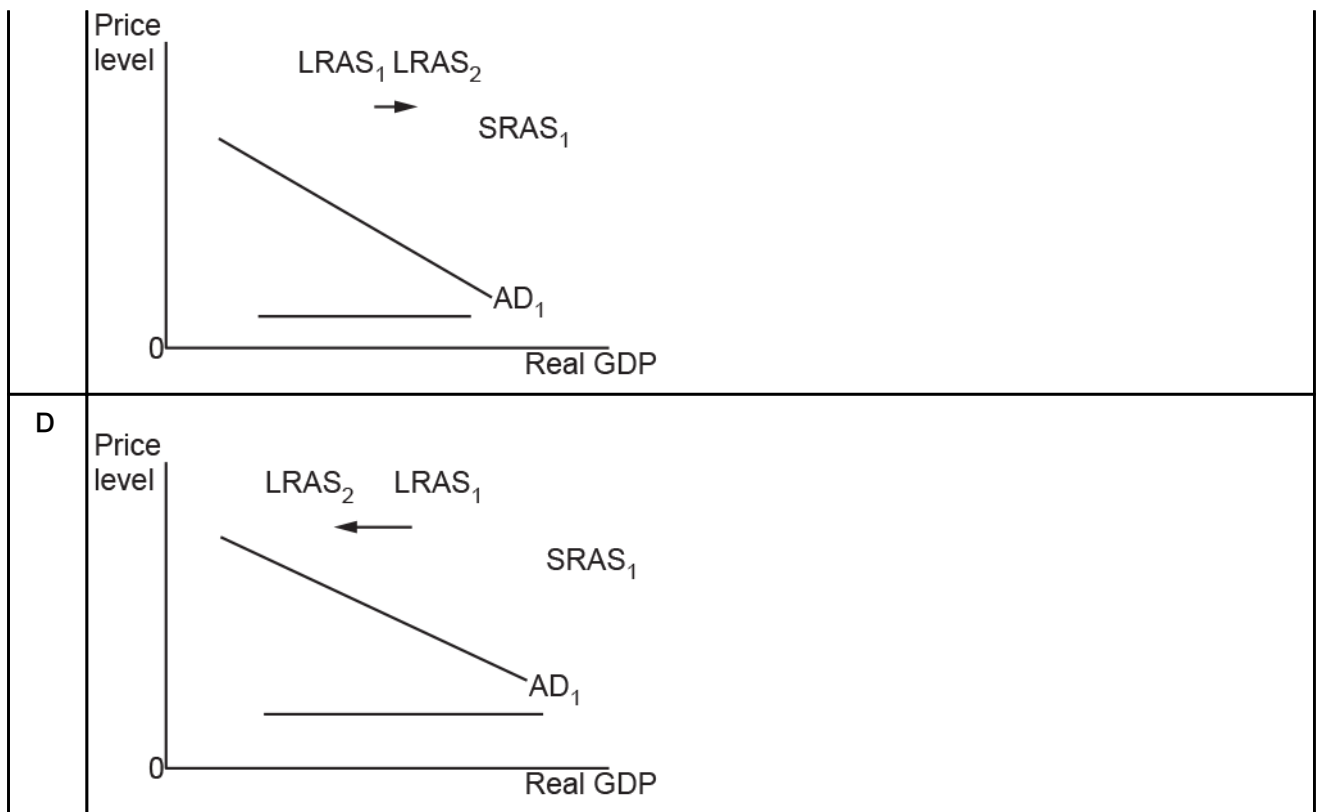
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Using the data in Fig. 1.1, explain what happened to public sector wages after 2010.

8 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?





Your answer

[1]

9 What type of firm is most likely to engage in profit satisfying?

- A Charity
- B Public limited company
- C Public sector
- D Sole trader

Your answer

[1]

10 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]

11 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]

12 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]

13 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]

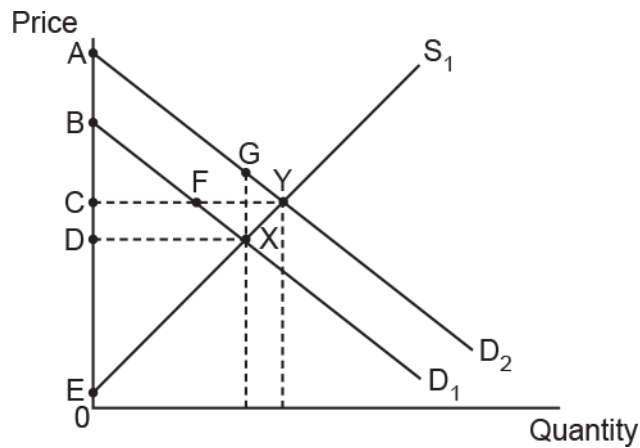
14 A firm manufactures and sells a limited edition watch at a price of £1000. Within minutes of launching the product online it has sold all its watches, with hundreds of potential customers left disappointed. What has occurred here?

- A Ceteris paribus
- B Disequilibrium
- C Free rider problem
- D Negative externalities of consumption

Your answer

[1]

- 15 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]

- 16 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]

- 17 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]

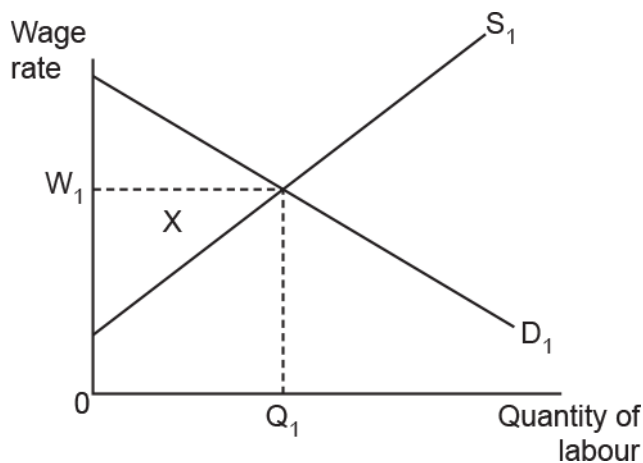
- 18 A zoo charges £29.17 + VAT (payable at 20%) for admission, giving a total price of £35. The monthly running costs of the zoo are £675 000, with 30 000 visitors each month. In July 2020 the government announced a temporary reduction in the rate of VAT charged to zoos from 20% to 5%. If the zoo continued 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]

- 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]

20 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]

21 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]

22 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]

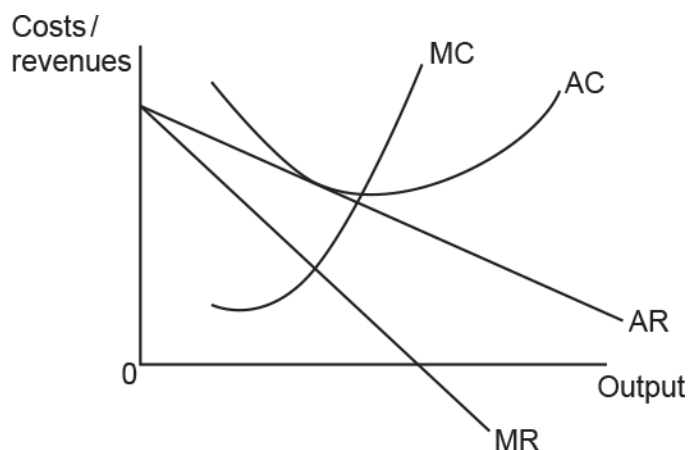
23 Output is one way of measuring the level of economic activity in an economy. What is another way?

- A Employment
- B Expenditure
- C Human Development Index
- D Inflation

Your answer

[1]

24 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]

25 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]

26 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]

27 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]

28 What indicates a structural budget deficit?

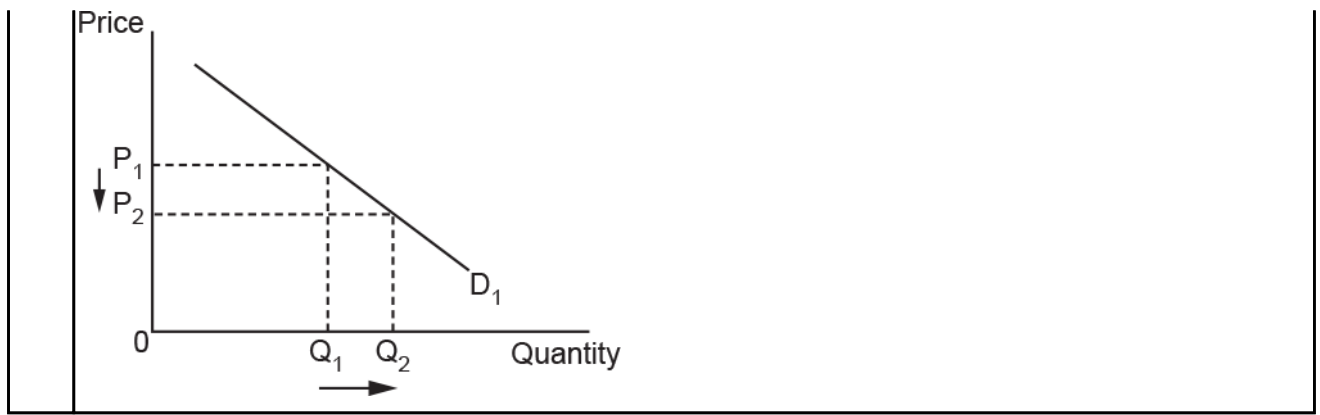
- A Government expenditure exceeds tax revenue in the downturn of a business cycle
- B Government expenditure exceeds tax revenue when the economy is at full employment
- C Tax revenue exceeds government expenditure in the downturn of a business cycle
- D Tax revenue exceeds government expenditure when the economy is at full employment

Your answer

[1]

29 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	Diagram A shows a supply and demand graph. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. An upward-sloping supply curve S_1 intersects two downward-sloping demand curves, D_1 and D_2. D_2 is to the left of D_1, as indicated by an arrow pointing left. The initial equilibrium is at the intersection of S_1 and D_1, corresponding to price P_1 and quantity Q_1. The new equilibrium is at the intersection of S_1 and D_2, corresponding to price P_2 and quantity Q_2. Arrows indicate a decrease in both price and quantity.
B	Diagram B is identical to Diagram A. It shows a supply curve S_1 and two demand curves D_1 and D_2, where D_2 is to the left of D_1. The equilibrium moves from (Q_1, P_1) to (Q_2, P_2), with both price and quantity decreasing.
C	Diagram C shows a supply and demand graph. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. An upward-sloping supply curve S_1 intersects two downward-sloping demand curves, D_1 and D_2. D_2 is to the right of D_1, as indicated by an arrow pointing right. The initial equilibrium is at the intersection of S_1 and D_1, corresponding to price P_1 and quantity Q_1. The new equilibrium is at the intersection of S_1 and D_2, corresponding to price P_2 and quantity Q_2. Arrows indicate an increase in both price and quantity.
D	



Your answer

[1]

30 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]

31 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]

32 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]

33 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]

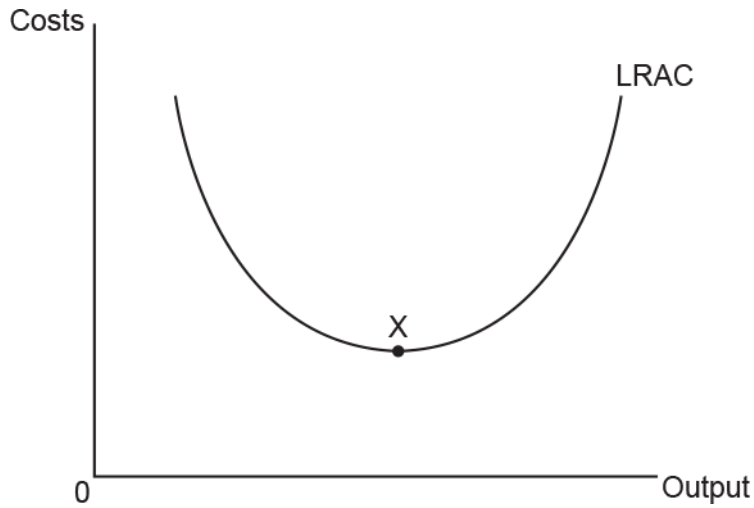
34 In 2020 Sony announced the launch of the PlayStation 5 games console. It was estimated that at a price of £500 Sony would sell 87 million consoles. Analysts suggested these sales would increase to 122 million if the price was reduced to £400. What is the price elasticity of demand?

- A -2.01
- B -1.61
- C -0.50
- D 0.71

Your answer

[1]

35 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]

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

- A Construction
- B Fishing
- C Leisure
- D Manufacturing

Your answer

[1]

37 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]

END OF QUESTION PAPER

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
1	Evaluate, using the information in Extract 3, the extent to which emerging economies gain more from international trade than developed economies. Level 3 (11–15 marks) Good knowledge and understanding of international trade. Good – strong analysis of how emerging economies might gain more from international trade than developed economies. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the extent to which emerging economies gain more from international trade than developed economies, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of international trade. Reasonable analysis of how emerging economies might gain more from	15 AO1 × 2 AO2 × 3 AO3 × 4 AO4 × 6	guidance: • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • An answer which talks generally about the benefits and costs of international trade without applying it to the question cannot be awarded beyond Limited analysis or evaluation. • An answer which talks about the benefits and costs of international trade to emerging economies without comparing to the impacts on developed economies cannot be awarded beyond Reasonable analysis or evaluation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for material that is given in the case study: • High rates of economic growth are essential to emerging economies to overcome poverty. • Brazil's growth occurred because of trade liberalisation. • Brazil is one of the world's largest producers of soybeans. • The expansion in exports in Brazil has resulted in higher levels of income and a reduction in poverty. • Emerging economies such as Brazil with plentiful natural resources and China with an abundant labour supply have benefited most from international trade. • A number of developed nations such

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	international trade than developed economies. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the extent to which emerging economies gain more from international trade than developed economies. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of international trade. Limited analysis of how emerging economies might gain more from international trade than developed economies. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the extent to which emerging economies gain more from international trade than developed economies or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks No response worthy of credit.		as the UK have suffered from persistent current account deficits. • Price volatility of commodities damages the Brazilian economy. • Emerging economies suffer from the intensive use of their natural resources. <i>Analysis and Evaluation requires candidates to go beyond what is given in the case study.</i> Analysis may include: • Emerging economies have weak domestic demand and so rely on international trade to generate enough demand for firms to keep employment high. This is less important to developed economies who have stronger consumer markets. • Emerging economies rely on the import of sophisticated capital as an input in the production process as they cannot produce it domestically in the way developed countries can do. • Many emerging economies have been able to build up big current account surpluses because of their comparative advantage arising from cheap labour or plentiful land etc. Developed economies have seen their comparative advantage eroded, often coinciding with structural unemployment. • MNCs play a crucial role in emerging economies in training workers and building infrastructure. This is more relevant in emerging economies because of weak education systems and insufficient government funds to invest in infrastructure. Evaluation may include: • Terms of trade are often weighted in favour of the more powerful developed nations, meaning they stand to gain more from the trade than emerging economies. • The Prebisch-Singer hypothesis shows

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					the terms of trade for some emerging economies is declining over time as the relative price of primary sector products is falling in comparison to the price of more sophisticated capital goods. • Export led growth is not sustainable for emerging economies – once their finite resources are depleted developed countries will move on to trade with a different country, whilst the emerging economy could be left with nothing. • Trade liberalisation has led to financial outflows from emerging economies towards 'safe haven' developed economies. These leakages have made it harder to carry out domestic investment.
			Total	15	
2			Explain, using the data in Fig. 3.2, in which country exports accounted for the higher proportion of output in 2019. <i>Award 1 mark for identifying the correct country:</i> • Germany <i>Award up to 2 marks for supporting calculation:</i> • $\\$1993\text{bn} / \\$3959\text{bn} \times 100$ (1) = 50.3% (2)	3 AO2 × 2 AO3 × 1	Credit answers which use any value in the range of \$1950bn to \$1999bn for Germany's exports (49.3% – 50.5%). Award 2 marks for correct answer (in range of 49.3% – 50.5%) with no/incorrect working. Award 1 mark for the statement that Germany's exports account for nearly half of GDP where calculation is missing and/or incorrect.
			Total	3	

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Question			Answer/Indicative content	Marks	Guidance
3			Using the data in Fig. 3.1, calculate the growth rate in GDP per capita in Brazil between 2000 and 2019. <i>Award 1 mark for an understanding of how to calculate GDP per capita:</i> - GDP per capita = GDP / population <i>Award 1 mark for the correct calculation of GDP per capita in 2000 or 2019:</i> 2000 GDP per capita = \$1528bn / 175 million = \$8,789 2019 GDP per capita = \$2347bn / 211 million = \$11,123 <i>Award 1 mark for calculating the growth rate in GDP per capita:</i> - GDP per capita growth rate = $(\\$11,123 - \\$8,789) / \\$8,789 \times 100 = 27\%$.	3 AO1 × 1 AO2 × 2	Do not award the second mark where the \$ is missing or units are incorrect. Do not award 27 without a % sign. Accept non-rounded answer between 26.50 and 27.0. Award full marks where the correct answer is present.
			Total	3	

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Question	Answer/Indicative content	Marks	Guidance
4	Evaluate, using the information in Extract 2, whether economic agents benefit from the food industry becoming more contestable. Level 3 (11–15 marks) Good knowledge and understanding of contestable markets. Good – strong analysis of whether economic agents benefit from the food industry becoming more contestable. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of whether economic agents benefit from the food industry becoming more contestable, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of contestable markets. Reasonable analysis of whether economic agents benefit from the food industry becoming more contestable. There is correct analysis largely in the form of single	15 AO1 × 2 AO2 × 3 AO3 × 4 AO4 × 6	guidance • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. • Consideration of the impact on more than one economic agent is needed to take the analysis beyond Reasonable. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for material that is given in the case study: • Supermarkets offering special deals to avoid market share being eroded. • Arrival of German discounters such as Aldi & Lidl. • Online retailers such as Amazon expanding their market share. • Reduction in barriers to entry occurring as a result of technological progress – e.g. Uber Eats and Deliveroo. Analysis and Evaluation requires candidates to go beyond what is given in the case study. Analysis may include: • Consumers benefit from lower prices occurring as a result of more potential competition – incumbent firms are less able to exploit consumers and make a supernormal profit because they fear hit and run. This increases consumer surplus. Consumers also benefit from greater choice.

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Question			Answer/Indicative content	Marks	Guidance
			links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether economic agents benefit from the food industry becoming more contestable. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of contestable markets. Limited analysis of whether economic agents benefit from the food industry becoming more contestable. Limited evaluation of whether economic agents benefit from the food industry becoming more contestable or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks No response worthy of credit.		- Firms outside the market benefit because it is now easier to enter – if they observe supernormal profit being made, they can easily come into the market. Incumbent firms could even benefit from reduced X-inefficiency, making them more competitive in the global marketplace (could be relevant for supermarkets opening up outlets abroad). - Government has less of a responsibility to regulate the food industry if it is more contestable, because incumbent firms have less opportunity to exploit consumers. Evaluation may include: - Consumers may in fact lose out from the price of unhealthy food being lower – when this demerit good is cheaper they consume more of it, which causes them health problems. Indeed the wider range of choice may further worsen the information failure. - Incumbent firms can no longer enjoy a supernormal profit in the long run, as entry would occur. This reduces producer surplus for incumbent firms, and is likely to mean in the long run they make only normal profits. - If an increase in contestability increases the consumption of unhealthy food (as it seems to have done), this will result in a market failure of overconsumption. The government will then have to spend more on healthcare or have to regulate in some other way to reduce consumption.
			Total	15	

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Question	Answer/Indicative content	Marks	Guidance
5	Evaluate, using an appropriate diagram(s), whether unhealthy food is a demerit good. Level 2 (5–8 marks) Good knowledge and understanding of demerit goods. Good – strong analysis of whether unhealthy food is a demerit good. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether unhealthy food is a demerit good. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment. Strong evaluation should include a supported judgment. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of demerit goods. Limited – reasonable analysis of whether unhealthy food is a demerit good. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.	8 AO1 × 1 AO2 × 1 AO3 × 2 AO4 × 4	guidance: • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • A relevant and explained diagram is required for the Analysis or Evaluation to be awarded above Reasonable. • Whilst most candidates will start their answer explaining why unhealthy food is a demerit good, the reverse approach is equally valid. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for material that is given in the case study: • Unhealthy food adverts affect what children eat in the short and long term. • People already have sufficient information to make rational decisions. • Junk food is available more cheaply than healthy alternatives. • Supermarket chains encourage people to buy more than they need because of promotions such as 'buy one get one free'. • Consumers have more readily available access to takeaways than ever before. Analysis and Evaluation requires candidates to go beyond what is given in the case study. Analysis may include:

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Question			Answer/Indicative content	Marks	Guidance
			Limited evaluation of whether unhealthy food is a demerit good or no evaluation. 0 marks No response worthy of credit.		• There is information failure because consumers do not realise the harms to their health from consuming unhealthy food. • This means they overestimate their private benefit of consuming the good, resulting in overconsumption and a welfare loss/allocative efficiency. • This may be because food isn't always appropriately packaged and marketing campaigns do not adequately highlight the risks to consumers. • If consumers realised the harm they were doing to their health from consuming this food, they would demand and consume less. Evaluation may include: • Whereas there might have been information failure in the past, government regulation of the industry over time (including mandatory food labelling, campaigns for people to eat 5 a day etc) means consumers are now more aware of the concept of healthy eating. • Consumers may still choose to consume unhealthy food even though they know it is not good for them, because the genuine private benefit they derive from consumption justifies that choice. • Unhealthy food may be more of a negative externalities of consumption problem – individuals do not take into account the cost to taxpayers of funding NHS treatment for obesity related illness.
			Total	8	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
6			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. - Length of training required in public sector jobs is high (1) meaning there will not be significant increases in labour supply when the wage rate increases because individuals are deterred from undertaking lengthy training (1) - Specific qualifications are required to enter some public sector jobs such as teachers needing a degree (1) meaning there will not be significant increases in labour supply when the wage rate increases because individuals who are not already supplying their labour to the profession may not have the necessary qualifications to switch into the profession when the wage rate rises (1) - Public sector jobs are vocational (1) meaning supply will not respond to a change in wage as individuals supply their labour because of job satisfaction rather than wage (1)	4 AO1 × 2 AO2 × 2	Award 1 mark for identification of a reason and 1 mark for the associated explanation. For explanation marks to be awarded a clear understanding of the theory of wage elasticity of supply must be evident.
			Total	4	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
7			Using the data in Fig 1.1, explain what happened to public sector wages after 2010. <i>Award 1 mark for an explanation of what happened to real or nominal wages:</i> - Public sector wages increased in nominal terms (1) - Real wages fell (1) <i>Award 1 mark for appropriate use of the data:</i> - Public sector wages increased by 17.2% in nominal terms (1) - Nominal wages increased by less than the increase in price level of 20.6% (1)	2 AO2 × 1 AO3 × 1	A simple statement that public sector wages increased or decreased without reference to nominal or real should not be credited. Award 1 mark for correctly calculating that public sector wages have increased by 17.2%, even if the reference to this being a nominal increase is missing. Do not credit the CPI increased at a faster rate of 20.6%, unless there is some reference to this being the price level or the rate of inflation.
			Total	2	
8			C	AO3	✓ Rationale A A change in the quantity of labour will affect the productive capacity in the economy, which impacts LRAS. B A change in the quantity of labour will affect the productive capacity in the economy, which impacts LRAS. C Correct: A reduction in net emigration means the size of the labour force will increase, increasing productive capacity and therefore shifting LRAS to the right. D This shows a reduction in productive capacity, which would occur in a country that previously relied on immigration (i.e. had net immigration).
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
9			B	AO1	Rationale A Charities seek to maximise the welfare of their beneficiaries – profit does not come into the equation. B Correct: A public limited company has a number of stakeholders with different objectives, making profit satisficing likely – a minimum level of profit will be achieved to please shareholders, whilst attention will also be focused on pleasing other stakeholders through meeting their objectives. C Public sector firms seek to maximise social welfare. D A sole trader is likely to pursue profit maximisation – there is no conflict between different objectives so there is no need to engage in satisficing behaviour.
			Total	1	
10			D	AO3	✓ Rationale A The Gini-coefficient is a measure of income inequality, not pollution. B The Gini-coefficient is a measure of income inequality, not pollution. C The distribution of income becomes more equal as the Gini coefficient gets closer to zero. D Correct: The distribution of income becomes more unequal as the Gini coefficient gets closer to one.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
11			A	AO3	Rationale A Correct: Because demand is elastic for a price rise and inelastic for a price fall, revenue will fall when a firm changes its price. B Demand is price inelastic for a price fall so firms will see their revenue fall if they decrease price. C Demand is price elastic for a price rise so firms will see their revenue fall if they increase price. D A firm's revenue will change if it changes its price.
			Total	1	
12			B	AO1	Rationale A This will only occur if the scarce resources are not allocated correctly. B Correct: there are insufficient resources to meet all wants and needs, meaning individuals will have to make choices. C This is a disadvantage of specialisation. D This is the free-rider problem that occurs in the public good case.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
13			A	AO3	✓ Rationale A Correct: $[(€27,794 - €10,064) \times 0.14] + [(\text{€}74,517 - \text{€}27,794) \times 0.30] + [(\text{€}110,000 - \text{€}74,517) \times 0.41] / \text{€}110,000 \times 100 = (\text{€}2,482.20 + \text{€}14,016.90 + \text{€}14,548.03) / \text{€}110,000 \times 100 = 28.2\%$ B This is the rate of tax that the majority of the individual's income falls into but is not the average. C Incorrectly specifies total income as €157,806. $[(€27,794 - €10,064) \times 0.14] + [(\text{€}74,517 - \text{€}27,794) \times 0.30] + [(\text{€}157,806 - \text{€}74,517) \times 0.41] / \text{€}110,000 \times 100 = (\text{€}2,482.20 + \text{€}14,016.90 + \text{€}34,148.49) / \text{€}157,806 \times 100 = 32.1\%$ D This is the marginal rate of tax.
			Total	1	
14			B	AO2	Rationale A This is an assumption often used in economics – that all other things remain equal. B Correct: there is excess demand caused by the price being too low. C This occurs when individuals are not willing to pay for a good because they believe they can free ride off someone else's consumption – this occurs in the public good case. D There is no evidence given here of any determinantal impact on third parties resulting from the consumption of the good.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
15			A	AO3	✓ Rationale A Correct: Consumer surplus is the area below the demand curve and above the price line. B This was the consumer surplus when the market equilibrium was at point X. C This is producer surplus. D This is the area of the original consumer surplus that is lost when the price increases.
			Total	1	
16			B	AO1	Rationale A A direct tax is a tax on income or profit. B Correct: an indirect tax is a tax imposed on goods or services – in this case the tax is imposed on fuel. C Progressive taxes take a higher proportion of income from those on high income than those on low income. Indirect taxes generally take a higher proportion of income from those on low income so are regressive. D Proportional taxes take the same proportion of income from all income groups. Given this tax is not charged dependent upon income earned it is not a proportional tax.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
17			D	AO3	Rationale A Net exports will decrease and consumption is also likely to fall, causing AD to shift left. B This occurs when AD falls as a result of an increase in the domestic price level. C This occurs as a result of an increase in the quality or quantity of factors of production – there is no direct impact on productive capacity of a change in the exchange rate. D Correct: An exchange rate appreciation reduces costs of production for domestic firms, who now have access to cheaper inputs from abroad. This shifts SRAS right.
			Total	1	
18			A	AO2	✓ Rationale A Correct: Initial profit = $(£29.17 \times 30,000) - £675,000 = £200,100$. New profit = $(£35 / 1.05 \times 30,000) - £675,000 = £325,000$. Profit increases by £124,900. B This is the initial profit made. C This is the new profit that is made. D Profit increases because the firm pays less VAT than it did before.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
19			B	AO1	✓ Rationale A This concept is associated with the product market rather than the labour market. B Correct: This is the surplus workers earn above the lowest wage they would be willing to supply their labour at in the occupation. C This concept is associated with the product market rather than the labour market. D This is the area below the supply curve and represents the opportunity cost of working in a particular occupation.
			Total	1	
20			B	AO1	Rationale A Microfinance is primary targeted at developing nations with an underdeveloped financial sector. B Correct: individuals or groups of individuals access small scale loans to stimulate entrepreneurship. C Microfinance is targeted at individuals or small businesses, not large firms. D Microfinance is targeted at individuals or small businesses, not large firms.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
21			D	AO2	Rationale A This occurs when there is a monopoly buyer and monopoly seller of labour. There is no indication of the market structure or union presence given here. B This occurs when a country can produce a good or service at a lower opportunity cost than another country. C There is no reference to the restaurant's demand here, so derived demand is not relevant. D Correct: Workers are engaged in specialisation, with the firm directing each of them to concentrate on a particular part of the production process.
			Total	1	
22			B	AO2	✓ Rationale A 3.6%. This is the absolute change in the terms of trade ($91.60 - 88.03$), not the percentage increase. B Correct: 4.1%. 2000 terms of trade = $103/117 \times 100 = 88.03$. 2020 terms of trade = $109/119 \times 100 = 91.60$. Terms of trade have increased by $(91.60 - 88.03) / 88.03 \times 100 = 4.1\%$. C 10.8%. Calculates terms of trade incorrectly and then calculates the absolute change in these numbers rather than a percentage change. $91.80 - 81.03 = 10.8\%$. D 13.0%. Incorrectly calculates 2000 terms of trade as $(103 / 117)$ and 2020 terms of trade as $(109 / 119)$. $(91.80 - 81.03) / 81.03 \times 100 = 13.0\%$.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
23			B	AO1	Rationale A Achieving high levels of employment/low unemployment is one of the government's macroeconomic objectives but does not measure the level of economic activity. B Correct: the circular flow of income shows there are three ways of measuring the level of economic activity in an economy – output, expenditure and income. C This measures the level of economic development in a country. D Achieving price stability is one of the government's macroeconomic objectives.
			Total	1	
24			A	AO1	Rationale A Correct: In the long run firms will only make a normal profit. There will be productive inefficiency because firms operate on a small scale of output. B In the short run it is possible for firms in monopolistic competition to make a supernormal profit or a loss. C A profit maximising monopolist is likely to make a supernormal profit, with $AR > AC$. D A profit maximising monopolist is likely to make a supernormal profit, with $AR > AC$.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
25			A	AO1	Rationale A Correct: The economy will equilibrate at the full employment level of output – any increase in AD will simply cause inflation. B This would only be possible if demand side policy resulted in a significant increase in the productive capacity of the economy. This is by no means guaranteed and depends upon the nature of the demand side policy implemented. C Keynesian economists argue demand side intervention could cause a trade-off between growth and inflation as the economy approaches full capacity. D Keynesian economists suggest this may be possible, but only when there is significant spare capacity. Neo-classical economists do not believe in the existence of a negative output gap as the economy always reverts to the full employment level of output.
			Total	1	
26			D	AO1	Rationale A Social cost includes private cost and external cost B Social cost includes private cost and external cost C Private cost is a component of social cost D Correct: This occurs in the negative externalities of production case when there is a cost not just to the producer but also to third parties as a result of the production of the good.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
27			D	AO1	Rationale A Deflation is a fall in the price level – the price level is rising in both 2018 and 2019. B Hyperinflation is where there is rapid inflation, with prices typically more than doubling each year C Hyperinflation is where there is rapid inflation, with prices typically more than doubling each year. D Correct: There is inflation in both years as the price level is rising, but as it is increasing at a slower rate this means there is also disinflation.
			Total	1	
28			B	AO1	Rationale A This is not necessarily indicative of a structural deficit as the budget may be in surplus in the boom phase of the economic cycle. B Correct: This suggests there is a persistent budget deficit. C This is a budget surplus. D This is a budget surplus.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
29			C	AO3	✓ Rationale A Demand will increase rather than decrease when the price of a substitute increases. B This will be the impact on the market for flights, not the market for campsites. C Correct: As the price of foreign holidays increases, consumers will switch away to domestic holidays as they are relatively cheaper, causing the demand curve to shift to the right. D This is an extension rather than a shift in demand – because the increase in demand has resulted from a change in a non-price factor, there is a shift rather than a movement.
			Total	1	
30			C	AO1	Rationale A This is the multiplier effect. B This is often true in the early stages of economic development and is shown by the Kuznets curve. C Correct: Investment will increase rapidly when output is increasing as firms seek to expand their productive capacity. D This statement is true but does not explain the accelerator effect, which concerns investment.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
31			A	AO1	Rationale A Correct: When countries have a common set of trading rules but independence over macroeconomic policy they are in a customs union. B This occurs when there is not only free trade but also closely integrated macroeconomic policy. C This is a looser form of integration where countries have tariff free trade but are free to reach their own trade deals with other countries. D This occurs when a group of countries are in a customs union and also share the same currency.
			Total	1	
32			C	AO1	Rationale A This is likely to solve market failure caused by a firm exploiting its market power. B Regulation will increase costs of production, which is likely to reduce rather than increase production. C Correct: A subsidy will reduce costs of production, making it more profitable to produce the good, resulting in production increasing. D Taxation will increase costs of production, which is likely to reduce rather than increase production.
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
33			A	AO3	Rationale A Correct: This reduces the risks of banks failing, as if they run into problems they can be bailed out by the central bank. This increases confidence in the financial sector. B This is a function of a central bank but would not help overcome the problem explained in the question. C This is a function of a central bank but would not help overcome the problem explained in the question. D This is a function of a central bank but would not help overcome the problem explained in the question.
			Total	1	
34			A	AO2	✓ Rationale A Correct: $((122 - 87) / 87 \times 100) / ((400 - 500) / 500 \times 100) = 40.23\% / -20\% = -2.01$ B Calculates % change in price as $(500 - 400) / 400 \times 100$ C Calculates PED as % change in price / % change in quantity demanded D Calculates % change in quantity demanded as $(87 - 112) / 87 \times 100$
			Total	1	

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Question			Answer/Indicative content	Marks	Guidance
35			D	AO1	✓ Rationale A This occurs when a change in output leads to no change in LRAC – X is a unique point rather than a series of points. B This is when long run average cost increases as output increases. C This is when long run average cost decreases as output increases. D Correct: This represents the lowest level of output at which a firm can produce at its lowest possible long run average cost.
			Total	1	
36			C	AO2	Rationale A Construction is a secondary sector industry. B Fishing takes place in the primary sector. C Correct: The leisure industry operates in the service sector. D Manufacturing is a secondary sector industry.
			Total	1	
37			B	AO1	Rationale A This is a characteristic of a normative statement B Correct: positive economic statements are statements of fact that can be tested. C A positive economic statement can be false – it just has to be possible to prove whether the statement is true or false. D The word 'positive' does not mean 'good' in this context – it is simply whether the statement can be proven true or false.
			Total	1	