Surname	Centre Number	Candidate Number
First name(s)		2

GCE A LEVEL

S23-1520U30-1

1520U30-1

MONDAY, 5 JUNE 2023 – MORNING

ECONOMICS – A2 unit 3
Exploring Economic Behaviour

2 hours

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

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ADDITIONAL MATERIALS

In addition to this paper you may require a calculator and a ruler.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use gel pen or correction fluid.

You may use a pencil for graphs and diagrams only.

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

Answer **all** questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the additional 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.

You are reminded of the necessity for good English and orderly presentation in your answers.

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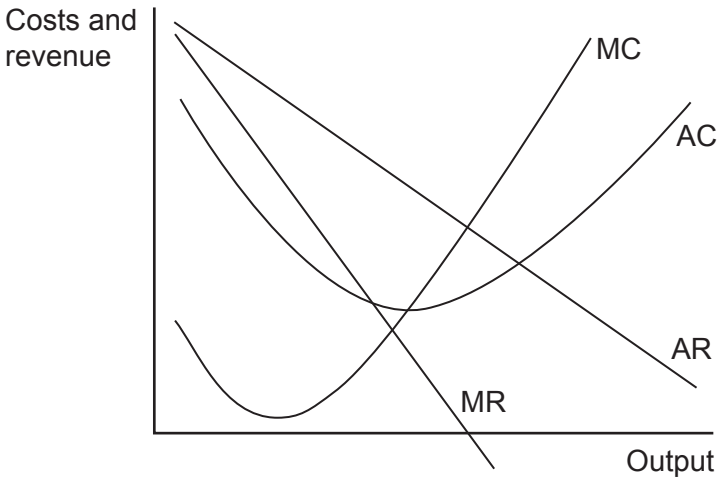
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SECTION A

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

1. The diagram below represents the costs and revenues of a price-making firm.



(a) Using the diagram, outline the difference between normal profit and abnormal profit. [4]

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(b) Using the diagram, explain the law of diminishing marginal returns. [4]

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2. The table below provides cost and revenue information for a small firm making wedding dresses.

Daily output	Total revenue (£)	Total cost (£)
0	0	400
1	500	800
2	950	1100
3	1350	1350
4	1700	1500
5	2000	1800
6	2250	2300
7	2450	3000
8	2600	4000

(a) Calculate the following. You are advised to show your working.

(i) Average fixed cost at the 4th unit of output. [2]

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(ii) Marginal revenue for the 8th unit of output. [2]

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(iii) Total variable cost when output is 2 units. [2]

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(b) The firm's production manager has set a target of 6 units of output each day. Assuming that the firm has the objective of profit maximisation, explain whether or not the production manager has made the correct decision. [4]

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3. Table 1: The price of a school uniform

	Nominal price of an average school uniform	Consumer Price Index (CPI)
2015	£316	100
2020	£337	108

UK Government guidance advises schools to make their uniforms as easy and as cheap to buy as possible. Despite this, UK schools are increasingly choosing to brand their uniform with logos and unusual colours. These items have to be bought in specific shops, and a report from The Children's Society suggests that the absence of competition in the school uniform market has pushed up prices.

As a result, a new law has been proposed that would prevent schools from relying on a single uniform provider and would also require them to reduce the number of items of uniform with a logo. A government advisor said that monopolies are "simply not compatible with… supporting children from less well-off backgrounds". In response, uniform providers argue that if one retailer supplies school uniform then it can make sure all items are always available. When no single retailer has that responsibility, then supplies may be less certain and children may end up in school uniform that is mismatched or the wrong size.

Source: https://www.economist.com/britain/2020/08/29/bringing-down-the-cost-of-school-uniforms

(a) Calculate the real price of a school uniform in 2020. You are advised to show your working. [2]

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(b) Assess whether the UK Government should intervene in the school uniform market. [8]

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4.

Figure 1: US inflationary expectations (%) 2014 – 2020

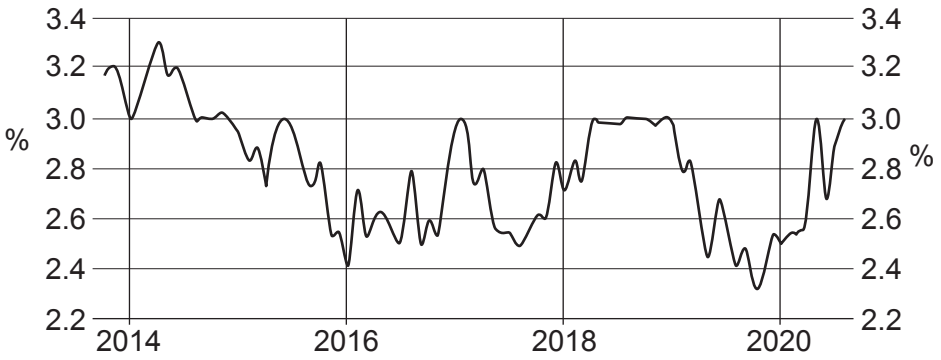


Figure 2: US wage inflation rate (%) 2014 – 2020

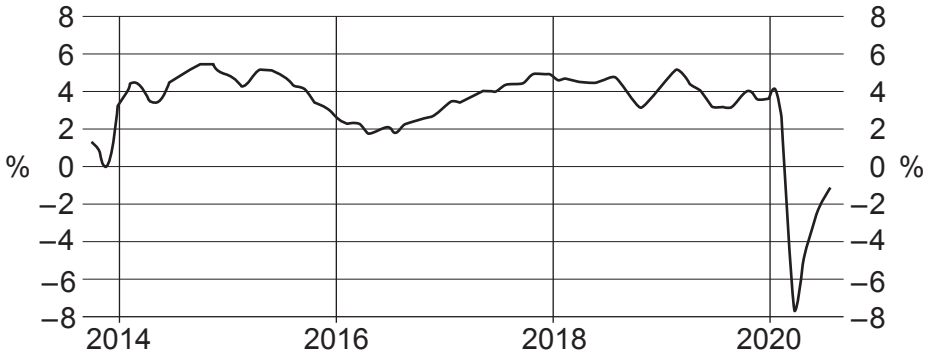
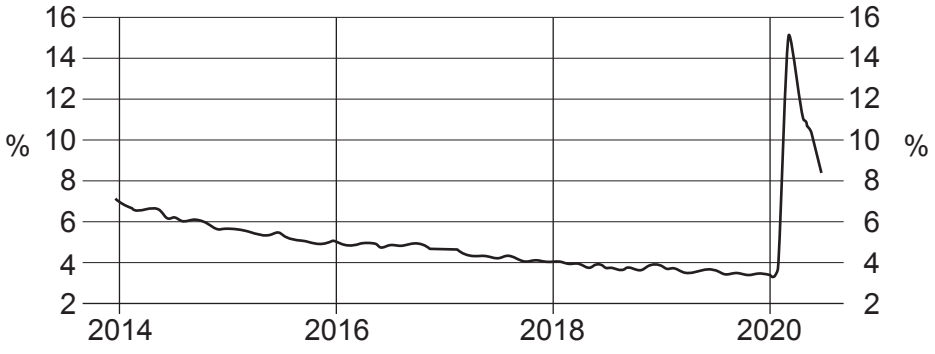


Figure 3: US unemployment rate (%) 2014 – 2020



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(a) Define the term “inflationary expectations”. [2]

(b) “The Phillips curve relationship no longer exists.” To what extent does this appear to be true in the US? [10]

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SECTION B

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

The European Union and its wider roles

Extract 1: the EU's expansion

There are 27 member countries of the European Union (EU), and a further 7 countries have 'candidate status' for joining the EU, including Turkey and Albania. Of the 27 member countries, 20 are also part of the Euro Area; this is also known as the Economic and Monetary Union, or EMU. These 20 countries use the euro as their currency and have shared monetary policy managed by the European Central Bank (ECB).

The most recent member state to join the Euro Area is Croatia, which joined in January 2023 after meeting all of the necessary criteria. The Croatian prime minister said, "The introduction of the euro will make our economy more resilient and raise the standard of living of the population in the long term." The response of the media in Croatia has also been largely positive, as commentators believe that interest rates will be low and credit ratings will be high.

Euro Area countries are meant to follow some fiscal rules, such as keeping budget/fiscal deficits and government debt below certain thresholds. Many Euro Area economies have failed to do so, however, and there is no mechanism for removing them from the EMU for this failure. Some economists argue that this increases economic instability in the Euro Area, and makes it more difficult for the ECB to set an interest rate that meets the needs of all Euro Area countries.

Extract 2: financial support within the EU

Whilst there is monetary union between the 20 Euro Area countries, these countries and the other EU member states have each traditionally managed the fiscal policy for their own country – there is currently no official "fiscal union" i.e. shared fiscal policy. However, following the sudden and deep recession in the EU in 2020/21, leaders of EU member states agreed that the EU could carry out additional borrowing of around €800bn on behalf of its member states. This additional borrowing scheme is known as NextGenerationEU. The majority of this borrowing is to be spent on loans and subsidies to member states to help them with economic recovery, with a focus on "climate action" and green investment projects. Reports suggest that significant proportions of the NextGenerationEU grants will be spent on the poorest areas of the EU, many of which are in the newest member states.

The EU already has a programme to support its poorest areas, called the European Regional Development Fund (ERDF). This fund provides grants for very small projects (for example, beekeeping equipment for rural areas) as well as much larger projects. Some of these grants are detailed in the figure opposite.

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Figure 1: Selected ERDF projects

Country	Project	Cost
Hungary	Improving the railway network across the whole country	€61m
Bulgaria	Improving access to emergency medical care across the whole country	€85m
Croatia	Supporting redevelopment of the airport in the city of Dubrovnik to promote tourism growth in the area	€95m
Poland	Building a waste incineration plant in the city of Gdansk	€145m
Greece	Installing faster broadband across the whole country	€286m

Extract 3: EU aid for non-EU countries

In 2015, many of the world's most developed economies signed up to the United Nations' Sustainable Development Goals (SDGs) in which they promised to spend 0.7% of GNP to help developing economies meet certain goals by 2030. In 2020, just 6 countries had met that goal – all were European. In 2021, the EU also committed to increasing its financial support from €25bn to €29bn to help developing economies deal with the effects of climate change. Overall, the EU is the world's largest provider of international aid. Data from the OECD shows that in 2021, the EU provided $81.3bn in aid, equivalent to 45% of all global development aid. $9bn was donated for healthcare alone. The United States was the 2nd largest donor, providing around 24% of all global development aid.

However, in EU budget discussions during the global health pandemic, a proposal to support developing economies also suffering as a result of the pandemic was abandoned. The original plans included extra spending of €10.5bn on development funding and €5bn on additional humanitarian aid, on top of the already-planned €70.8bn of spending on developing economies. This would have amounted to over 6% of total EU spending.

However, leaders of EU member states decided that any additional borrowing should be spent on EU economies. A spokesperson for the European Centre for Development Policy Management said that the decision was disappointing in light of "much talk about an enhanced partnership with Africa". An economist with the Center for Global Development said, "in terms of… [the] solidarity of Europe with the rest of the world… the picture is not good".

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Figure 2: 10 largest recipients of EU overseas development aid, 2020, €bn

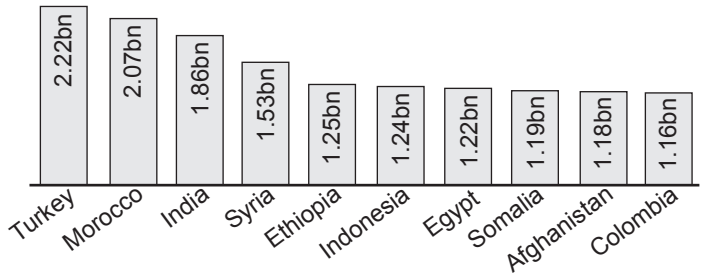
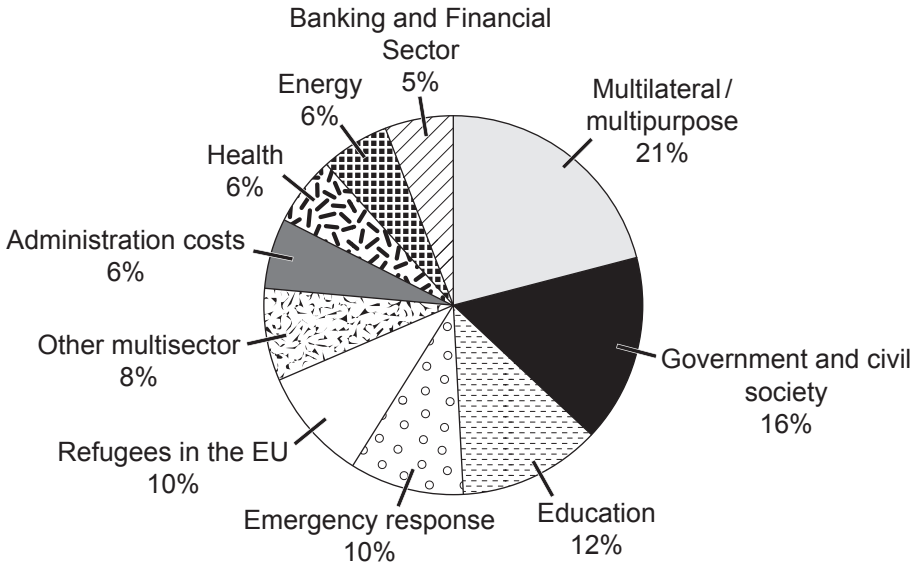


Figure 3: Recipients of EU foreign aid, by sector, 2007–2022



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5. With reference to the EU, outline what is meant by economic integration. [4]

6. With reference to the data, describe what is meant by an optimal currency area. [6]

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7. Discuss the extent to which Croatia will benefit from being a member of the Euro Area (lines 8–9). [10]

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8. Assess the likely impact of the European Regional Development Fund (ERDF) on the development of poor areas within the European Union (lines 29–30). [8]

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9. Discuss the view that the "the picture is not good" (line 52) in terms of the European Union's impact on global development. Refer to **Figures 2** and **3** in your answer. [12]

END OF PAPER

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