Surname	Centre Number	Candidate Number
First name(s)		2

GCE AS/A LEVEL

S23-2520U10-1

2520U10-1

MONDAY, 15 MAY 2023 – 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	**7**	
17	**7**	
18	**10**	
19	**16**	
Total	**55**	

2520U101
01

ADDITIONAL MATERIALS

A calculator.

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 need for clear and accurate written communication.

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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. Rational consumers seek to maximise their: [1]

A Profit

B Marginal private benefits

C Utility

D Marginal social benefits

E Revenue

2. Which one of the following is an injection into the circular flow of income? [1]

A Consumption

B Taxation

C Income

D Exports

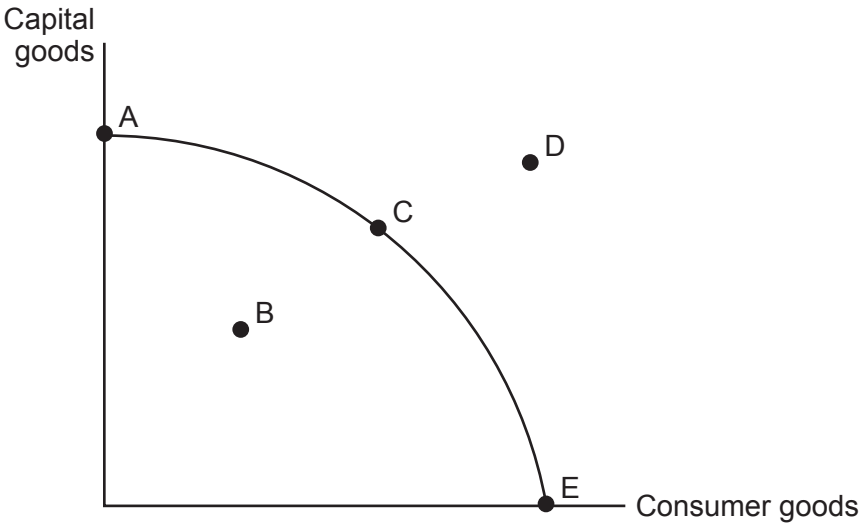
E Saving

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Questions 3 and 4 refer to the diagram below.

The diagram below shows a production possibility frontier (PPF) for an economy.



3. Which one of the following correctly describes the relevant point labelled on the diagram? [1]

A	Efficient	Attainable
B	Inefficient	Unattainable
C	Inefficient	Unattainable
D	Efficient	Attainable
E	Efficient	Unattainable

4. Which one of the following can be concluded from the diagram? [1]

A The opportunity cost of increasing production of consumer goods is constant

B The rate of future economic growth will be the highest at point E

C The factors of production in this economy are perfectly substitutable

D The rate of future economic growth will be the highest at point B

E The opportunity cost of moving from point B to point C is zero

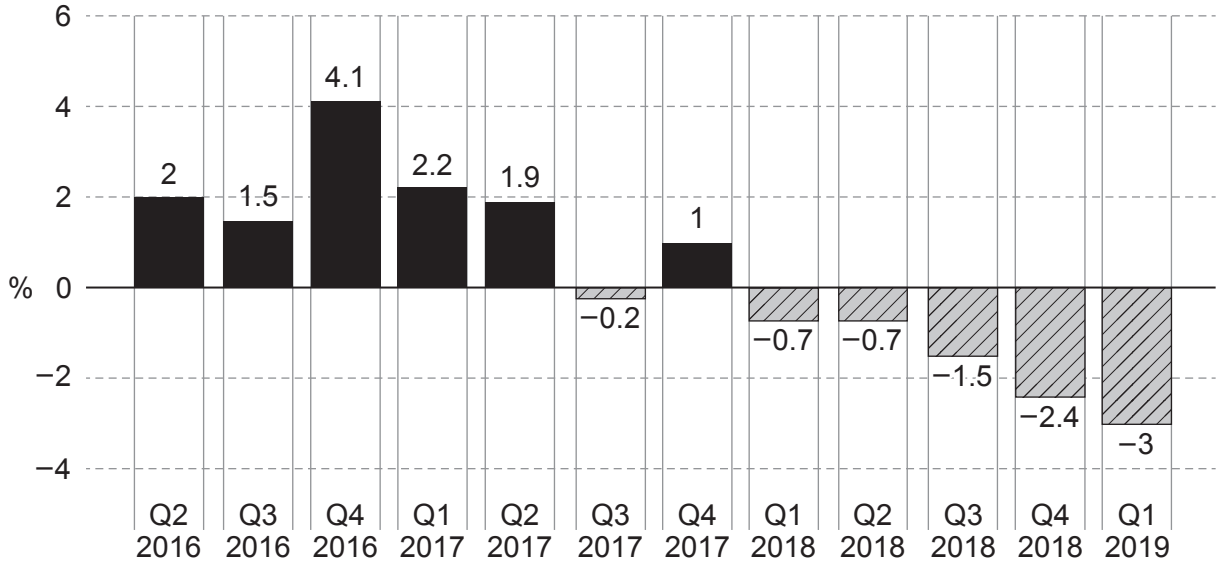
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Turn over.

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5. The chart below gives information on the quarterly percentage change in average house prices in Australia from mid-2016 (Q2) to the beginning of 2019 (Q1).

Quarterly percentage change in average house prices in Australia



Source: TradingEconomics.com

From the chart it can be concluded that, over the period shown, average house prices in Australia: [1]

A Fell in Q1 2017

B Were at their highest in Q4 2016

C Were unchanged in Q2 2018 from Q1 2018

D Were at their highest in Q4 2017

E Were 3% lower in Q1 2019 than in Q2 2016

6. Across Europe, milk prices rose by 50% in 2021. What was most likely to have caused this price rise? [1]

A Increased demand for non-dairy milk substitutes

B Decreased tariffs on fuel used by dairy farmers

C Increased costs of fertiliser and animal feed

D Decreased wage rates for dairy farm workers

E Increased surpluses of milk around the world

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7. The government reduces the amount of welfare payments (Jobseeker's Allowance) that is paid to its unemployed citizens. As a result, businesses see more people applying for their job vacancies.

This is an example of which economic concept? [1]

A Workplace benefits

B The National Living Wage

C Demand-side fiscal policy

D The Laffer curve

E Incentive to work

8. A government report found that expenditure on food would increase by $0.54 in Tanzania and by $0.02 in the USA if household incomes rose by $1 in each country.

Which one of the following can be concluded from the data? [1]

A Food is an inferior good in the USA

B Demand for food is more income inelastic in the USA than in Tanzania

C Food is a substitute good in the USA

D Demand for food is more price elastic in Tanzania than in the USA

E Food is an inferior good in Tanzania

9. Which one of the following would be most likely to cause an increase in an economy's level of aggregate demand? [1]

A An increase in the value of the economy's trade deficit

B An increase in the economy's base interest rate

C An increase in the economy's unemployment rate

D An increase in the value of the economy's budget deficit

E An increase in the economy's rate of corporation tax

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10. The table below shows the annual percentage increase in the UK National Living Wage (NLW) rate for workers aged 25 and over. It also shows the annual inflation rate, from April 2019 to April 2021.

Date	Percentage increase in the UK NLW (aged 25 and over)	Annual inflation rate
April 2019	4.9%	2.1%
April 2020	6.2%	0.8%
April 2021	2.2%	1.5%

Over the period shown, for workers earning the UK National Living Wage: [1]

A Real incomes rose most in April 2020

B Money incomes rose by 2.8% in April 2019

C Average prices fell in April 2020

D Average prices were at their highest in April 2019

E Real incomes rose by 3.7% in April 2021

11. In 2019, almost 38% of all US cinema ticket sales were to see Disney movies. When Disney negotiated the rights to show *Star Wars: The Last Jedi* with cinemas, it insisted the cinemas give them 65% of ticket revenue from the film, a new high for the industry. At the same time, some commentators complained that the quantity and quality of movies made by Disney had fallen.

This may be an example of market failure caused by: [1]

A Monopoly power

B Income inequality

C Volatile prices

D Demerit goods

E Public goods

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12. Which one of the following policies would be expected to reduce the level of unemployment in the long run?

[1]

A An increase in sales taxes

B Increasing labour market flexibility

C Reduction in import tariffs

D Increasing interest rates

E Raising National Insurance contributions

13. If there was a significant outflow of the Pound Sterling from the UK, which one of the following would be most likely to occur? [1]

A The price of UK exports would rise

B There would be an appreciation of the Pound Sterling

C There would be a fall in the value of the exchange rate of the Pound Sterling

D Interest rates would fall

E The UK government's budget deficit would worsen

14. In November 2021, the price of coal rose to its highest level since 2009. This was a result of increased demand from electricity producers, who switched to using coal from natural gas, after the price of natural gas doubled. A coal industry analyst said that coal production could not respond quickly enough to the increased price, as underinvestment in recent years had reduced the ability of coal producers to quickly increase their output. [1]

This implies that:

A The supply of natural gas is relatively price elastic

B Coal and natural gas have a negative cross elasticity of demand

C The demand for natural gas is perfectly price inelastic

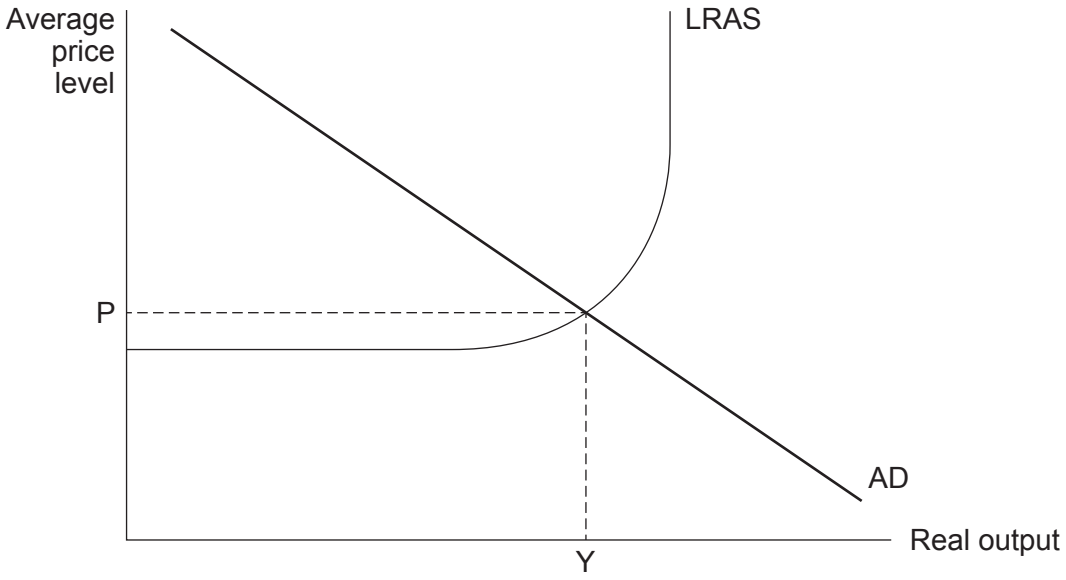
D The demand for coal is relatively price elastic

E The supply of coal is relatively price inelastic

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15. The aggregate demand and aggregate supply diagram below represents an economy in equilibrium. [1]



All other things being equal, improvements in technology throughout the economy will most likely lead to:

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

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SECTION B

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

16. The table below shows the price that a student is **willing** to pay to make repeated visits to an indoor go-karting centre in Cardiff over her summer holiday:

Visits to the go-karting centre	Price the student is willing to pay (£)
1st	20
2nd	18
3rd	14
4th	9
5th	3

(a) With reference to the data, outline what is meant by the term 'diminishing marginal utility'. [2]

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The actual price of a visit to the indoor go-karting centre is £10 per person.

(b) Calculate the student's total consumer surplus from her visits to the centre over her summer holiday. [2]

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The go-karting centre finds that at a price of £10 per person, they are always fully booked and must turn customers away.

(c) Explain how the price of a visit to the go-karting centre should change to allocate resources more efficiently. [3]

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17. The southern Andalusia region of Spain is home to the world's largest olive oil industry, accounting for about half of global output. The price of olive oil fell by 44% from autumn 2018 to autumn 2019 after a record harvest.

Additionally, in September 2019, the USA imposed 25% import tariffs on several European agricultural products, including Spanish olive oil. At this time, only 5% of the olive oil consumed in the USA was produced in the USA.

(a) With reference to the data, outline why the prices of agricultural goods, such as olive oil, tend to be volatile. [4]

(b) Explain **one** likely benefit to the USA of imposing a tariff on Spanish olive oil. [3]

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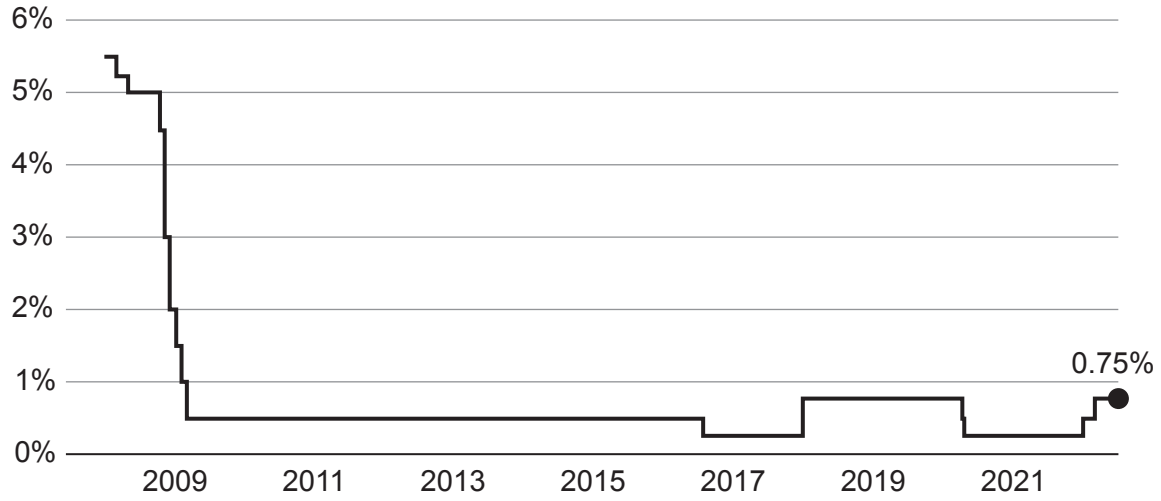
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18. The chart below shows the base interest rate set by the Bank of England's Monetary Policy Committee (MPC) between January 2008 and March 2022.



Source: Bank of England

In March 2022, the MPC raised the base interest rate to 0.75%. They stated that policymakers would have to balance further rises in the base rate to control inflation against cutting the base rate to support growth.

(a) **Apart from conducting monetary policy**, explain **one** role of the Bank of England. [2]

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(b) Explain **two** factors the MPC is likely to take into account when setting the base interest rate and evaluate how useful each factor may be to the MPC. [8]

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19. In 2020–21, median household disposable income in the UK was £31 385, and mean household disposable income was £37 622 (Source: ONS).

(a) With reference to the data, outline why there was a difference between the median value of household disposable income and the mean value of household disposable income. [3]

The table below shows average household income before direct taxation and average household income after direct taxation by quintile group for the UK in 2020–21.

Quintile	Average household income before direct taxation (£)	Average household income after direct taxation (£)
Bottom	15 463	14 196
2nd	27 201	23 378
3rd	38 148	31 503
4th	52 673	41 901
Top	110 132	78 131

(b) With reference to the data, describe what is meant by 'progressive taxation'. [3]

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(c) **Apart from progressive taxation**, discuss policies the UK Government could use to reduce income inequality within the economy. [10]

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END OF PAPER

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