



GCE AS/A LEVEL – **NEW**

2520U10-1

ECONOMICS – AS UNIT 1

INTRODUCTION TO ECONOMIC PRINCIPLES

MONDAY, 15 MAY 2017 – MORNING

1 hour 15 minutes plus your additional time allowance

Surname _____

Other Names _____

Centre Number _____

Candidate Number 2 _____

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-15	15	
16	6	
17	12	
18	14	
19	8	
Total	55	

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink, black ball-point pen or your usual method.

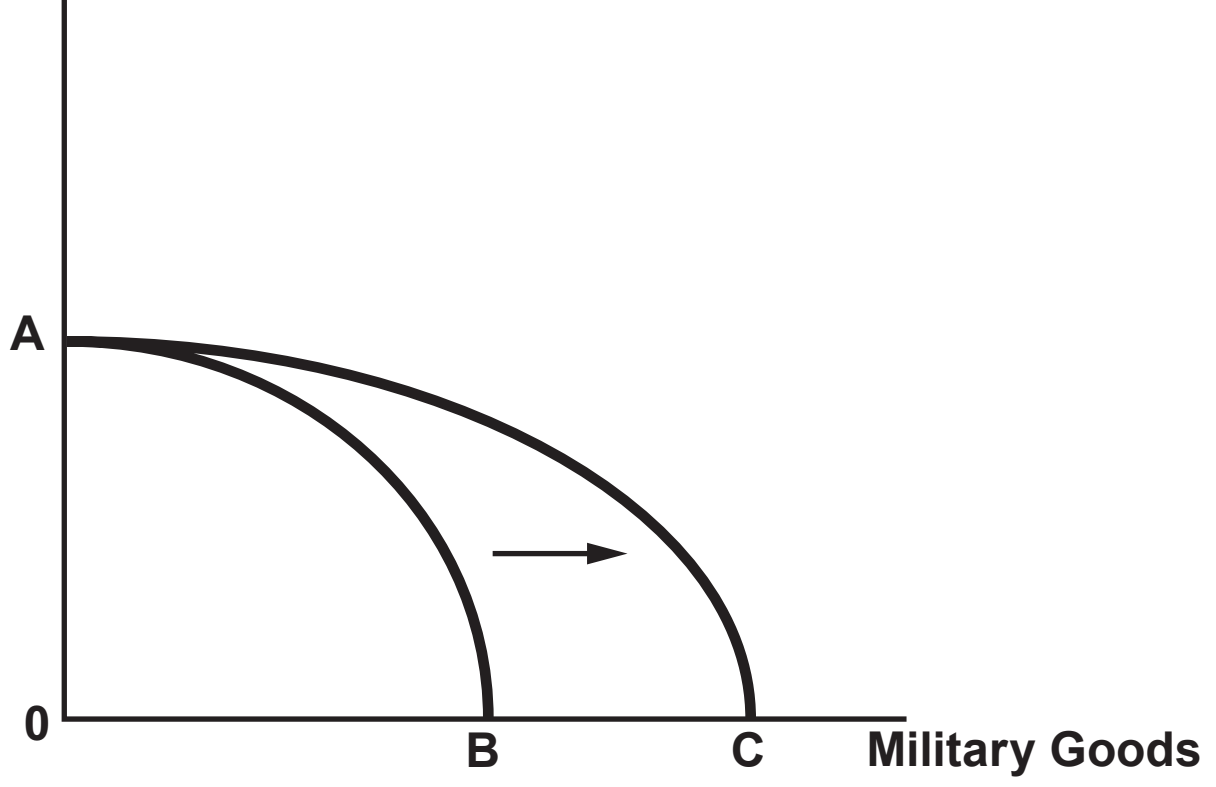
Write your name, centre number and candidate number in the spaces provided on the front cover.

Answer ALL questions in the spaces provided in this booklet. You may use continuation paper on pages 35 and 36 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.

Agricultural Goods



SECTION A

Answer ALL the questions in the spaces provided.

1. Production Possibility Frontier AB has changed to AC. This is most likely to have been caused by: [1]

ANSWER
Tick ONE box only

- | | | |
|----------|---|--------------------------|
| A | War breaking out leading to a reallocation of resources towards military goods | <input type="checkbox"/> |
| B | Destruction of factories during wartime | <input type="checkbox"/> |
| C | An increase in productivity in the military goods industry | <input type="checkbox"/> |
| D | A population increase | <input type="checkbox"/> |
| E | A decrease in the number of agricultural goods produced | <input type="checkbox"/> |

2. Which of the following is a withdrawal from the circular flow of income of an economy? [1]

ANSWER
Tick **ONE** box only

- A** Spending on imports
- B** Spending on exports
- C** Consumption
- D** Welfare payments to households
- E** Investment

3. The largest component part of aggregate demand in the UK is: [1]

ANSWER
Tick **ONE** box only

- A** Spending on imports
- B** Spending on exports
- C** Consumption
- D** Welfare payments to households
- E** Investment

TABLE 1

Year	2013		2014		2015	
	Price	Index	Price	Index	Price	Index
Chewing Gum	80p	100	88p	X	Y	115

Questions 4 and 5 refer to Table 1 (opposite).

4. The correct figure for X is: [1]

ANSWER
Tick **ONE** box only

A 88

B 100

C 108

D 110

E 188

5. The correct figure for Y is: [1]

ANSWER

Tick ONE box only

A **£1.15**

B **£1.03**

C **98p**

D **95p**

E **92p**

6. Which of the following is an example of investment in the economic sense? [1]

ANSWER
Tick ONE box only

A A bank deposit account

B Building a new factory

C Buying a house

D Buying gold and silver

E Saving money

7. An increase in the level of investment in an economy will NOT lead to: [1]

ANSWER
Tick ONE box only

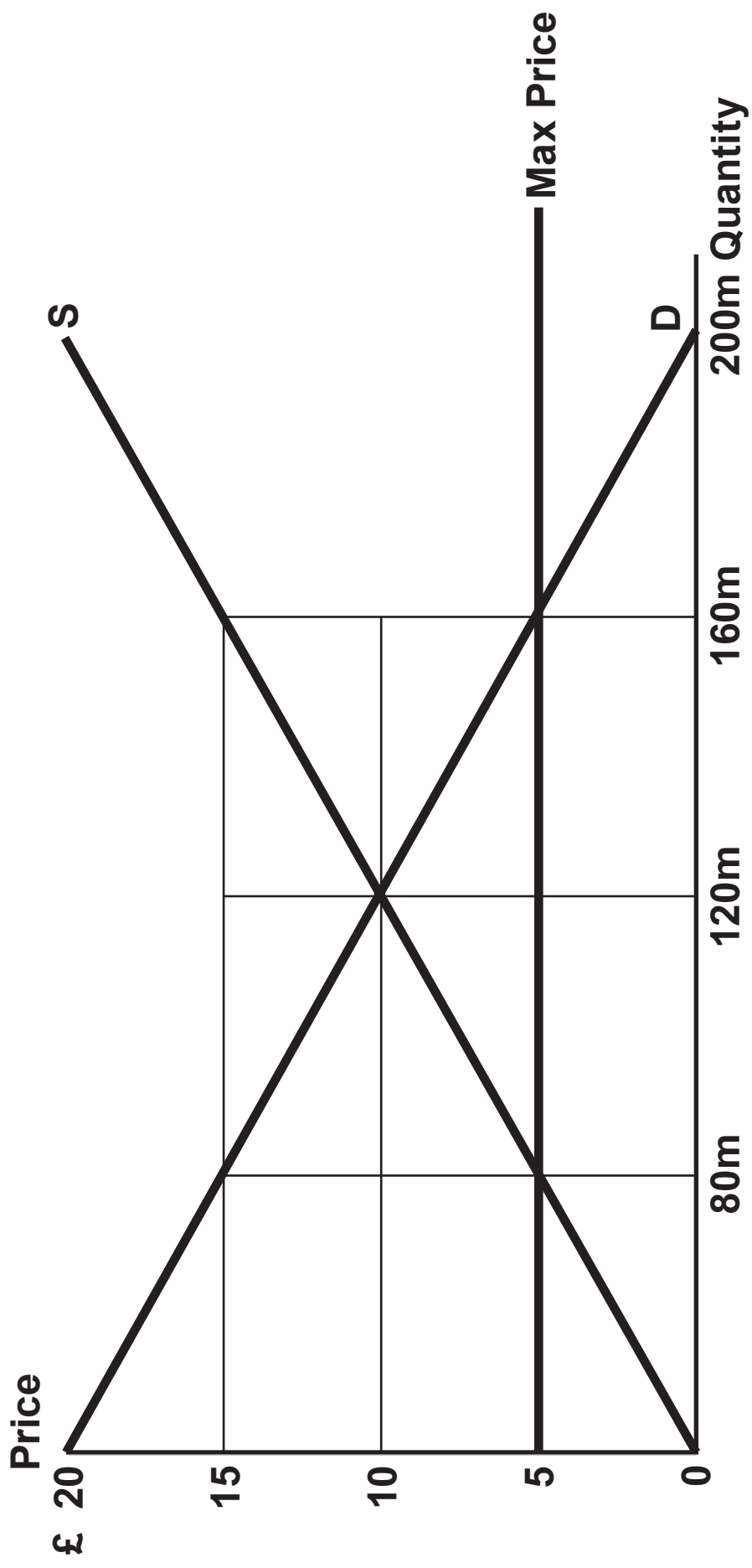
- | | | |
|----------|--|--------------------------|
| A | An increase in aggregate demand | <input type="checkbox"/> |
| B | A shift outwards of the production possibility frontier | <input type="checkbox"/> |
| C | Improvements in productivity | <input type="checkbox"/> |
| D | A shift leftwards of aggregate supply | <input type="checkbox"/> |
| E | A fall in the costs of production | <input type="checkbox"/> |

8. A professional rugby players' union negotiates a contract that dramatically increases all players' salaries. How would this influence the opportunity cost for a player who was considering giving up rugby to pursue a career in television and radio broadcasting? [1]

ANSWER

Tick ONE box only

- | | | |
|----------|--|--------------------------|
| A | It would increase the opportunity cost of continuing to play rugby | <input type="checkbox"/> |
| B | It would increase the opportunity cost of becoming a broadcaster | <input type="checkbox"/> |
| C | It would decrease the opportunity cost of becoming a broadcaster | <input type="checkbox"/> |
| D | It would not affect the opportunity cost of playing rugby or of broadcasting | <input type="checkbox"/> |
| E | It cannot be determined from the given information | <input type="checkbox"/> |



Questions 9 and 10 refer to the maximum price diagram opposite.

9. Calculate PRODUCER surplus BEFORE the imposition of the maximum price at £5: [1]

ANSWER

Tick ONE box only

A £2 000 m

B £1 200 m

C £1 000 m

D £800 m

E £600 m

10. Calculate CONSUMER surplus AFTER the imposition of the maximum price at £5: [1]

ANSWER**Tick ONE box only****A** £2 000 m**B** £1 200 m**C** £1 000 m**D** £800 m**E** £600 m

Questions 11 and 12 refer to the following extract:

During the summer, Iris sets up a lemonade stall on her street. On day one she sells 48 glasses of lemonade at a price of 40p each. That evening, her father tells her that if she wants to make more money she should increase her price to 50p. She takes his advice and on day two she sells 42 glasses.

11. Calculate price elasticity of demand (PED) for glasses of lemonade between day one and day two. [1]

ANSWER

Tick **ONE** box only

A -0.5

B 2

C -2

D 0.5

E -1.25

12. What was the difference in revenue between day one and day two? [1]

ANSWERTick **ONE** box only**A** £21.00 increase**B** £19.20 increase**C** £7.20 increase**D** £3.40 increase**E** £1.80 increase

13. Using the data below, which of the following countries has the largest GDP per person? [1]

ANSWER
Tick ONE box only

COUNTRY	GDP	POPULATION	
A	\$50 bn	2.5 m	<input type="checkbox"/>
B	\$100 bn	10 m	<input type="checkbox"/>
C	\$500 bn	25 m	<input type="checkbox"/>
D	\$1 000 bn	40 m	<input type="checkbox"/>
E	\$1 500 bn	750 m	<input type="checkbox"/>

14. Which of the following trade policies is unlikely to reduce the number of imports into a country? [1]

ANSWER
Tick ONE box only

A Appreciation of the exchange rate

B Increase the tariffs on imports

C Impose an embargo on imports

D Increase subsidies to domestic firms

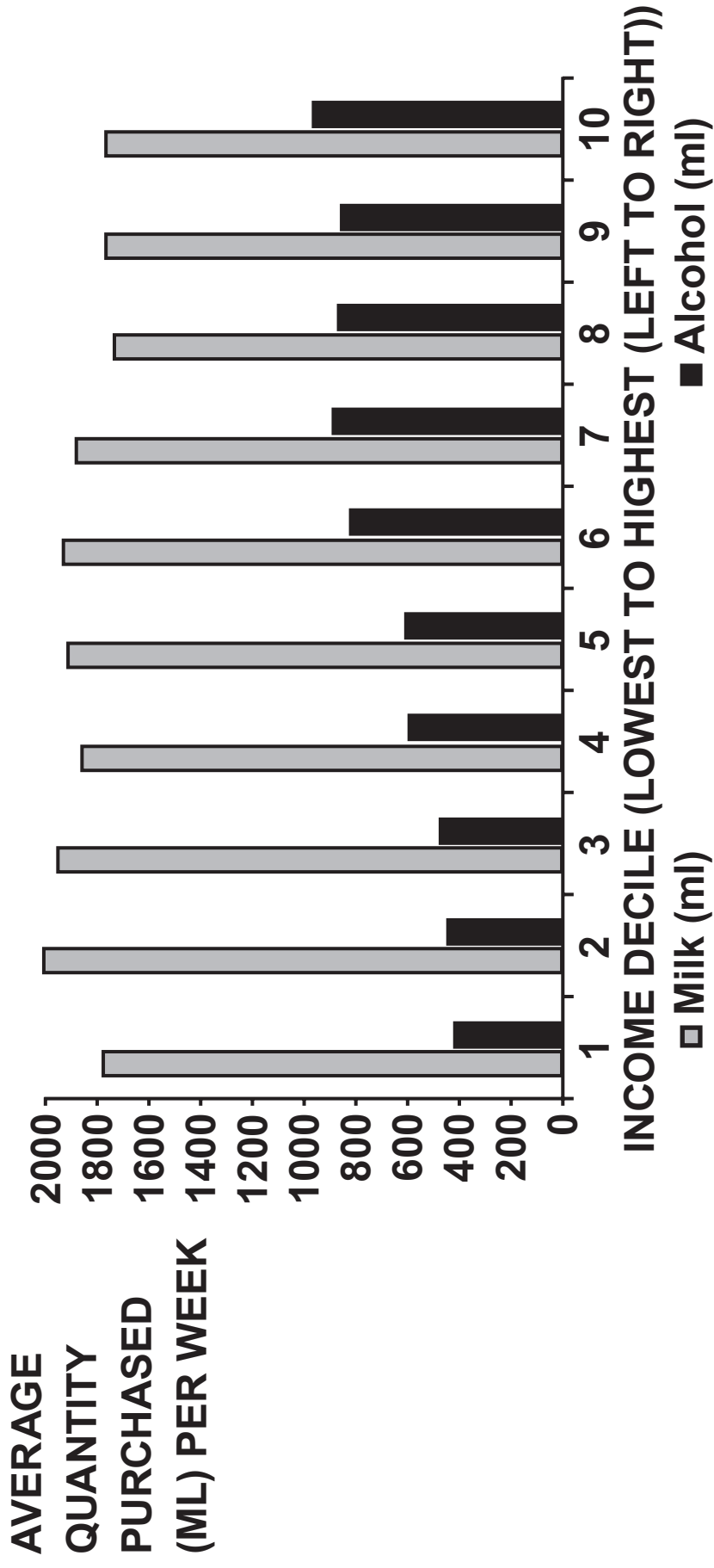
E Introduce import quotas

15. “Once a public good is produced, anyone can enjoy it, even those who did not pay for its consumption.” This statement describes which economic concept? [1]

ANSWER
Tick **ONE** box only

- A** An absence of private property rights
- B** Free-rider problem
- C** Government failure
- D** Perfect factor substitutability
- E** Asymmetric information

AVERAGE QUANTITY OF MILK AND ALCOHOL (PER WEEK) PURCHASED BY INCOME DECILE – 2013



17. **According to the Office for National Statistics, binge-drinking among young adults in Britain is falling. In 2005, the proportion of 16-24 year olds who were 'bingeing' at least once a week was 29%. That figure has now fallen to 18% in 2013.**

It is thought that increasing numbers of young adults aged 16-24 are now teetotal and drink no alcohol whatsoever, whereas many are simply drinking less when they go out. Public health campaigners such as Drinkaware will argue that the figures demonstrate the success of sensible drinking campaigns. Labelling of bottles, TV commercials and posters around university campuses are all good examples of recent campaigns.

Nevertheless, alcohol still remains the biggest single cause of death in under-60s in the UK. Drinking too much can contribute to a number of serious health conditions, including cancer, liver disease and heart disease. It is estimated that alcohol misuse costs the NHS in Wales about £109 m a year (source: BBC).

17(b) Using an appropriate diagram, discuss the extent to which public health campaigns alone can solve the market failure problem associated with alcohol consumption. [8]

DRAW YOUR DIAGRAM IN THE SPACE BELOW.

EXTRACT 1

TAX RATE	TAXABLE INCOME ABOVE YOUR PERSONAL ALLOWANCE
BASIC RATE 20%	£0 to £31 785 People with the standard Personal Allowance start paying this rate on income over £10 600.
HIGHER RATE 40%	£31 786 to £150 000 People with the standard Personal Allowance start paying this rate on income over £42 385.
ADDITIONAL RATE 45%	Over £150 000

EXTRACT 2

GROSS ANNUAL INCOME	TAXABLE INCOME	INCOME TAX PAID	NATIONAL INSURANCE CONTRIBUTION	NET ANNUAL INCOME
£22 244	£11 644	£2 329	£1 702	£18 213

18. The Personal Allowance is the amount of income you don't have to pay tax on. In an attempt to reduce income inequality within the UK, the Conservative Government raised the Personal Allowance to £10 600 per year in the tax year 2015/16. So far, however, they have decided not to increase the additional rate of income tax. EXTRACT 1 opposite shows the income tax rates in that year.

EXTRACT 2 opposite shows an annual wage slip for a newly qualified teacher in Wales during the tax year 2015/16.

(a) (i) Calculate the % of the teacher's gross annual income paid in income tax. [1]

(ii) How much would a person earning £10 000 per year pay in income tax? [1]

18(c) Using a Laffer Curve diagram, discuss whether increasing the additional rate of income tax can successfully reduce income inequality in the UK.

[8]

DRAW YOUR DIAGRAM IN THE SPACE BELOW

19. **The Chancellor of the Exchequer, George Osborne, gave his Budget to Parliament on 8 July 2015. During the Budget Osborne said “Britain deserves a pay rise” as he unveiled a new compulsory National Living Wage, set well above the National Minimum Wage. The compulsory National Living Wage was due to start in April 2016, at the rate of £7.20 per hour, and rising to £9 per hour by 2020. Working people aged 25 and over will receive it.**

There was mixed reaction in Wales. Stephen Crabb, the Secretary of State for Wales, said the policy “delivers economic security for people in Wales who work hard and want to get on”. Some Welsh business owners, however, including Tracey Smolinski from networking company INTROBIZ said the National Living Wage could affect business growth. “It will be difficult for some firms to find the extra money which will leave less cash to reinvest back into the businesses”, she said.

