Surname	Centre Number	Candidate Number
Other Names		2

GCE AS/A LEVEL

2520U10-1

S18-2520U10-1

ECONOMICS – AS unit 1
Introduction to Economic Principles

MONDAY, 14 MAY 2018 – MORNING

1 hour 15 minutes

For Examiner's use only		
Question	**Maximum Mark**	**Mark Awarded**
1-15	**15**	
16	**6**	
17	**16**	
18	**9**	
19	**9**	
Total	**55**	

2520U101
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** questions in the spaces provided in this booklet. You may use continuation paper on page 22 if necessary, taking care to number the continuation 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

For each question in Section A, write the letter (A, B, C, D or E) that corresponds to your answer in the box provided.

You are advised to spend approximately **30 minutes** *on this section.*

1. Identify the missing words from the following statement:

"According to the circular flow of income model, when an economy is in equilibrium we would expect withdrawals to ..... injections". [1]

A be greater than

B be less than

C be equal to

D be twice the size of

E be greater or less than

2. Which of the following is **least** likely to lead to a shift right of the long run aggregate supply curve? [1]

A Increase in efficiency of resources

B Increase in quantity of resources

C Increase in the cost of resources

D Increase in quality of resources

E Improvement in the state of technology

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3. Recent research into the banking system in Ghana found that many poor people, whose needs for basic survival are great and who are less able to make long-term plans, tend not to save any excess earnings and instead take out more loans that trap them into debt. [1]

This is an example of:

A High savings ratio

B The profit motive

C Government failure

D Irrationality

E Public sector debt

4. A government invests £240m into building a new hospital. That figure is matched by private sector investment in other infrastructure projects. Consumption, on the other hand, falls by £135m and the trade balance worsens by £60m. Assuming there is no multiplier process, what is the effect on aggregate demand? [1]

A Increases by £285m

B Increases by £555m

C Increases by £45m

D Increases by £675m

E Increases by £315m

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5. Which of the following indicates that two goods are complementary? [1]

A An inelastic cross-elasticity of demand

B A horizontal demand curve

C A positive income elasticity of demand

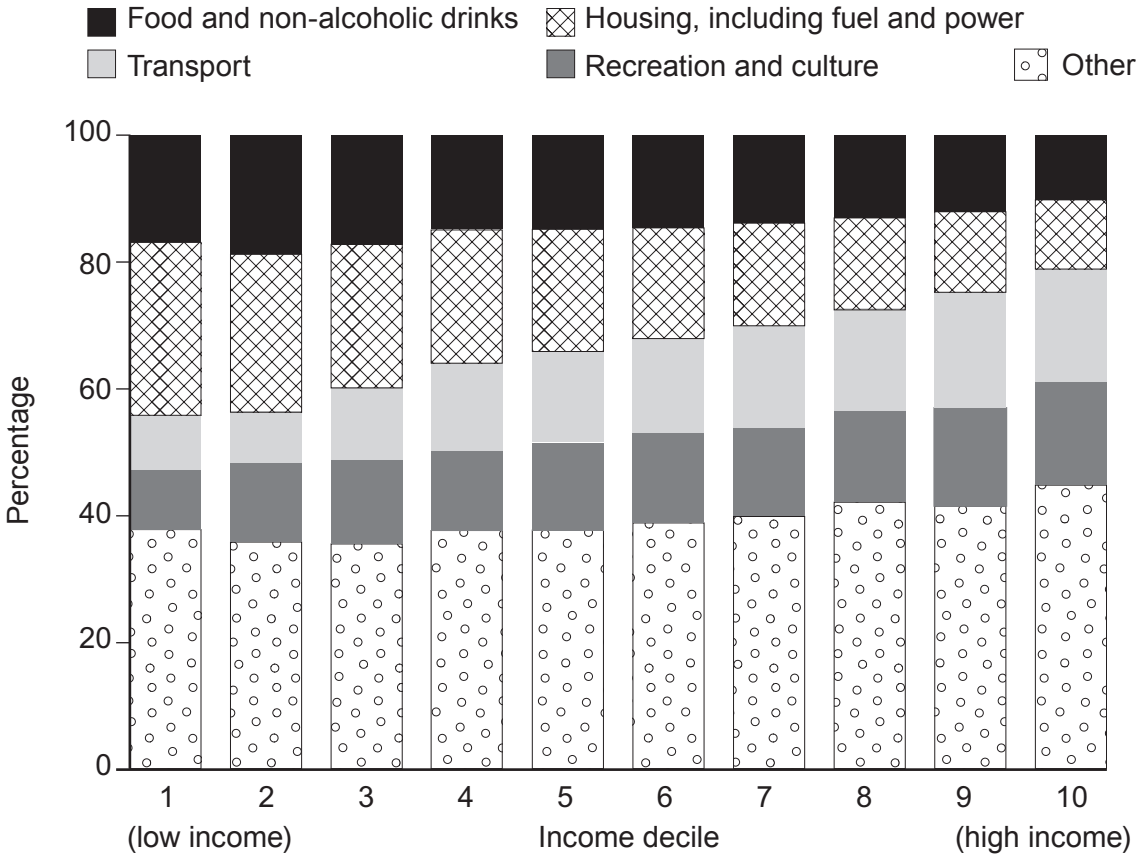
D A price elasticity of demand greater than –1

E A negative cross-elasticity of demand

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6. The chart below shows household spending on different categories of goods and services by income decile.



It can be concluded that: [1]

A Low income groups spend more in total on food and non-alcoholic drinks than high income groups

B High income groups spend a higher proportion of their income on transport than low income groups

C The proportion of income spent on housing rises as income rises

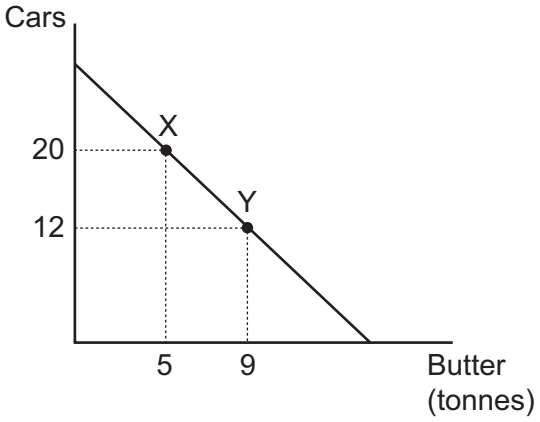
D The proportion of income spent on other goods and services rises steadily as income rises

E The richest 10% of the population spend twice as much as the poorest 10% on recreation and culture

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7. Assume that resources are perfectly substitutable in an economy that makes cars and butter as shown in the production possibility frontier below. Between points X and Y, the opportunity cost of producing **one** more tonne of butter equals: [1]



A 2 cars

B 3 cars

C 4 cars

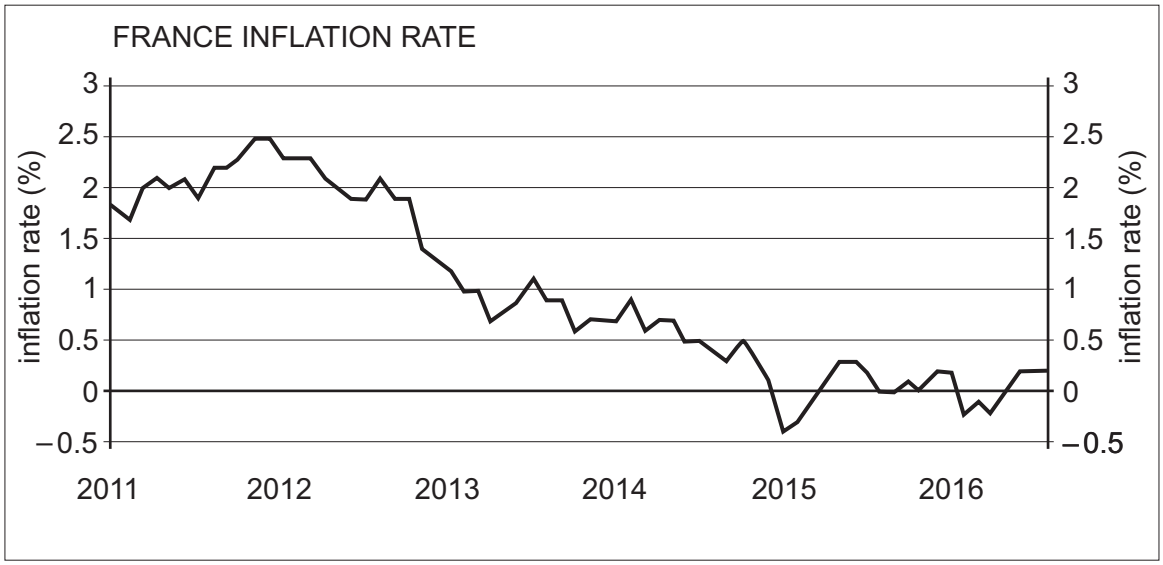
D 8 cars

E 12 cars

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8. The graph below shows the inflation rate in France between 2011 and 2016.



Which of the following statements is **not** true? [1]

A The highest rate of inflation was 2.5%

B Prices fell between 2012 and 2013

C Inflation has not been above 1% since 2014

D Prices rose between 2011 and 2012

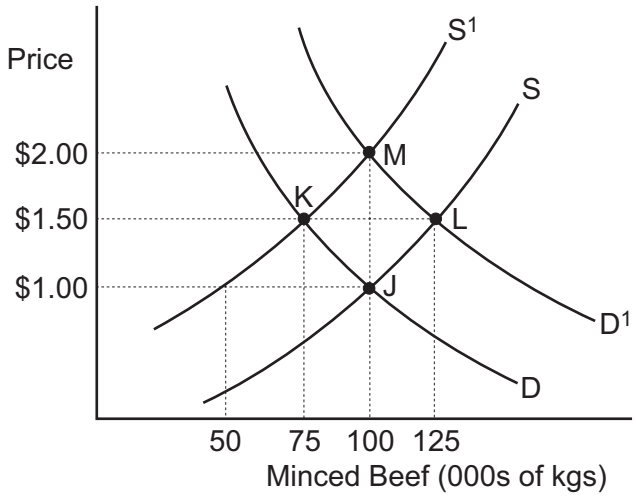
E France has experienced periods of deflation between 2011 and 2016

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Questions 9 and 10 refer to the diagram below.

The diagram shows the market for minced beef which is initially in equilibrium at point J. Minced beef is used to make hamburgers. You should assume that minced beef is an inferior good.



9. Which of the following could explain a movement to a new equilibrium at point M? [1]

A A change in tastes away from hamburgers combined with an increase in disease related cattle deaths

B An increase in buyers' income combined with a cost-saving technological advance in minced beef production

C An increase in the price of hamburgers combined with an increased cost of production of minced beef

D A fall in population combined with an increased price for an alternate form of packaged beef

E A decrease in buyers' income combined with an increase in price for cattle

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10. Which of the following is correct if equilibrium shifts from point J to point K? [1]

A Both the price and consumer surplus have increased

B The demand decreased due to a lower price substitute

C There is excess demand of 25 000 kg at the price of $1

D A shift in supply will cause a temporary shortage, which will disappear when the price rises to $1.50

E Both the demand curve and the quantity demanded have decreased ☐

11. A positive consumption externality occurs when: [1]

A The social marginal benefit is greater than the private marginal benefit

B The social marginal cost is greater than the private marginal cost

C The social marginal cost is greater than the private marginal benefit

D The social marginal benefit is lower than the private marginal benefit

E The social marginal cost is lower than the private marginal cost ☐

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12. Which of the following is **not** a function of the Bank of England? [1]

A Issuing bank notes in England and Wales

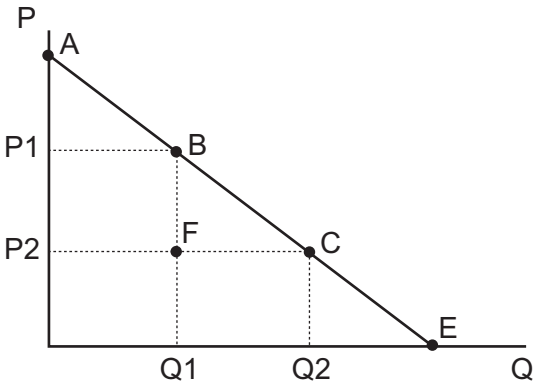
B Providing safe custody for the UK's gold reserve

C Making sure the financial system is safe and sound

D Making sure that money is available to fund the UK's public services

E Operating monetary policy by moving the bank rate up and down

13. The diagram below represents the demand curve for a product.



The price falls from P1 to P2 and, as a result, the increase in consumer surplus is area: [1]

A P1BFP2

B P2AC

C P1BCP2

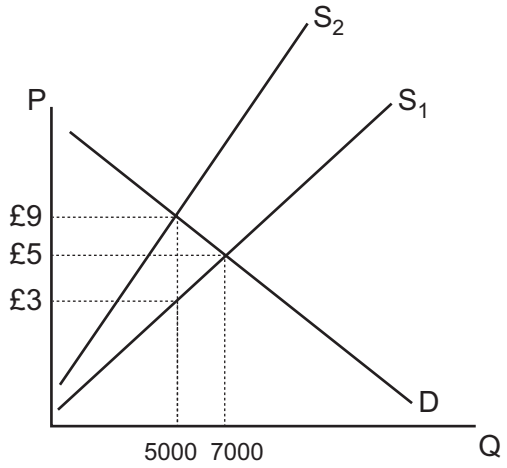
D FCQ2Q1

E BFC

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14. The diagram below shows the market for a particular product. The Government has recently imposed an indirect ad valorem tax onto the product. How much tax revenue will the Government collect from this tax? [1]



A £25 000

B £30 000

C £35 000

D £15 000

E £45 000

15. A new report states that house prices in Swansea have increased by 2.1% between June 2015 and June 2016 to an average price of £134 822.

What was the average house price in Swansea in June 2015? [1]

A £2 831

B £137 653

C £131 991

D £111 423

E £132 049

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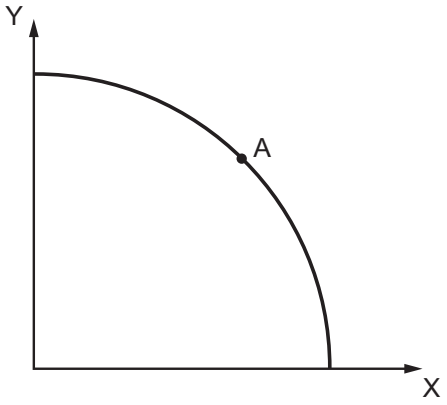
SECTION B

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

16. A country allocates its resources equally between the production of Goods X and Y.

(a) Adapt **Diagram 1** to illustrate the impact on resource allocation of total specialisation in product X. Explain your answer. [3]

Diagram 1



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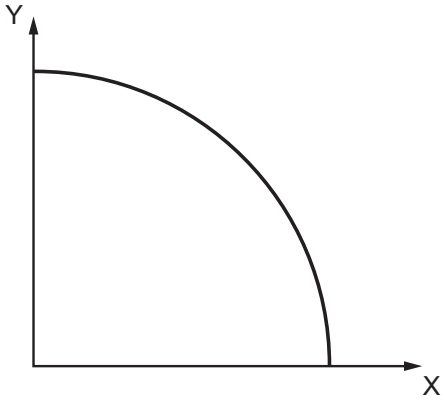
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(b) Adapt **Diagram 2** to illustrate the impact of division of labour on productivity within the economy. Explain your answer. [3]

Diagram 2



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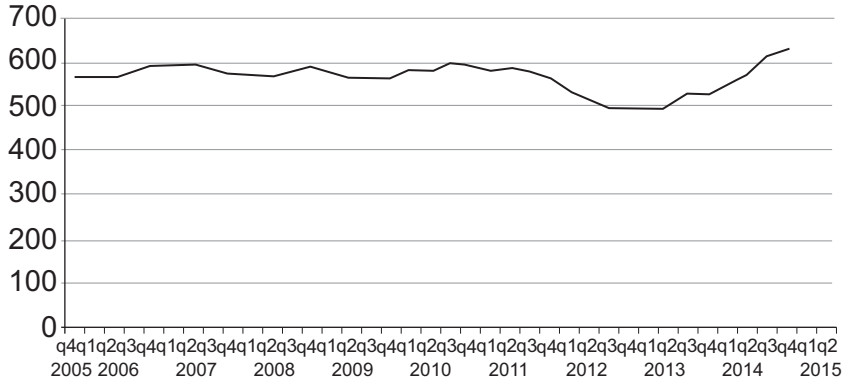
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17. During the debate over the UK's membership of the EU, the issue of immigration was a topical one. Clwyd West MP David Jones was quoted as saying immigration drives wages down in Wales and forces local people out of jobs. On the other hand, Swansea West MP Geraint Davies argued that immigration has had little effect on wages. "I don't think this is a major issue – the key issues are actually low economic growth and consumer spending", he said.

Source: BBC

Figure 1. Migration (thousands) into the UK – 2005-15.



Source: ONS

Figure 2. Average UK weekly earnings (at 2015 prices).



Source: IFS

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(a) Using a diagram, outline why it might be argued that "immigration drives wages down in Wales". [4]

Draw diagram here

(b) Describe the trends in immigration and average weekly earnings shown by the data in Figures 1 and 2. [4]

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(c) To what extent do you agree with the statement: low economic growth and consumer spending are the biggest factors affecting wages in the UK. [8]

16

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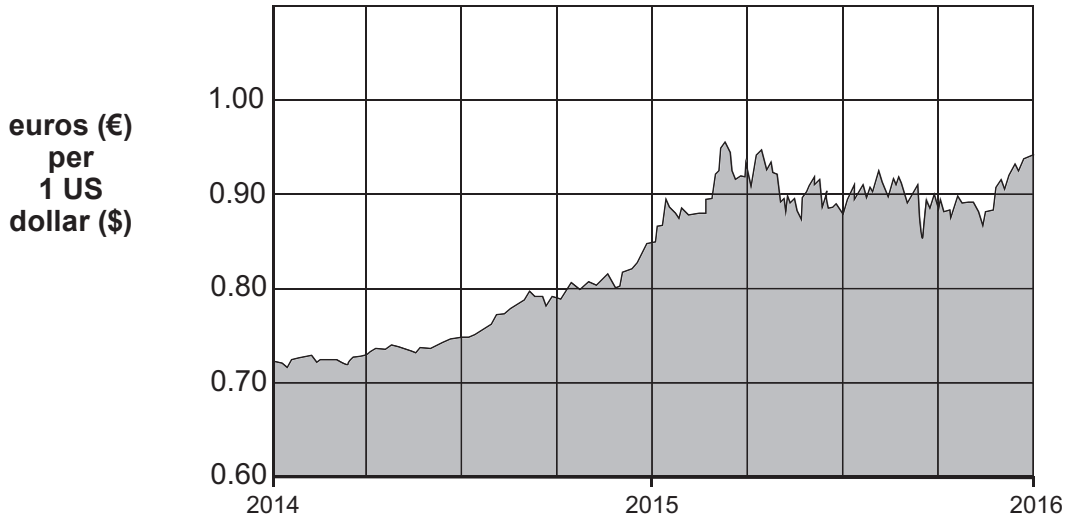
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18. The Eurozone is a collection of 19 European countries which have adopted the euro (€) as their common currency. The diagram below shows the exchange rate between the euro and the US dollar from 1 Jan 2014 to 1 Jan 2016. The European Central Bank operates much like the Bank of England in that it sets the base interest rate for the Eurozone members. The Eurozone imports nearly €450bn worth of goods and services from the US every year.

Figure 3. Exchange rate euros (€) per 1 US dollar ($).



(a) Calculate the % change in the value of the US dollar ($) over the two year period and state whether it has appreciated or depreciated against the euro (€). [3]

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(b) Assume the price elasticity of demand (PED) of all Eurozone imports from the US is –0.8. Calculate the likely impact of this exchange rate change on the quantity demanded of Eurozone imports from the US. [2]

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(c) If the European Central Bank increases the base interest rate, explain the likely consequences on the trade of goods and services between the US and the Eurozone. [4]

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19. During the 1970s, more than 200 000 people were employed in the UK steel sector but in 2016 the number stands at just over 30 000. Steel-making has been hit by a mixture of factors recently such as increasing energy costs, a strong pound, carbon taxes and competition from China.

China is the world's largest steel supplier; it supplies about half of the 1.6 billion tonnes of steel made worldwide per year. Chinese steel-making receives vast state subsidies which are reported to be worth around two-thirds of the cost of production. In July 2015, Chinese steel was cheaper per tonne than cabbage. The flood of excess cheap Chinese steel into the UK has had a devastating effect on UK steel manufacturers, who have condemned the British government for failing to introduce protectionist measures against the cheap Chinese imports.

With the aid of a tariff diagram, discuss whether the imposition of a tariff on Chinese steel could save UK-based jobs. [9]

Draw diagram here

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