Surname	Centre Number	Candidate Number
Other Names		2

GCE A LEVEL

1520U30-1

S18-1520U30-1

ECONOMICS – A2 unit 3
Exploring Economic Behaviour

TUESDAY, 5 JUNE 2018 – AFTERNOON

2 hours

	For Examiner's use only		
	Question	**Maximum Mark**	**Mark Awarded**
Section A	**1**	**6**	
	2	**6**	
	3	**8**	
	4	**4**	
	5	**8**	
	6	**8**	
Section B	**7**	**4**	
	8	**6**	
	9	**6**	
	10	**10**	
	11	**4**	
	12	**10**	
	Total	**80**	

1520U301
01

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions in the spaces provided.

If you run out of space, use the continuation page(s) at the back of the booklet, taking care to number the question(s) correctly.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

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SECTION A

Answer **all** *questions in the spaces provided.*

1. The following table provides information on the costs and revenues for a firm.

Output (units)	Total Revenue (£)	Total Cost (£)
0	0	150
1	325	300
2	650	540
3	975	865
4	1300	1325
5	1625	1950
6	1950	2700

(a) Identify all levels of output at which this firm makes abnormal profit. [1]

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(b) Calculate average fixed cost when output is 5 units. [1]

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(c) Explain **two** reasons why the information in the table shows a firm operating in a perfectly competitive market in the short run. [4]

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2. According to the website Tripadvisor there are nearly 900 restaurants in Cardiff. Some types of food are very popular - 95 restaurants serve Italian food, 90 serve Indian food, and 53 serve Chinese food. Some types of food are more unusual – there is just one Ethiopian restaurant for example.

Eight restaurants in Cardiff are regarded as expensive "fine dining" restaurants and around 200 are classified as "cheap eats". Around 30 new restaurants have been opening in Cardiff each year since 2012. Over half of the new entrants to the Cardiff restaurant market, though, are actually branches of large national chains such as Las Iguanas (South American-themed food) and Zizzi (Italian food).

Assess the likely market structure of the Cardiff restaurant market. [6]

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3. The following table provides information on key macroeconomic indicators for the various UK regions.

Indicator	England	Northern Ireland	Scotland	Wales
Output per head in 2015 (£)	25 367	18 682	23 102	17 573
Estimated annual economic growth rate 2015 – 2025	2.8%	2.2%	2.2%	2.2%
Unemployment rate 2016 (Claimant Count; % of working-age population)	4.9%	5.6%	4.7%	4.1%
Employment rate 2016 (Labour Force Survey; % of working-age population)	74.8%	69.4%	74.1%	73.2%
Government spending per head 2015 – 2016 (£)	8 638	11 106	10 374	9 904
Median income tax paid 2014 – 2015 (taxpayers only) (£)	2 400	2 120	2 390	2 050

Source: ONS regional data report 2016

(a) With reference to the data, calculate the rate of economic inactivity in both England and Wales. [2]

(b) With reference to the data, discuss the view that the UK is an optimal currency area. [6]

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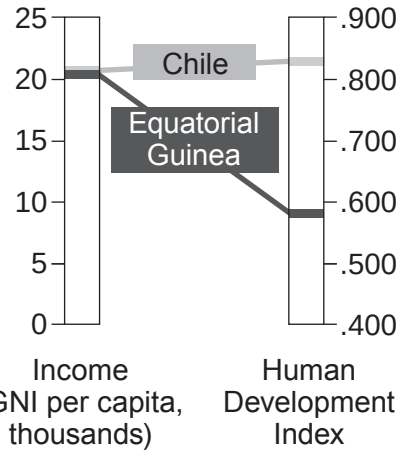
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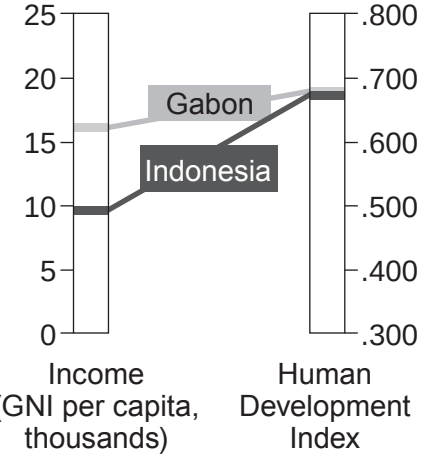
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4. The information below is taken from the 2016 Human Development Report from the United Nations. Income, as measured by Gross National Income (GNI) per capita, is given in US dollars.

Similar income, different HDI value



Different income, same HDI value



With reference to the data and your own economic knowledge, outline why high GNI per capita may not necessarily result in a high value of the Human Development Index (HDI). [4]

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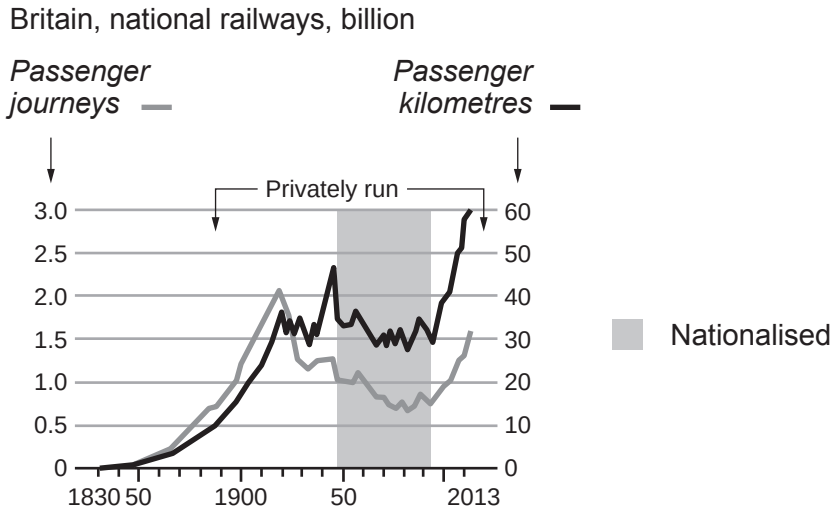
5. According to surveys, over 60% of Britons would like Britain's railways to be renationalised. Figure 1 below shows that since Britain's railway network was privatised in 1994, the number of train journeys taken each year has more than doubled.

However, by 2016 rail fares were 24% higher in real terms than in 1995. In addition to high prices, many passengers face overcrowding with 22% of passengers commuting into London and 14% of passengers commuting into Manchester having to stand rather than sit.

Many of today's problems are blamed on the 1994 privatisation being poorly managed. This resulted in overemployment of railway workers due to the large number of competing train operators. However, investment by private train operating companies has risen since 1994, by roughly the same total amount as the government subsidies to the rail sector of nearly £5bn each year.

The high prices and poor service are the main reasons why many passengers are calling for renationalisation. However, although fares may become simpler, they may not become lower. And the process could take decades, causing train operating companies to delay investment. The overemployment of workers could remain as the powerful railway unions threaten strike action.

Figure 1 – usage of Britain's railways



Source: "Gravy Train", The Economist, 3/10/15

(a) With reference to Figure 1, describe the difference in railway usage when railways were nationalised compared with being privately run. [2]

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(b) "The high prices and poor service are the main reasons why many passengers are calling for renationalisation."

With reference to the data, discuss the view that renationalisation of the railways will lead to lower prices for passengers. [6]

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6. The table below provides information regarding the amount of aid received by 2 Less Economically Developed Countries (LEDCs), their populations, and their GDP per capita in US $ at Purchasing Power Parity (PPP) for selected years from 1995 to 2015.

Country / indicator	1995	2000	2005	2010	2015
BOTSWANA					
Total aid inflow (US $m)	89.54	30.62	47.98	153.47	99.64
Total population (millions)	1.576	1.737	1.864	2.048	2.262
GDP per capita at PPP (US $)	3001	3333	5327	6244	6360
ETHIOPIA					
Total aid inflow (US $m)	876.49	687.22	1928.00	3453.00	3585.00
Total population (millions)	57.237	66.444	76.608	87.562	99.391
GDP per capita at PPP (US $)	134	124	162	342	619

(a) Define 'GDP per capita at PPP'. [2]

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(b) With reference to the data, evaluate the link between aid (as represented by total aid inflow) and GDP per capita at PPP. [6]

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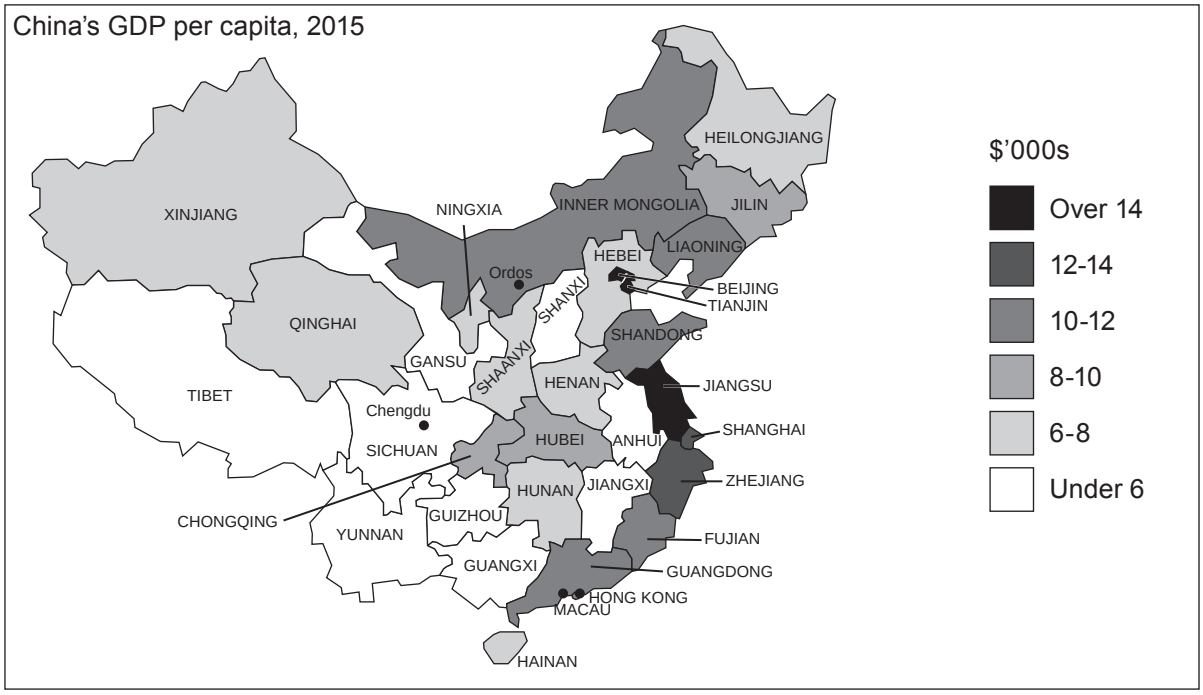
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Section B

Answer **all** *the questions in the spaces provided.*

1 China's economy is characterised by high levels of inequality. Households in coastal regions enjoy a much higher GDP per capita than households inland (see Figure 1 and Table 1).

Figure 1 – the unequal distribution of income in China



Sources: CEIC; World Bank

Table 1 – annual income and population of selected Chinese provinces (April 2016)

Rank	Province	Income per capita (in US $ at PPP)	Population ('000s)
1	Tianjin	30611	15319
3	Shanghai	29245	24205
11	Chongqing	14838	30040
23	Sichuan	10445	81721
28	Tibet	9073	3208
31 (last)	Gansu	7419	25952
	China as a whole	**14175**	**1371220**

5 **The causes of inequality in China**

The pattern of inequality in China today is a reversal of the pattern in the 1970s when coastal areas were significantly poorer than inland areas. To reduce the 1970s inequality, China's government established Special Economic Zones (SEZs) along the coast to encourage the production of manufactured goods for export from the newly built ports in Shenzhen and Shanghai. Inland areas continued to specialise
10 in producing commodities, such as coal, that were essential to the manufacturing industry along the coast. The result was rapid economic growth across China, especially in the coastal manufacturing sector which was most able to take advantage of the benefits of globalisation.

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The widening income gap between coastal and inland China seen today is a result of a number of factors:

- Demand for the commodities produced by inland Chinese provinces has slowed as global economic growth has slowed. Coal and steel prices, for example, fell by nearly 70% between 2011 and 2015.
- Government spending in some poor Chinese provinces has been wasteful. In the city of Ordos in Inner Mongolia, for example, the government built a brand new district that could house 1 million people, but that stood empty for years.
- Despite subsidies from the Chinese government to poor provinces, these areas struggle to compete with highly skilled labour, efficient legal and financial institutions, and the "network effects" of the large urban coastal areas where dynamic efficiency and innovation is high.
- Private sector research and development (R&D) in manufacturing industries is estimated to contribute over 50% to Chinese growth, with around 2% of GDP spent on R&D. That proportion is set to rise so much that spending on R&D in China is estimated to overtake the amount spent in the US by 2022.

Chinese policies to reduce inequality and gain from globalisation

Worried about possible economic and social problems resulting from high levels of inequality and the failure of some parts of China to benefit from globalisation, the Chinese government has introduced a range of policies.

The 2001 "Go West" plan saw the Chinese government spend $325bn in poor, inland areas on capital infrastructure projects such as roads, railways and oil pipelines in order to tempt further investment by the private sector. This policy was effective in helping existing cities such as Xian and Chongqing to expand and modernise; Xian's economic output has grown by 13% each year since the launch of the policy.

Another policy, from Autumn 2013, was the "Belt and Road" which attempted to link China with other Central and South-East Asian economies to stimulate trade between poorer areas of China and other countries. Richer Chinese provinces and cities were encouraged to provide aid and economic advice to "twinned" inland provinces and cities on everything from "how to start a business" through to helping universities develop cutting-edge courses. The Chinese government provided an initial $40bn, and also spent a significant amount on building transport hubs such as ports and freight train stations in other countries.

China's government also uses current spending in addition to capital spending. Redistributive fiscal policy ensures tax revenue collected from richer areas is spent on poorer areas; indeed, the local government in 10 of China's 33 provinces receive more than half of their funding from taxes raised outside of their own province.

Coastal areas continue to grow, although more slowly than they once did, therefore workers continue to migrate from inland to coastal areas. China's government estimates that around 300m people work outside of their hometown. Theoretically this migration should help to even out wages across China. However, many migrant workers are forced to leave their children behind at home with non-working relatives, such as grandparents, because of China's *hukou* system (or household registration system) which prevents people from accessing state-provided healthcare and education anywhere other than their original hometown. Migrant workers send money back home to financially support their children, but may only get to visit once a year. This stressful family situation is now causing some migrant workers to return home, and fewer rural workers think that migration to coastal urban areas is desirable. As the flow of workers into China's coastal economic powerhouses slows down, city workers gain bargaining power and can demand higher wages. This has forced some manufacturers out of business, or caused them to raise prices. Perhaps the Chinese government needs to do very little to help rebalance the economy; perhaps the free market is more alive in this socialist economy than we thought.

Sources: "Go West is an economic milestone for nation" from China Daily (9/12/11); "Rich Province Poor Province" from The Economist (1/10/16); "China migration: at the turning point" from the Financial Times (4/5/15); IMF's World Economic Outlook Database April 2016; "China's One Belt One Road plan greeted with caution" from the Financial Times (20/11/2015); "China's rise as a major contributor to science and technology" from Journalist's Resource (5/1/2015)

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7. Calculate:

(a) GDP per capita in Tianjin as a proportion of GDP per capita in China as a whole. [1]

(b) GDP per capita in Gansu as a proportion of GDP per capita in China as a whole. [1]

(c) Total income in Gansu as a proportion of total income in Tianjin. [2]

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8. Assess **two** reasons why GDP per capita is not always a good measure of living standards in an economy. [6]

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9. With reference to the data, assess the view that globalisation is good for the Chinese economy. [6]

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10. With reference to the data, discuss the view that government capital spending is a better method of reducing inequality in China than government current spending. [10]

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11. Using appropriate diagrams, explain why the migration of workers from inland China to coastal China should help to even out wages across the country. (line 50) [4]

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12. Discuss the view that economic development in China is more likely to be achieved through free market forces rather than government intervention. [10]

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