Surname	Centre Number	Candidate Number
First name(s)		2

GCE AS/A LEVEL

Z22-2520U10-1

2520U10-1

MONDAY, 16 MAY 2022 – MORNING

ECONOMICS – AS unit 1
Introduction to Economic Principles

1 hour 15 minutes

For Examiner's use only		
Question	**Maximum Mark**	**Mark Awarded**
1-15	**15**	
16	**10**	
17	**10**	
18	**12**	
19	**8**	
Total	**55**	

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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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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. In 2019, the department store, John Lewis, saw demand for landline phone handsets fall by 20%.

This would be most likely to cause: [1]

A An increase in consumer surplus in the market for landline phone handsets

B An increase in John Lewis' total revenue

C An increase in the price of landline phone handsets

D A decrease in producer surplus in the market for landline phone handsets

E A decrease in demand for mobile phones

2. There is ..... **effect** when the price of a good falls, because the product is now relatively cheaper than an alternative item. [1]

A a substitution

B an income

C a demand

D a supply

E an inflationary

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3. Which one of the following is an example of expansionary fiscal policy? [1]

A The UK Government decreases capital expenditure

B The Bank of England increases the value of its asset purchases (QE)

C The UK Government increases the basic rate of income tax

D The Bank of England decreases the base interest rate

E The UK Government decreases the rate of corporation tax

4. The data below shows the number of women in work in Wales over a 20-year period.

Year	1998	2003	2008	2013	2018
Women in Work in Wales (000s)	544	631	643	645	688

Using 1998 as the base value, calculate to the nearest whole number, the index value for women in work in 2018. [1]

A 26

B 79

C 100

D 126

E 144

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5. Baijiu is a popular Chinese alcoholic drink. Two popular brands are Shunxin and Maotai.

Shunxin has an income elasticity of demand of −1.25 whilst Maotai has an income elasticity of demand of +0.4.

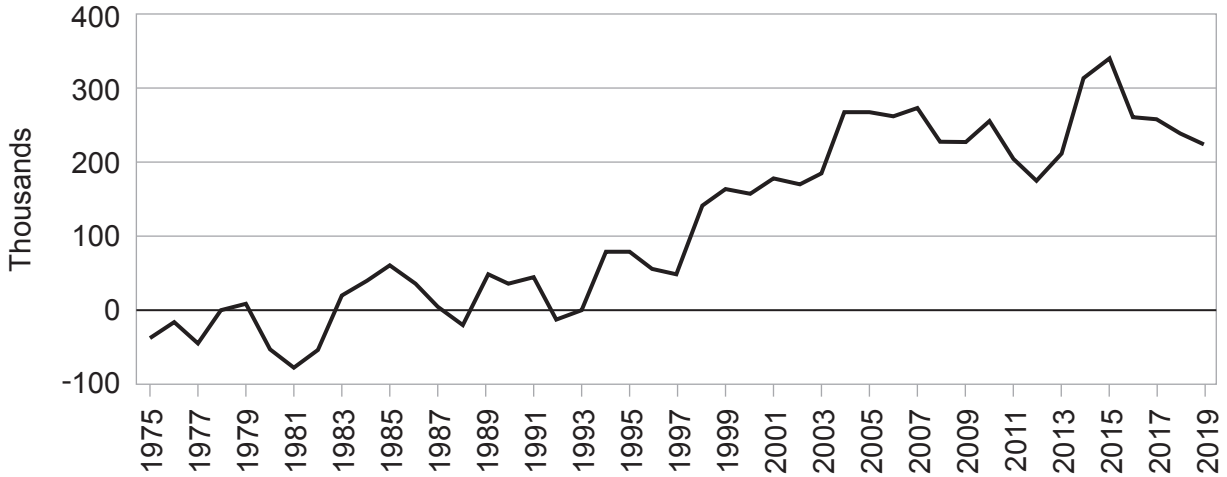
If average income in China falls by 2% what will be the result? [1]

	Shunxin	Maotai
A	Sales decrease by 2.5%	Sales increase by 0.8%
B	Sales increase by 0.625%	Sales decrease by 0.2%
C	Sales increase by 2.5%	Sales decrease by 0.8%
D	Sales increase by 2.5%	Sales increase by 0.8%
E	Sales decrease by 2.5%	Sales decrease by 0.2%

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6. The chart below shows annual net migration to the UK from 1975 to March 2019.



(Source: ONS, Long Term International Migration by Citizenship Data)

The most likely consequence of the trend shown in the data above is that in the UK the: [1]

A Aggregate demand (AD) curve will have shifted inwards

B Long run aggregate supply (LRAS) curve will have shifted outwards

C Production possibility frontier (PPF) will have shifted inwards

D Long run aggregate supply (LRAS) curve will have shifted inwards

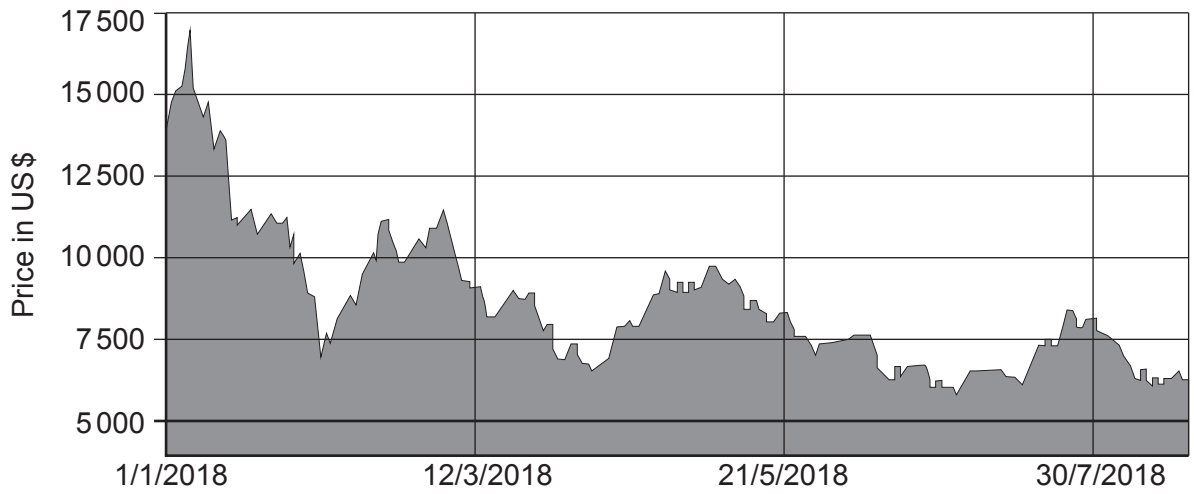
E Laffer curve will have shifted outwards

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7. Bitcoin is a so-called 'cryptocurrency' that is exchanged like any other currency on the foreign exchange market. The graph below shows the value of Bitcoin in US $ during the first half of 2018.



What is the most likely cause of this trend? [1]

A Investors sold more physical assets to buy Bitcoin

B Consumer confidence in cryptocurrencies fell

C There was increased speculative demand for Bitcoin

D The supply of Bitcoin decreased creating scarcity

E Major businesses in China and the US started to accept Bitcoin as payment

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8. The following data relate to the country of Comena.

	$ bn
Government expenditure on goods and services	6.2
Imports of goods and services	14.5
Investment expenditure	13.3
Exports of goods and services	14.7
Consumer expenditure	26.3
Wages and salaries	27.6
Profits of companies	13.0
Land rental	5.4

Calculate aggregate demand in the economy. [1]

A $46.0 bn

B $53.9 bn

C $73.6 bn

D $60.5 bn

E $92.0 bn

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9. The country of Simonia has a budget deficit of $50 bn. It also has a trade deficit of $50 bn. During the year, the government increases its spending by $20 bn and the trade deficit increases to $70 bn.

Assuming there is no change to any other component of aggregate demand (AD), what is the impact on AD in Simonia? [1]

A AD increases by $140 bn

B AD increases by $40 bn

C AD doesn't change

D AD decreases by $40 bn

E AD decreases by $140 bn

10. In a 2019 survey, 70% of Netflix subscribers said that they would cancel their subscription to the streaming service in response to a 20% price increase.

If true, this implies that demand for Netflix is: [1]

A Perfectly price inelastic

B Relatively price inelastic

C Unitary price elastic

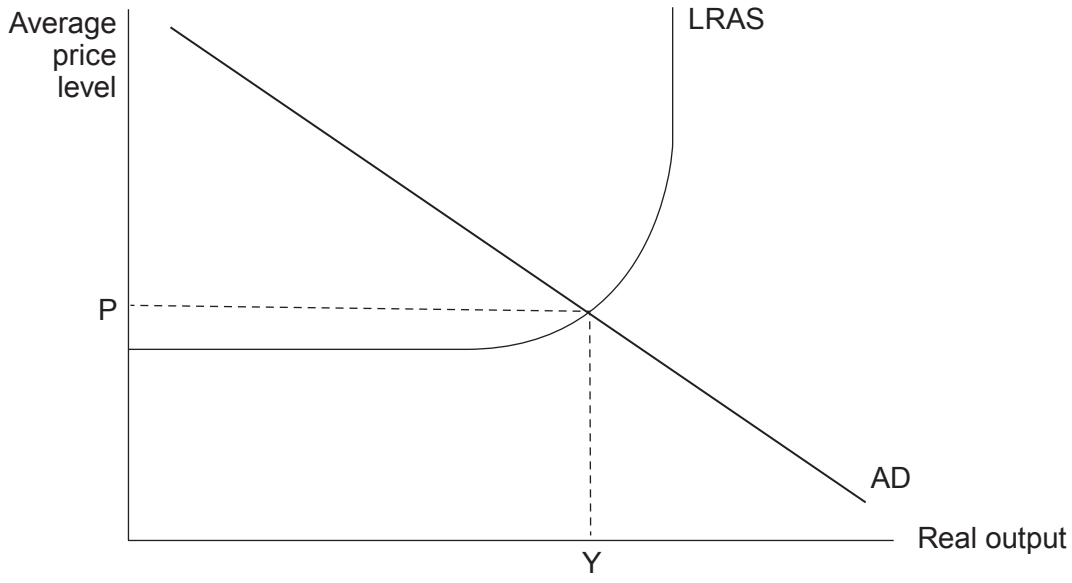
D Relatively price elastic

E Perfectly price elastic

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11. The aggregate demand and aggregate supply diagram below represents an economy in equilibrium.



The level of savings in the economy decreases. All other things being equal, this will lead to: [1]

	Equilibrium level of real output	Equilibrium level of average prices
A	Decrease	No change
B	Increase	Increase
C	Decrease	Decrease
D	Increase	Decrease
E	No change	Increase

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12. If the Bank of England decreases the UK's base interest rate, this is most likely to cause: [1]

A A decrease in investment

B A depreciation of the pound sterling

C A negative wealth effect due to falling house prices

D An increase in government spending

E A decrease in the average price level

13. The table below shows the values of injections into and withdrawals from the circular flow of income for an economy.

Injections (£m)		Withdrawals (£m)	
Government spending	1000	Taxation	900
Investment	650	Saving	500
Exports	825	Imports	1050

From the data it can be concluded that this economy has a: [1]

A Trade surplus

B Government budget surplus

C Net injection into its circular flow

D Current account surplus on the balance of payments

E Net withdrawal from its circular flow

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14. George's Paints PLC and RuthBrush PLC are the country's leading manufacturers of industrial paints and their products compete directly with each other in the market.

Which one of the following statements would you expect to be correct? [1]

A The products of George's Paints PLC and RuthBrush PLC have a high positive cross elasticity of demand

B The products of George's Paints PLC and RuthBrush PLC have a low positive cross elasticity of demand

C The products of George's Paints PLC and RuthBrush PLC have a high negative cross elasticity of demand

D The products of George's Paints PLC and RuthBrush PLC have a low negative cross elasticity of demand

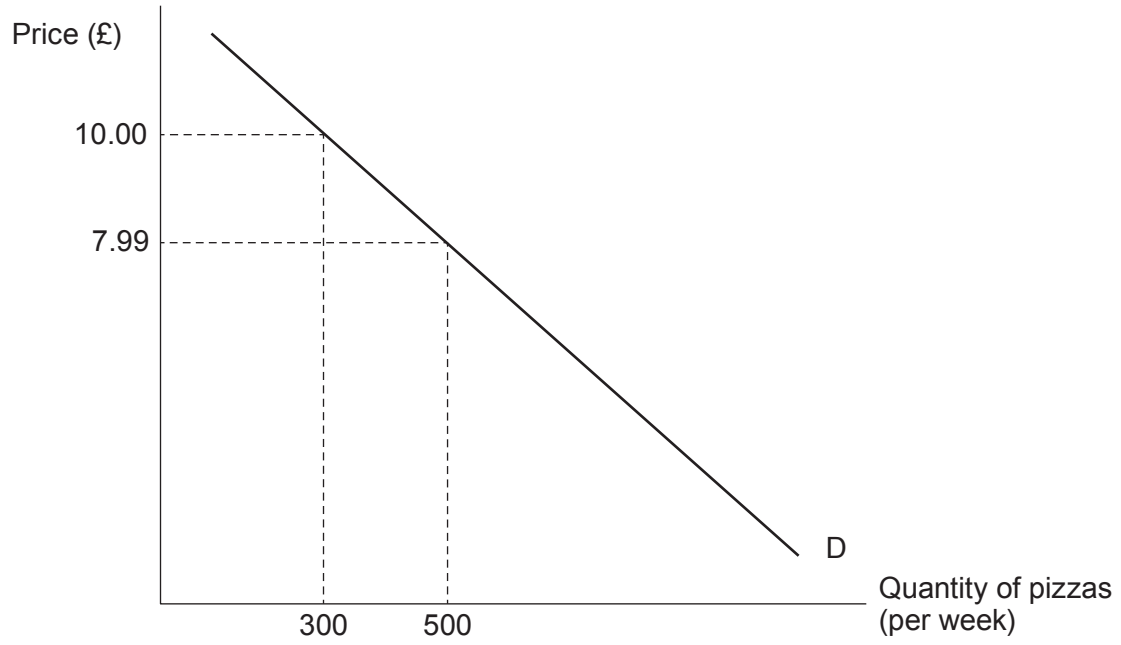
E The products of George's Paints PLC and RuthBrush PLC have a cross elasticity of demand equal to zero

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Turn over.

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15. The diagram below shows a demand curve faced by a pizza delivery company in Newport.



If the company cuts the price of its pizzas from £10.00 to £7.99, this will: [1]

A Keep total revenue the same because demand is unitary price elastic

B Increase total revenue because demand is price inelastic

C Increase total revenue because demand is price elastic

D Decrease total revenue because demand is price inelastic

E Decrease total revenue because demand is price elastic

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SECTION B

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

16. In 2018 a report by Public Health Wales called 'Futures for Wales', outlined the long-term challenges which threaten the Welsh economy.

For example, it stated that Wales' ageing population poses a huge challenge to the Health Service. By 2066, a 65-year-old man can expect to live to the age of 90 and a 65-year-old woman to the age of 92. According to the report, elderly people put a greater strain on the NHS and social care services because they have increasingly complex care needs, and patients are more likely to need lengthier and more frequent hospital stays.

There are also expected to be fewer working age people to pay taxes to fund those services as the birth rate declines. The report suggests that the Government will soon have a choice to make: providing the same level of service and raising taxes **or** providing fewer services and not changing tax rates.

(a) Using an example from the data, describe the concept of opportunity cost. [2]

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(b) Using the data, consider whether the population changes will lead to an outward shift in Wales's production possibility frontier (PPF). [8]

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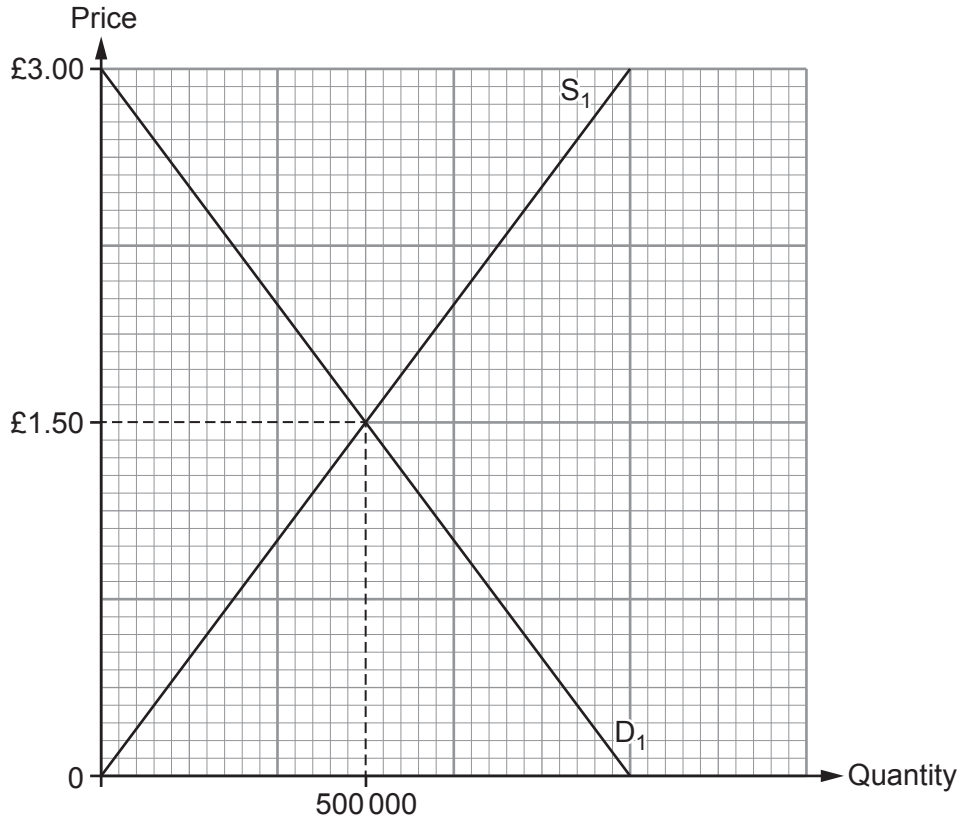
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17. The diagram below shows the UK market for vanilla ice cream.



(a) Calculate the consumer surplus in the UK vanilla ice cream market. [1]

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A drought in Madagascar, the world's largest producer of vanilla pods, causes the price of vanilla extract to increase significantly. Vanilla extract is used to flavour vanilla ice cream. As a result, the production costs for vanilla ice cream manufacturers increase by 50p per unit.

(b) (i) Adapt the diagram above to reflect the 50p per unit increase in the production costs for vanilla ice cream. [2]

(ii) On the diagram, shade in the producer surplus in the UK vanilla ice cream market **after** the change. [1]

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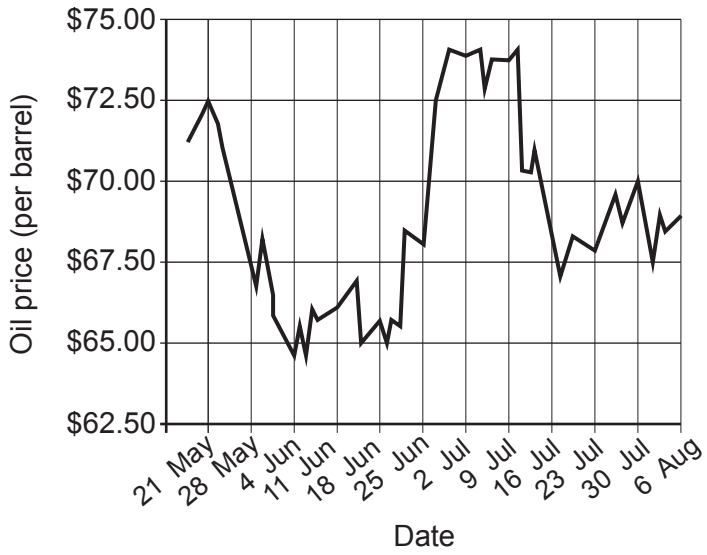
(c) Consider whether vanilla pods and vanilla ice cream should be considered complementary goods. [6]

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18. The graph below shows oil price (per barrel) for the 3 months between May and August 2018. The price volatility was caused by many factors including a US-China trade row and a large increase in oil production in Saudi Arabia.



(a) Explain why volatile prices can lead to market failure. [2]

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(b) Using a maximum-price diagram, discuss the effects on consumers and firms of introducing a maximum-price of $67 per barrel of oil. [10]

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19. Corporation tax is a major source of tax revenue for most countries. In the UK, for example, corporation tax raised nearly £56 bn in the financial year 2016–17. It is a direct tax which firms must pay as a proportion of their profit.

Corporation tax is often reported in the media because of allegations of tax avoidance by major transnational businesses. For example, it was widely reported that Amazon UK Services paid just £4.6 m in corporation tax in 2017. An Amazon UK spokesperson said it paid all the tax it was required to "in the UK and every country where we operate".

The table below shows selected countries' corporation tax rates in 2017.

Country	Corporation tax rate
Ireland	12.5%
Switzerland	17.95%
UK	19%
Sweden	22%
Austria	25%
Germany	29.65%

Using a Laffer curve diagram, and with reference to the data, explain how decreasing the corporation tax rate could increase tax revenue for the UK Government. [8]

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END OF PAPER

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