Surname	StemUp Model Solution	Centre Number	Candidate Number
First name(s)			2

GCE AS/A LEVEL

S25-2520U10-1

2520U10-1

TUESDAY, 13 MAY 2025 – 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	**8**	
17	**10**	
18	**12**	
19	**10**	
Total	**55**	

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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 necessity for good English and orderly, clear presentation in your answers.

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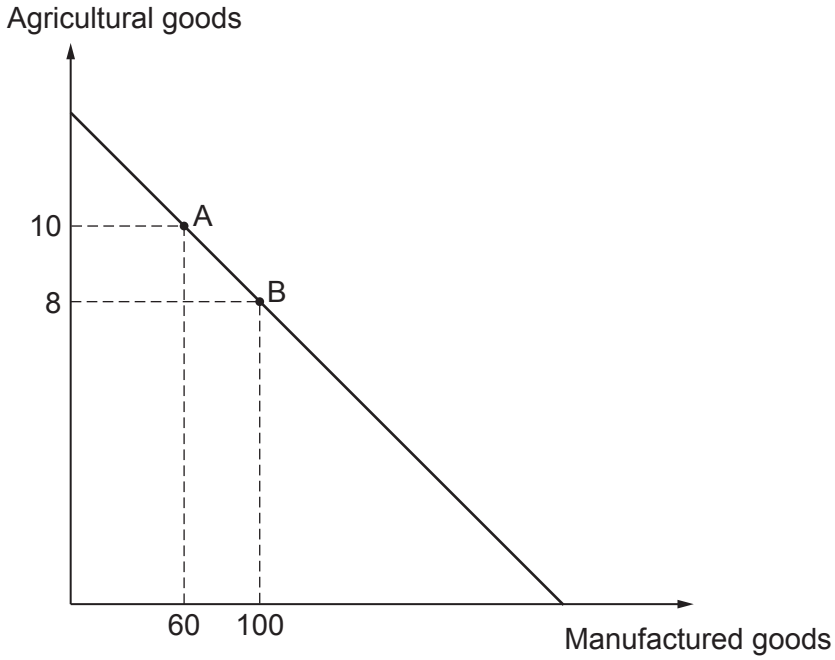
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SECTION A

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.

Questions 1 and 2 relate to the production possibility frontier (PPF) diagram for a country below.



1. Complete the following statement:

A straight line PPF indicates that … [1]

A as consumers buy more agricultural goods, they experience the law of diminishing marginal utility.

B there is imperfect factor substitution.

C the ratio of manufactured goods to agricultural goods is 1:1.

D the opportunity cost of increasing the number of manufactured goods is constant.

E it takes the same number of resources to make 1 agricultural good as it does to make 1 manufactured good.

D

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2. If the country decides to specialise completely in the production of manufactured goods, calculate the maximum number of manufactured goods that could be made. [1]

A 40

B 100

C 220

D 260

E Impossible to tell

D

3. Identify the correct term that completes the following statement.

'Air is often cited as an example of a(n) … because it is generally abundant and individuals can breathe it without incurring any cost.' [1]

A complementary good

B economic good

C free good

D demerit good

E capital good

C

4. The demand for a service rises and, at the same time, the supply falls.
Ceteris paribus, what is the impact on the equilibrium price and quantity? [1]

	Price	Quantity
A	Rise	Rise
B	Fall	Fall
C	Rise	Fall
D	Fall	Rise
E	Rise	Impossible to tell

E

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5. According to the International Energy Agency (IEA), global demand for coal reached a record high at the start of 2023. The quantity demanded had increased by 1.4% in the previous 12 months. The global coal price fell significantly from $400 per tonne to just $145 per tonne in the same time period.

Using the data, calculate the PED value to 2 decimal places. [1]

A –0.01

B –0.02

C –0.22

D –4.54

E –45.54

B

6. According to academic research in Turkey, the income elasticity of demand for coal has been estimated at +4.8. Assuming that the demand for coal in Turkey rose by 1.4%, calculate the % change in income to 2 decimal places. [1]

A +0.29%

B +2.92%

C +3.42%

D +6.72%

E –2.92%

A

7. 'Its consumption provides benefits to society beyond those recognised by the individual consumer, leading to underconsumption in the free market.'

What economic concept is being described here? [1]

A An absence of private property rights

B Income inequality

C The benefits system

D Merit goods

E Government failure

D

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8. In the circular flow of income model, what are the three injections? [1]

A Government expenditure, investment and exports

B Government expenditure, income and exports

C Government expenditure, income and imports

D Savings, investments and imports

E Income, investments and imports

A

9. Consider the following statements. [1]

Statement A

Government spending on routine maintenance and day-to-day operations is called capital expenditure.

Statement B

Indirect taxes are taxes levied on individuals or firms, and the burden cannot be shifted to someone else.

	Statement A	Statement B
A	True	True
B	True	False
C	False	True
D	False	False
E	True	Impossible to tell

D

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10. Which of the following is an approximate figure for the UK government's annual tax revenue received? [1]

A £1 100 000 (£1.1 m)

B £110 000 000 (£110 m)

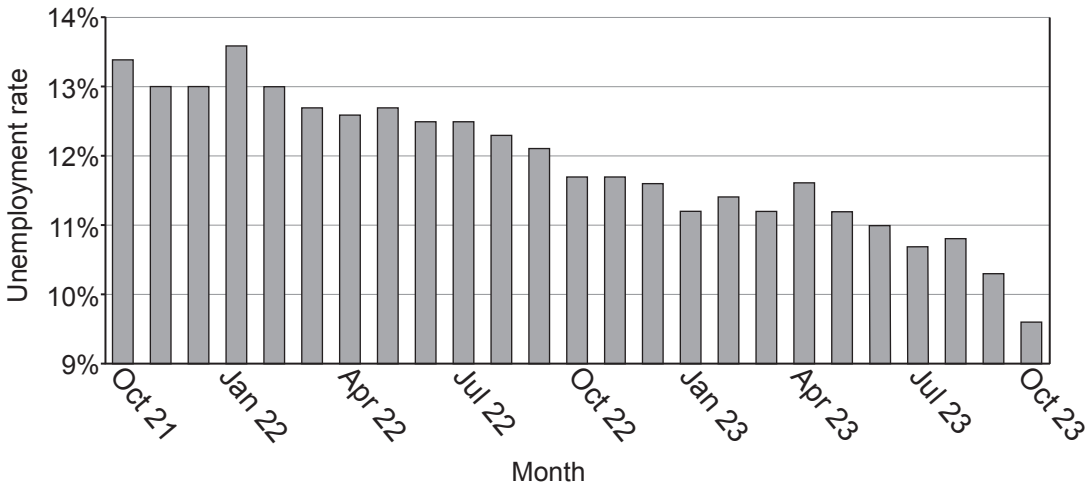
C £11 000 000 000 (£11 bn)

D £1 100 000 000 000 (£1.1 trn)

E £110 000 000 000 000 (£110 trn)

D

11. The chart below shows the unemployment rate for Greece between October 2021 and October 2023.



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

A Greece experienced negative economic growth throughout the time period.

B The unemployment rate was at its highest in January 2022, during this period.

C The inflation rate was falling between October 2021 and October 2023.

D Fewer Greeks were in work in October 2023 compared to October 2021.

E None of the above.

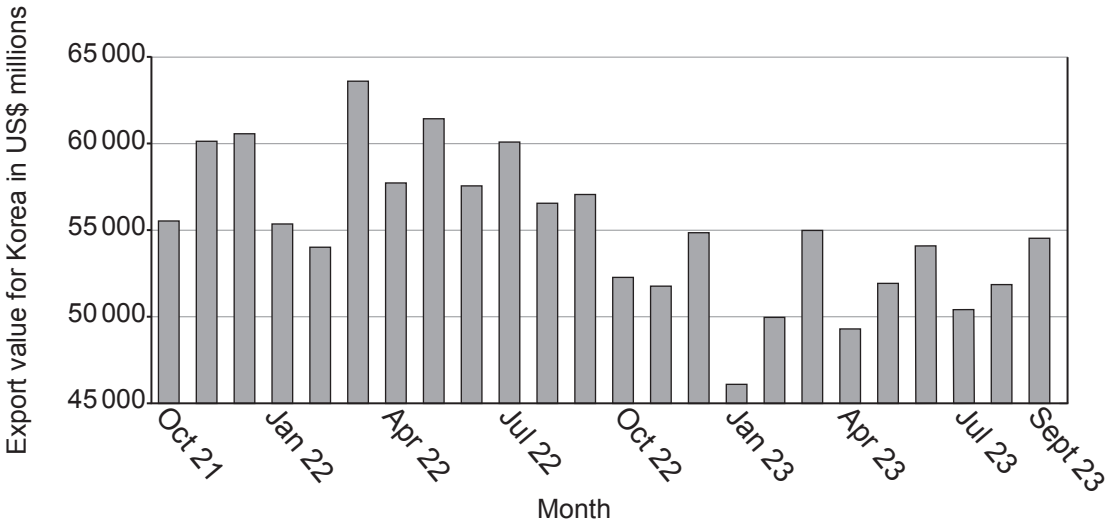
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12. The chart below shows the value of exports for Korea between October 2021 and September 2023 in US$ millions.



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

A Korea experienced positive economic growth throughout the time period.

B Korea's exports were greater than its imports throughout the time period.

C Korea's inflation rate was rising between October 2021 and September 2023.

D The value of Korea's currency (the won) appreciated against the US$ throughout this time period.

E None of the above.

E

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13. The Laffer curve shows the relationship between which two variables? [1]

A Real GDP and price level

B Unemployment rate and inflation rate

C Tax rate and tax revenue

D Cumulative percentage of the population and cumulative percentage of income

E Price and quantity

C

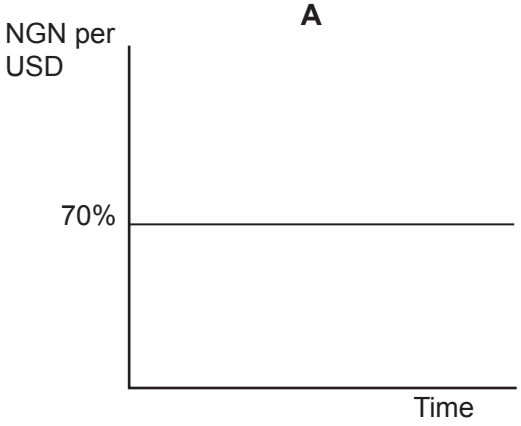
14. The Nigerian naira (NGN) lost 70% of its value against the US dollar (USD) over the five-year period 2019 to 2024.
Which one of the charts opposite accurately reflects this description? [1]

E

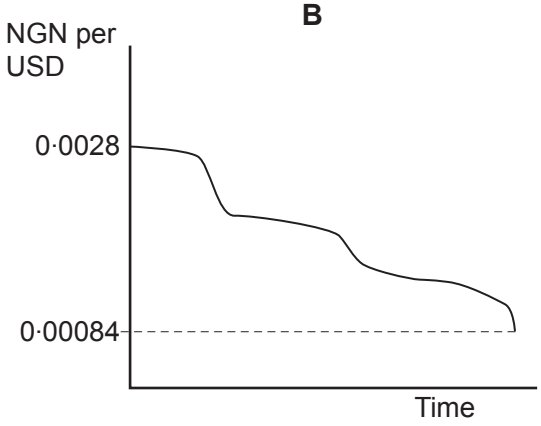
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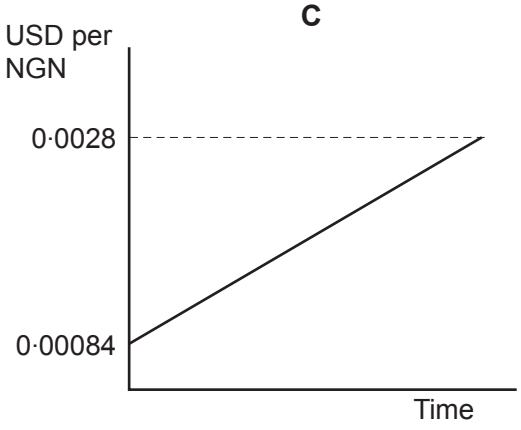
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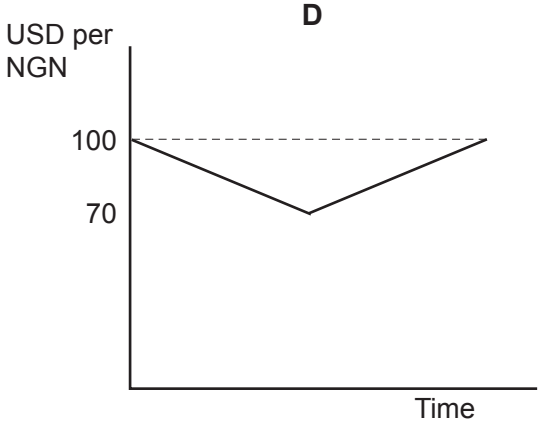
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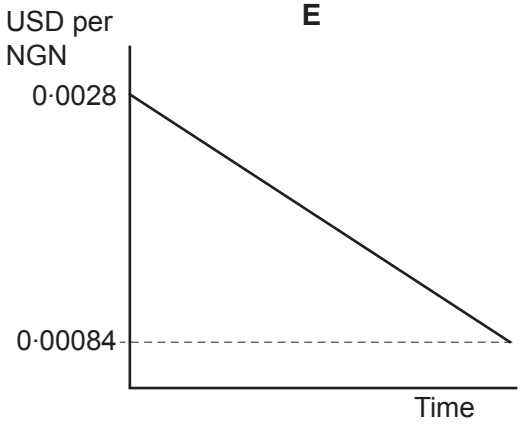
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D



E



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15. The table below shows the monthly average GBP sterling effective exchange rate index. Jan 2005 = 100 (base).

Month/year	Value
Oct 2022	76.96
Nov 2022	78.11
Dec 2022	79.02
Jan 2023	78.27
Feb 2023	77.79
Mar 2023	78.26
Apr 2023	79.30
May 2023	80.10
Jun 2023	81.68
Jul 2023	82.55
Aug 2023	82.30
Sep 2023	82.40

Over the period shown, in which **single pair of consecutive months** did the GBP index experience a depreciation? [1]

A Oct 2022 – Nov 2022

B Dec 2022 – Jan 2023

C Feb 2023 – Mar 2023

D Jun 2023 – Jul 2023

E Aug 2023 – Sep 2023

B

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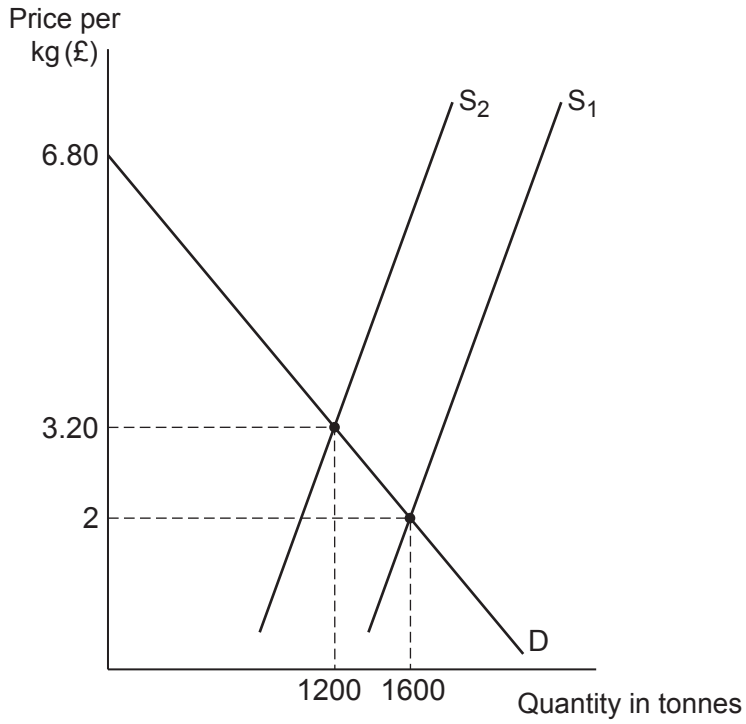
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SECTION B

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

16. The diagram below represents the demand and supply for grapes in the UK. It shows the change in the price of grapes as a result of a poor harvest.



(a) Explain why supply curves will normally slope upwards from left to right. [2]

Producers aim to maximise profit, so a higher price gives them an incentive to supply more because each extra unit sold now earns more profit. Also, in the short run marginal cost rises as output expands, so firms need a higher price to cover the higher MC of extra units.

(b) Calculate the value of consumer surplus at the new equilibrium price of £3.20. [2]

CS = ½ × base × height = ½ × 1200 tonnes × (£6.80 − £3.20)

= ½ × 1 200 000 kg × £3.60 = £4 320 000 ÷ 2

Consumer surplus = £2 160 000 (i.e. £2160 thousand)

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(c) With reference to both the **income effect** and the **substitution effect**, explain how consumers of grapes are likely to respond to a price increase. [4]

Income effect: a rise in price reduces consumers' real income (purchasing power). As grapes are a normal good, when their price rises consumers can afford fewer grapes with the same money income, so they buy fewer grapes.

Substitution effect: a rise in price makes the good more expensive relative to substitutes, so consumers switch away from it. Grapes are now relatively dearer than other fruit (e.g. apples, strawberries) or snacks, so consumers substitute these for grapes. Both effects reduce the quantity of grapes demanded (a movement up the demand curve).

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17. The minimum wage is the same in all regions of the UK.

Table 1: Minimum hourly wage rates (April 2023)

These rates are for the National Living Wage (for those aged 23 and over) and the National Minimum Wage (for those of at least school leaving age.) The rates change on 1 April every year.					
	23 and over	21 to 22	18 to 20	Under 18	Apprentice
April 2023 (Hourly rate)	£10.42	£10.18	£7.49	£5.28	£5.28

Table 2: Average (median) gross weekly earnings by Welsh local regions (Dec 2022)

South-East Wales	£606.80
South-West Wales	£593.00
North Wales	£584.30
Mid Wales	£574.80
Welsh national average	**£598.10**

Table 3: Unemployment rate by Welsh local regions (Dec 2022)

South-East Wales	3.7%
South-West Wales	3.7%
North Wales	2.3%
Mid Wales	4.0%
All regions in Wales	**3.5%**

Using the data and your own knowledge, discuss the advantages of a regional minimum wage for Wales. [10]

A regional minimum wage would set different wage floors for each Welsh region instead of the single UK rate of £10.42 for over 23s (Table 1).

First, it would reflect regional differences in earnings and the cost of living. Median weekly earnings range from £606.80 in South-East Wales to only £574.80 in Mid

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Wales (Table 2), a gap of £32 a week. A single national rate is a much bigger share of typical pay in Mid Wales than in the South East. A higher minimum in South-East Wales, where living costs (e.g. rents around Cardiff) are higher, would protect workers' purchasing power and reduce in-work poverty, while a lower rate in Mid Wales would better match local wage levels.

Second, it could reduce unemployment where it is highest. Mid Wales has the highest unemployment rate at 4.0% compared with 2.3% in North Wales (Table 3). A minimum wage set above the market-clearing wage creates excess supply of labour, as firms move up their demand for labour curve and employ fewer workers. A lower regional minimum in Mid Wales would narrow this gap, cutting firms' labour costs so that they demand more workers. Lower costs could also attract firms to relocate or invest in Mid Wales, creating jobs and regional economic growth, which would reduce regional disparities across Wales.

However, there are disadvantages. Firstly, a regional system is administratively complex: boundaries must be drawn, several rates monitored and enforced, raising government costs and confusing firms that operate in more than one region. Secondly,

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18. Table 4 shows an economy's aggregate demand (AD) function by its components in 2023 and 2024.

Table 4

(All figures in $bns)	Year 2023	Year 2024
Total AD	2200	2430
Consumption	1320	1480
Private domestic investment	220	I
Net exports	–100	–70
Government expenditure	G	780

(a) Calculate the values for G and I. [2]

G = 2200 – 1320 – 220 – (–100) = $760bn

I = 2430 – 1480 – 780 – (–70) = $240bn

(b) Explain how both wealth and expectations can affect the level of consumption in an economy. [4]

Wealth is the stock of assets owned by households, such as houses, shares and savings. If wealth rises, for example when house prices increase, households feel better off and more confident, so they spend more of their income: a positive wealth effect which raises consumption.

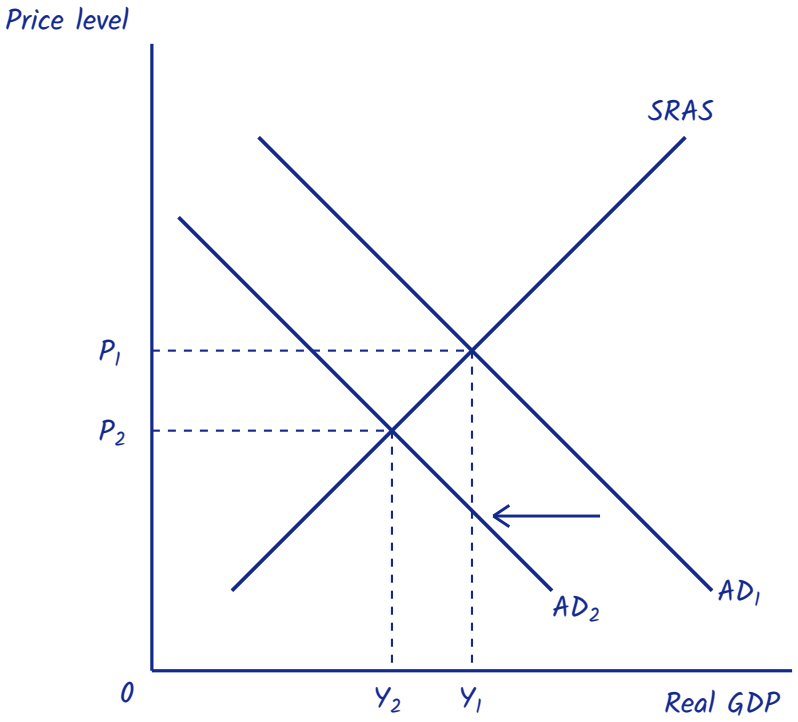
Expectations are households' views about future economic conditions such as income, job security and prices. If consumers are optimistic, expecting pay rises and secure jobs, they save less and spend more now, so consumption rises; pessimism has the opposite effect.

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(c) Using an AD/AS diagram, explain how contractionary fiscal policy can lead to a fall in economic growth. [6]



Contractionary fiscal policy is when the government raises taxes and/or cuts government spending, usually to slow down an overheated economy and reduce inflationary pressure or a budget deficit.

For example, a rise in income tax leaves households with less disposable income, so consumption (C) falls. A cut in G directly reduces a component of AD = C + I + G + (X – M). AD therefore shifts left from AD_1 to AD_2, made larger by the negative multiplier effect. As the diagram shows, with lower demand firms cut output, so real GDP falls from Y_1 to Y_2 (and the price level falls from P_1 to P_2). A fall in real GDP means lower economic growth.

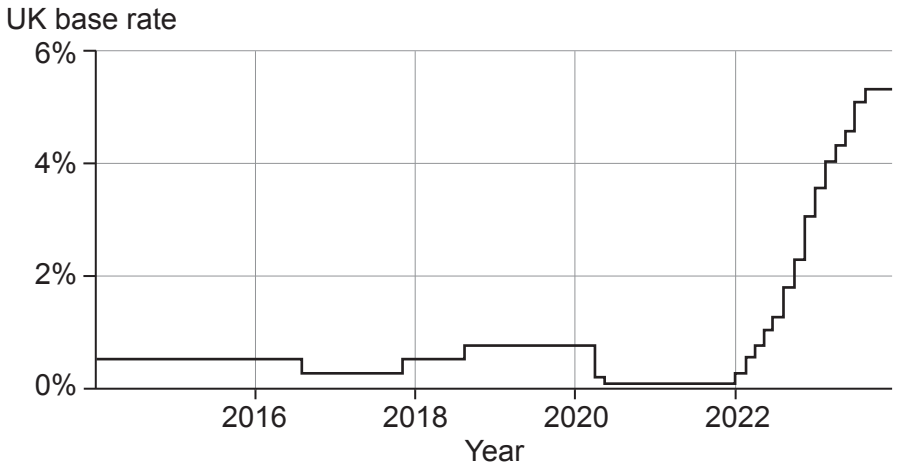
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19. Figure 1: UK base rate (January 2014–December 2023)



The Bank of England has an important role to play in creating monetary and financial stability, and fulfilling its status as **lender of last resort**.

In August 2023, the Bank of England raised the base rate to 5.25%. This was the highest level for 15 years. In December 2023, the members of the Bank of England's Monetary Policy Committee (MPC) voted (six to three) to keep the base rate constant at 5.25%. Three of the nine MPC members had voted to increase the base rate.

At the time, the UK's inflation rate had decreased from 10.1% in January 2023 to 3.9% in December 2023, and economic growth was slowing. Many economic journalists wrote that the decision over whether to increase the base rate or not was 'finely balanced'.

(a) Outline what is meant by the Bank of England's status as a lender of last resort. [2]

It means the Bank of England will provide emergency liquidity (loans) to banks that are solvent but short of cash when no one else will lend to them. This maintains confidence in the financial system and prevents a bank run spreading into a systemic financial crisis.

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(b) Discuss whether the Bank of England's MPC should only consider the current inflation rate when setting the base interest rate. [8]

The MPC has a symmetric inflation target of 2% CPI (±1%), so current inflation is clearly important. In December 2023 inflation was 3.9%, still above target, so a higher base rate makes borrowing dearer and saving more attractive, reducing consumption and investment. This shifts AD left, reduces demand-pull pressure and brings inflation back towards 2%, protecting households' purchasing power and anchoring expectations.

However, the MPC should not only consider current inflation. Firstly, monetary policy works with a time lag of around 18 to 24 months, so the MPC must set rates on forecast inflation. Inflation had already fallen from 10.1% to 3.9% in 2023, so raising rates further, as three members wanted, risks overshooting below target once earlier rises take effect.

Secondly, economic growth was slowing. The base rate of 5.25% was the highest for 15 years, and further rises could push the UK into recession and raise unemployment. The MPC must also consider wage growth (cost-push and demand-pull pressure), spare capacity, house prices, the exchange rate and confidence.

Overall, current inflation is the starting point, but given time lags and slowing growth

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END OF PAPER

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Question number	Additional page, if required. Write the question number(s) in the left-hand margin.
17	a higher minimum in South-East Wales would raise firms' costs of production, especially for small businesses with thin margins, which could lead to lay-offs and higher unemployment there, worsening the 3.7% rate. The size of this effect depends on how far above the equilibrium wage the rate is set and on the wage elasticity of demand for labour. Also, a lower wage in Mid Wales may encourage workers to migrate to higher wage regions, causing labour shortages in Mid Wales and widening the gap rather than closing it. Overall, a regional minimum wage has clear advantages for Wales given the data, but it is most likely to succeed only if the regional differences are kept small, so that the gain in employment in Mid Wales is not offset by job losses and migration elsewhere.
19(b)	the MPC should weigh a range of indicators, which explains why the 6 to 3 decision was 'finely balanced'.

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