

Surname	Centre Number	Candidate Number
Other Names		2



GCE AS/A Level

2520U10-1 – **NEW AS**



ECONOMICS – Unit 1 Introduction to Economic Principles

A.M. MONDAY, 16 May 2016

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-15	15	
16	4	
17	6	
18	8	
19	14	
20	8	
Total	55	

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ADDITIONAL MATERIALS

In addition to this paper, you will need 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.

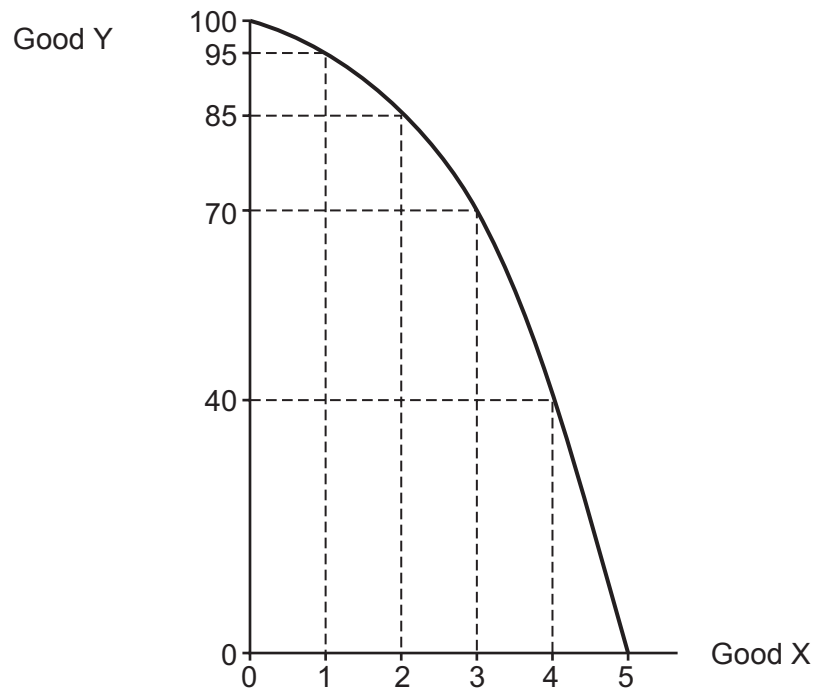
INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

SECTION A

Answer all the questions in the spaces provided.

1. The economy below produces only two goods, X and Y. The opportunity cost of increasing the production of X from 3 to 4 units is: [1]

**ANSWER**

Tick one box only

A 100Y

☐

B 55Y

☐

C 45Y

☐

D 40Y

☐

E 30Y

☐

2. In the circular flow of income model, GDP would be most likely to increase if there was:

[1]

ANSWER*Tick one box only*

A a fall in savings

☐

B a fall in exports

☐

C a fall in government spending

☐

D a fall in investment

☐

E a rise in imports

☐

3. High rates of personal income tax are thought to have a disincentive effect on work. This refers to the likelihood that the high tax rates will:

[1]

ANSWER*Tick one box only*

A encourage illegal tax evasion by individuals

☐

B discourage consumer spending

☐

C lead to a reduction in the supply of labour

☐

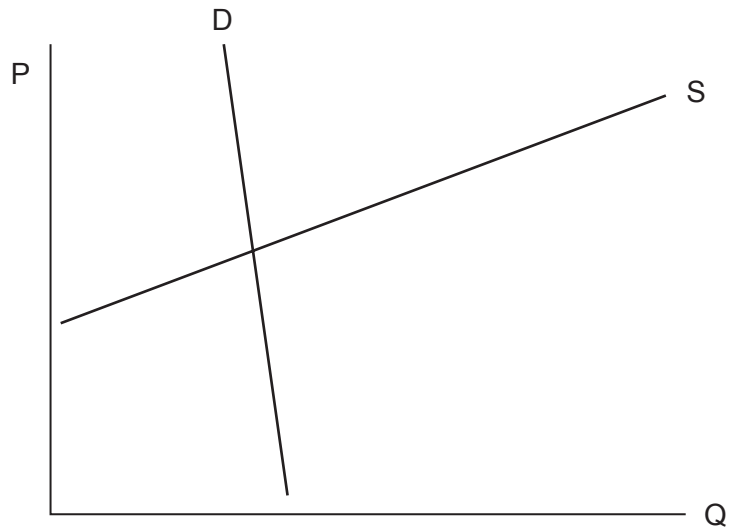
D lead to a reduction in emigration

☐

E decrease the demand for labour

☐

4. The diagram shows a demand and supply curve for a product.



If the Government were to impose a specific unit tax on the product then the burden of tax would fall: [1]

ANSWER

Tick one box only

A equally between suppliers and consumers

☐

B mainly on consumers

☐

C mainly on suppliers

☐

D entirely on consumers

☐

E entirely on suppliers

☐

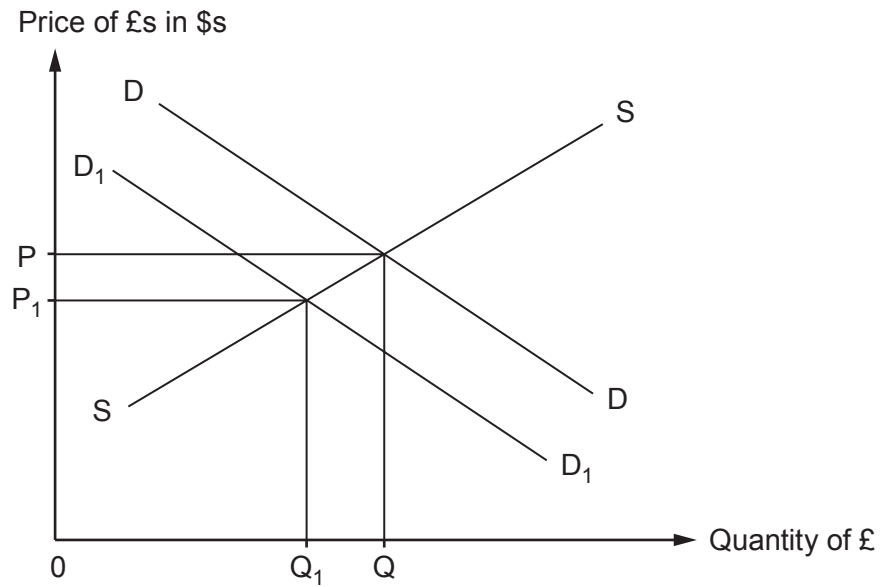
5. The excess demand created by a maximum price imposed below the free market equilibrium will be greatest if: [1]

ANSWER*Tick one box only*

- A** demand is price inelastic and supply is perfectly price inelastic
- B** demand and supply are price elastic
- C** demand and supply are price inelastic
- D** demand is price elastic and supply is price inelastic
- E** demand is price inelastic and supply is price elastic

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6. The diagram below shows the movement of the UK exchange rate against the US dollar (from P to P_1). [1]



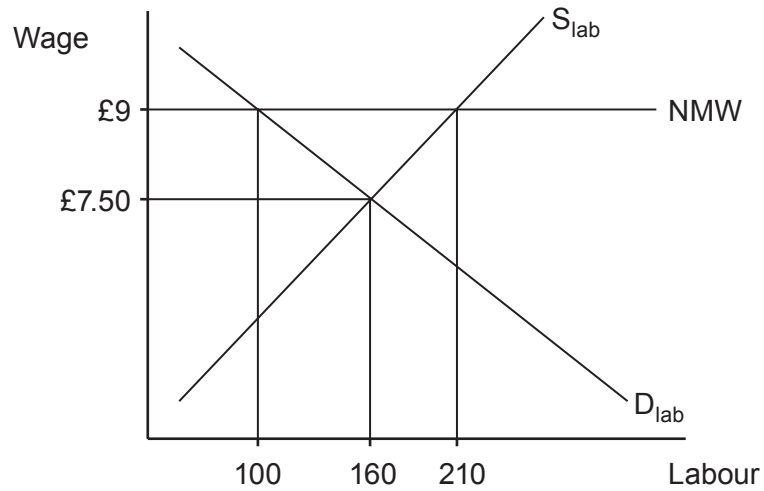
One reason for this could be that:

ANSWER
Tick one box only

- A** the Bank of England has increased interest rates
- B** there is a significant drop in UK export sales
- C** inflation rates soar in the US
- D** the UK experiences a housing market boom
- E** business confidence falls in the US

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7. Calculate the number of people who have lost their jobs as a direct result of the National Minimum Wage (NMW) being increased from £7.50 to £9. [1]

**ANSWER**

Tick one box only

A 210**B** 160**C** 100**D** 60**E** 50☐☐☐☐☐

8. Nationwide House Price index.

Quarter	Index (Q1) 1993=100
Q1 2014	355.3
Q2 2014	372.1
Q3 2014	376.7
Q4 2014	377.0
Q1 2015	376.2
Q2 2015	387.5

It can be concluded from the table above that:

[1]

ANSWER

Tick one box only

- A** house prices rose throughout the period shown
- B** house prices rose by approximately 3% in the 2nd quarter of 2015
- C** the supply of houses must have fallen over the period given
- D** house prices rose by 32.2% on average between Q1 2014 and Q2 2015
- E** house prices were on average 387.5% higher in Q2 2015 than they were in Q1 1993

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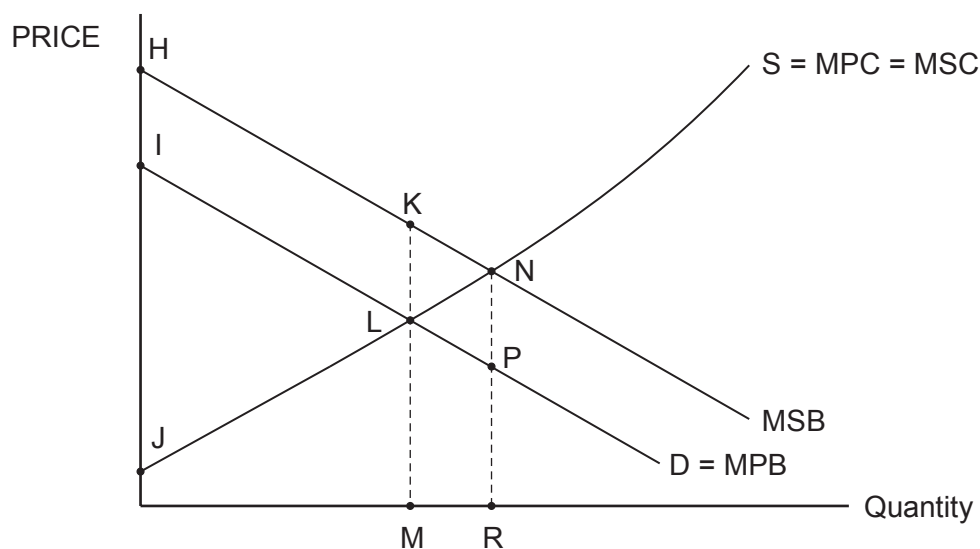
9. Product X is price elastic in demand and is an inferior good. It also has a close substitute in the form of product Z. Possible elasticities in this case might be: [1]

ANSWER
Tick one box only

	Price elasticity of demand for X	Income elasticity of demand for X	Cross elasticity of demand between X and Z
A	−0.7	−0.6	−1.1
B	−0.7	+0.6	+1.1
C	−1.4	−0.6	−1.1
D	−1.4	−0.6	+1.1
E	−1.4	+0.6	−1.1

☐☐☐☐☐

10. The following diagram shows the market for a merit good. Which area represents the welfare loss which would occur if it was supplied in a free market economy? [1]

**ANSWER**

Tick one box only

A KLN☐**B** LNP☐**C** IJL☐**D** HJN☐**E** LMRP☐

11. A sudden large rise in consumer spending in an economy would be most likely to cause: [1]

ANSWER
Tick one box only

	Economic growth	Inflation	Trade balance	Budget (Fiscal) balance	
A	Rise	Fall	Worsen	Worsen	<input type="checkbox"/>
B	Fall	Fall	Improve	Improve	<input type="checkbox"/>
C	Rise	Rise	Worsen	Improve	<input type="checkbox"/>
D	Rise	Rise	Improve	Worsen	<input type="checkbox"/>
E	Rise	Rise	Worsen	Worsen	<input type="checkbox"/>

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12. A decrease in the price of a particular good, with all other variables staying constant, causes: [1]

ANSWER
Tick one box only

- A** a shift to a different demand curve with a higher quantity demanded ☐
- B** a shift to a different demand curve with a lower quantity demanded ☐
- C** a movement along a given demand curve to a lower quantity demanded ☐
- D** a movement along a given demand curve to a higher quantity demanded ☐
- E** no movement along a given demand curve ☐

13. Which of the following will be most likely to result from an increase in labour productivity in an economy: [1]

ANSWER

Tick one box only

- A** a decrease in output and an increase in inflation
- B** an increase in output and a decrease in inflation
- C** an increase in exports and an increase in inflation
- D** a decrease in exports and an increase in inflation
- E** a decrease in output and a decrease in inflation

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14. Consumption within an economy will be most likely to rise if:

[1]

ANSWER

Tick one box only

- A** asset prices rise
- B** income taxes rise
- C** consumers do not expect pay rises next year
- D** government spending on benefits is cut
- E** interest rates rise

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15. The market for potatoes is initially in equilibrium. At the same time as floods hit potato growers, new research is published into the health problems associated with eating crisps and chips. Which of the following is the most likely outcome? [1]

ANSWER*Tick one box only*

	Supply	Demand	Price	
A	Shifts left	Shifts left	Impossible to tell	<input type="checkbox"/>
B	Shifts left	Shifts right	Rises	<input type="checkbox"/>
C	Shifts right	Shifts left	Falls	<input type="checkbox"/>
D	Shifts left	Shifts left	Falls	<input type="checkbox"/>
E	Shifts right	Shifts right	Impossible to tell	<input type="checkbox"/>

SECTION B

Answer all the questions in the spaces provided.

- 16.** According to the European Bank for Reconstruction and Development (EBRD), the civil war in Ukraine has caused severe damage to industrial capacity and infrastructure in recent years, as well as a large number of civilian deaths.

Explain what has happened to the Ukrainian economy as a result of the civil war. Illustrate your answer using a production possibility diagram. [4]

(Draw your diagram in the space below).

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17. Suppose the price elasticity of demand for luxury yachts is equal to zero. Explain, with the use of a diagram, what the effect of imposing an indirect tax would be on the price, quantity sold and tax revenue gained from the sales of luxury yachts. [6]

(Draw your diagram in the space below).

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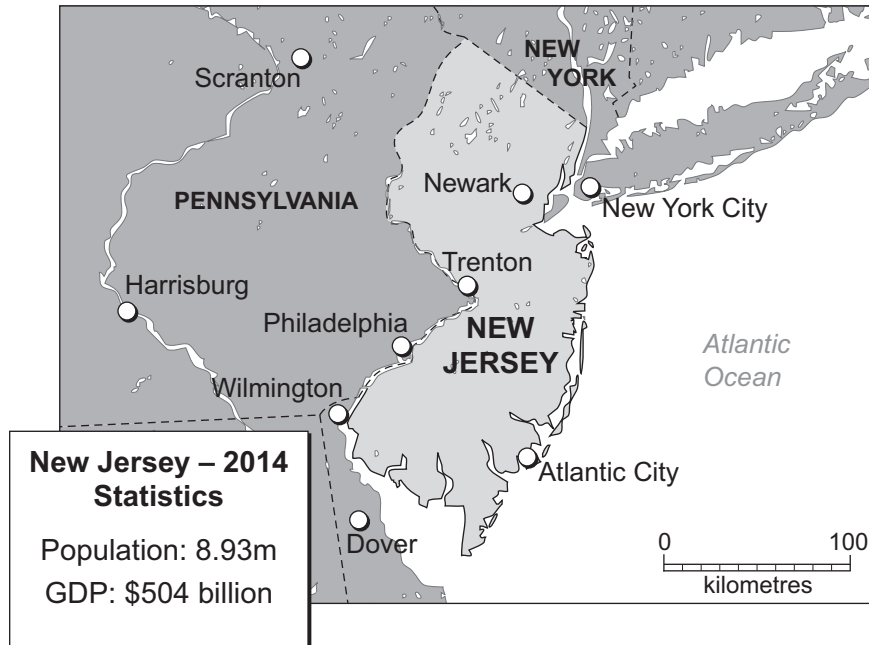
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- To what extent could the payday lending market be considered to demonstrate market failure before the FCA intervened? [8]

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19. Situated in the North-East of America, New Jersey is one of the USA's smallest states. It is, however, the eighth-wealthiest US state by GDP per person.



In 2014, tourism in New Jersey accounted for \$36.4bn of its GDP. In addition, tourism generated \$4.6bn of tax revenue (\$1.4bn of which was VAT).

About 500,000 jobs, nearly 10% of New Jersey's total, are in the tourism industry. Nearly half of all the tourism spending is at the "Shore" – a local reference to the state's vast 127 miles of beach. The last few years have seen strong tourist seasons in New Jersey; sunny weather combined with lower travel costs has been attracting large numbers of beachgoers from New York, Pennsylvania and further away. As a result, holiday accommodation prices have increased by 9% between 2014 and 2015.

(a) Using the figures above, calculate:

- (i) New Jersey's GDP per person in 2014; [1]

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- (ii) the percentage of New Jersey's GDP that came from tourism. [1]

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- (b) Using a diagram, and with reference to the data, explain why holiday accommodation prices have increased between 2014 and 2015. [4]

(Draw your diagram in the space below).

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- (c) Discuss the likely effects of increasing the rate of VAT in New Jersey on the level of employment in the state. [8]

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20. *“The UK Coalition Government has income tax rates that are too high.”*

- John Redwood, a Conservative Member of Parliament (2014)

Percentage of income taken in tax (2014)					
	UK	South Korea	US	Germany	Mexico
Single person on very high income	42.7%	34.3%	39.6%	39.4%	29.4%
Single person on average income for the country	24.9%	13%	22.7%	39.9%	9.5%

Source BBC

Very high income in the UK is approximately £240,000 per year
Average income in the UK is approximately £26,500 per year

With reference to the data, and using relevant economic theory, evaluate the view expressed by John Redwood. [8]

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