GCE A LEVEL

A520U20-1

S25-A520U20-1

Part of WJEC

MONDAY, 19 MAY 2025 – AFTERNOON

ECONOMICS – A level component 2
Exploring Economic Behaviour

2 hours 30 minutes

A520U201
01

ADDITIONAL MATERIALS

A calculator.
A WJEC pink 16-page answer booklet.

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.
Answer **all** questions.
Write your answers in the separate answer booklet provided, following the instructions on the front of the answer booklet.
Use both sides of the paper. Write only within the white areas of the booklet.
Write the question number in the two boxes in the left-hand margin at the start of each answer, for example | 1 | 1 | .
Leave at least two line spaces between each answer.

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.

Answer **all** questions.

1: It's all a load of rubbish

Extract 1

National Audit Office says Landfill Tax causes illegal disposal of rubbish

A landfill site

The traditional method of disposing of rubbish is to place it in large holes in the ground. This method of disposal, called 'landfill', creates many negative externalities. Methane emissions are a powerful greenhouse gas, and rainwater run-off from the sites may contaminate water supplies. Landfill sites can also affect nearby households through noise and smells.

In 1996, the UK government introduced a Landfill Tax to reduce the amount of waste going to landfill and to encourage recycling. **Figure 1** shows the Landfill Tax rates per tonne of waste. The tax is paid to the government by the owners of landfill sites, who also report the amount of waste deposited. The lower tax rate is paid on less damaging waste and some waste has no tax at all (it is exempt).

In practice, the tax burden is often passed on to the users of the sites, such as businesses or local authorities disposing of household weekly rubbish collections. This encourages these waste producers to consider more sustainable waste management options. This is the reason that households now have extra bins for recyclable materials.

Figure 1: Landfill Tax rates

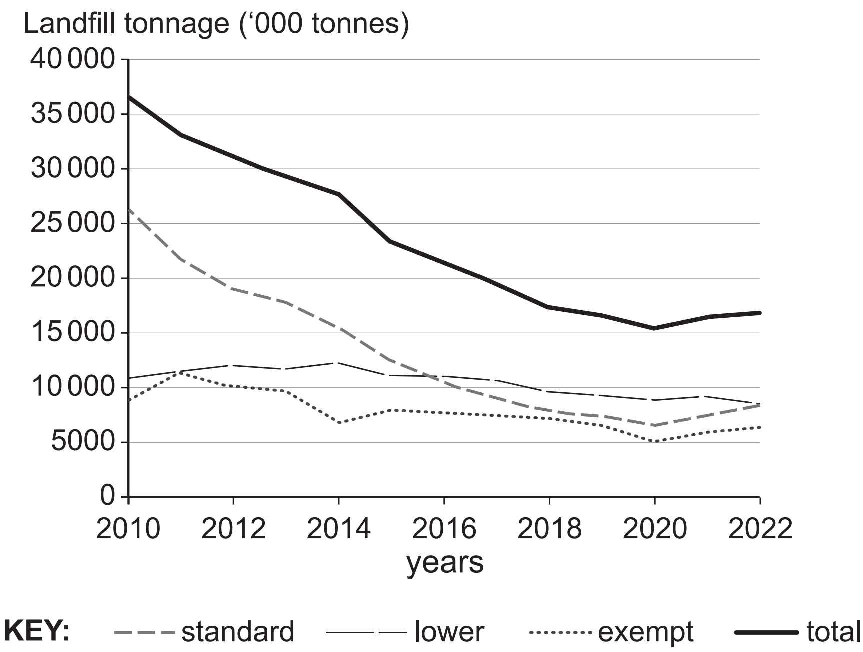
Material sent to landfill	From 1 April 2022	From 1 April 2023	From 1 April 2024
Standard rate (per tonne)	£98.60	£102.10	£103.70
Lower rate (per tonne)	£3.15	£3.25	£3.30

Source: HM Treasury

Note: 1 tonne is equivalent to 1000 kg

Figure 2 shows the amounts of waste being sent to landfill. Although the total has fallen, lower and exempt rated waste hasn't fallen. Some say this is because harmful waste is being mislabelled to avoid paying the standard tax.

Figure 2



A report published in February 2021 stated that the Landfill Tax had significantly reduced the use of landfill sites, but also caused more people and firms simply to throw away waste illegally, often just leaving it on the side of the road. After the Landfill Tax rate rose massively in real terms between 2010 and 2014, waste being sent to landfill fell by 65% and tax revenue doubled.

By 2022, the standard Landfill Tax rate had risen to be 40 times higher than the lower rate. This caused a big rise in the illegal disposal ('fly tipping') and mislabelling of waste. This reduced Landfill Tax revenue by nearly 50% to £626 million in 2022/23.

In recent years, however, Landfill Tax rates have increased very little (**Figure 1**) and could thus act as a disincentive to the development of more recycling and energy facilities. However, a higher increase would increase the costs of local authorities and reputable firms, giving an even bigger advantage to firms that dispose of waste illegally. When the UK was in the EU, the UK was the 11th highest recycler with a rate of 43.86%, although this was below the EU average of 47.2%.

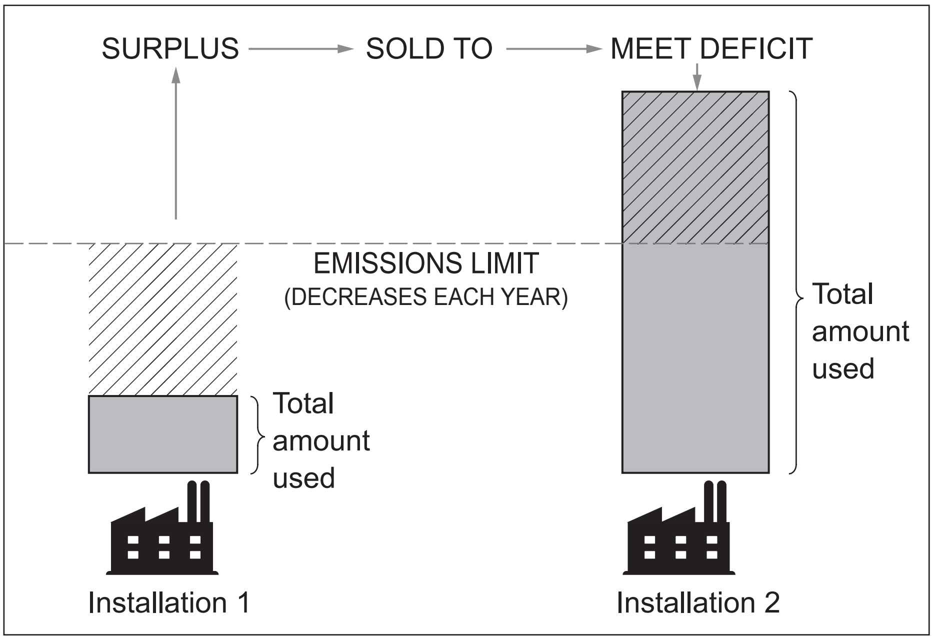
Extract 2

The UK creates its own trading emissions scheme

A UK Emissions Trading Scheme (UK ETS) replaced the UK's participation in the European Union's Emissions Trading Scheme (EU ETS) in 2021. The UK ETS is a government-run tradeable pollution permit system that caps the total level of greenhouse gas emissions. This creates a carbon market with a carbon price to reduce carbon emissions. Other countries have tried to decrease emissions with different policies, with Canada introducing a carbon tax where polluters pay a tax on each tonne of greenhouse gasses they emit.

Reforms to the UK scheme mean that, from 2024, industries will be required to bring their emissions down at the rate needed to reach the UK's goals for greenhouse gas emissions by 2050. This sends a clear signal to industry to invest in the long-term to reduce CO_2 emissions. Total permits will gradually be cut from 1365 million to 936 million. To ease this transition, extra allowances will also be made available to the carbon market between 2024 and 2027 to protect firms from international pressures.

Figure 3: The cap and trade system of the UK Emissions Trading Scheme



The UK ETS will be extended to cover sea transport from 2026 and to cover waste from 2028, while a phased removal of allowances for the aviation industry will be started in 2026.

1 1 **i)** On average, a typical household wheelie bin contains 65 kg of waste.
Using the April 2024 standard tax rate, calculate how much will be paid in Landfill Tax if all of this waste goes to landfill. [2]

ii) Using the data, outline **two** external costs that result from household waste going to landfill. [4]

1 2 Using a demand and supply diagram, explain how a sharp rise in the Landfill Tax will cause prices to rise in industries that send a lot of waste to landfill. [4]

1 3 The Consumer Prices Index (CPI) rose by 8.7% in the 12 months to April 2023.
Use the data to calculate the real change in the standard rate of Landfill Tax rate between April 2022 and April 2023. [4]

1 4 Using an externalities diagram and the data, evaluate the extent to which the Landfill Tax could correct the market failure caused by waste being sent to landfill. [10]

1 5 Using a demand and supply diagram, explain why reducing the number of permits in the market for carbon from 1365 million to 936 million allowances/permits will in theory mean that industries “bring their emissions down at the rate needed to reach the UK’s goals for greenhouse gas emissions by 2050” (lines 44–46). [6]

1 6 Using the data, discuss the view that the use of tradeable pollution permits is better than a carbon tax as a means of reducing greenhouse gas emissions. [10]

2: Pakistan in crisis

Extract 1

Pakistan and the IMF

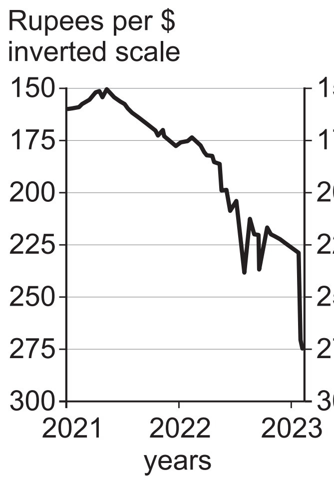
In July 2023, the International Monetary Fund (IMF) agreed to a $3bn financial support package for Pakistan after two years of economic instability. Pakistan needed support from the IMF due to both fiscal and balance of payments problems.

2022 and 2023 were difficult years for Pakistan. Floods in the summer of 2022 left a third of the country under water, destroying the cotton harvest and leading to 7 million job losses in the textiles industry.

In early 2023, the Pakistani rupee depreciated sharply against the US $ (**Figure 1**) after the government stopped intervening to support it. To stop the exchange rate from falling, the government had imposed import restrictions as well as intervening directly in the market using foreign currency reserves.

The government stopped intervening in the foreign exchange market, partly to meet the free-market conditions required by the IMF before they would provide the $3bn financial support package.

Figure 1: Pakistan: Exchange rate



The IMF also wanted the government to stabilise the economy. Firstly, they required Pakistan to increase interest rates significantly to cut inflation. Secondly, the IMF wanted the government to bring the budget/fiscal deficit under control by removing subsidies on energy prices and cutting subsidies for agriculture. Indirect tax rates were also increased. These requirements were imposed even though the government argued that trying to reduce its budget deficit while it was recovering from the floods was impractical. Although $9bn of international aid was promised to help Pakistan to rebuild the infrastructure destroyed by the floods, this was believed to be less than half of the amount that was needed.

The level of Pakistan's national debt means that interest payments took over 50% of the Pakistan government's budget in 2023, with the government also needing to repay foreign lenders $35bn per year for the next five years.

At the same time, foreign exchange reserves fell to under $5bn, about the same value as one month's imports. Pakistan has had current account deficits averaging 5% of GDP in recent years and, although the government's restrictions on imports meant that the current account had a small surplus in 2023, this was not thought to be sustainable. In most years, the value of exports has been only 45% of that of imports, largely due to a lack of productivity in labour and capital markets.

The question for Pakistan is whether $3bn from the IMF will be too little, too late.

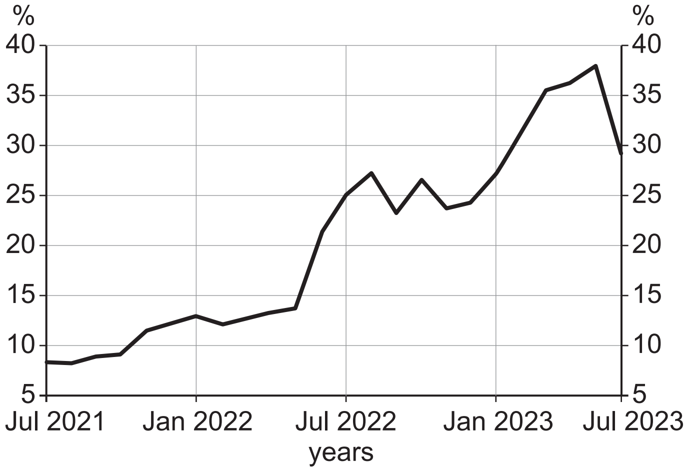
Extract 2

Inflation in Pakistan

Another major problem for Pakistan has been inflation. Inflation rose from 12% in January 2022 to 38% in June 2023 (**Figure 2**).

Figure 2

Pakistan: Annual inflation rate



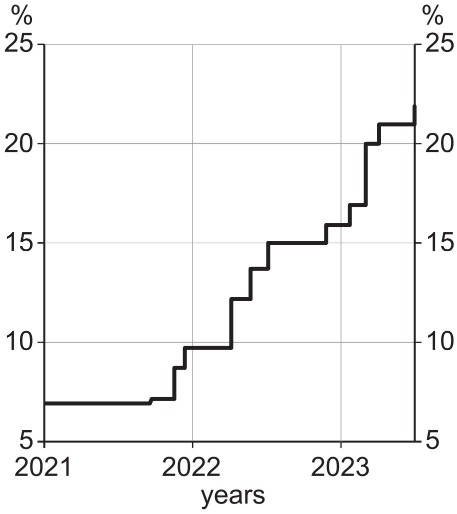
A wide range of factors contributed to prices rising so rapidly:

- problems with supply chains after the floods
- the removal of fuel subsidies
- the increase in indirect tax rates
- the impact of the depreciation of the rupee on import prices. Pakistan is very dependent on imported fuel and wheat.

To try to reduce inflation to the central bank's target of 5–7%, and at the insistence of the IMF, the base interest rate was increased to 22% in June 2023 (**Figure 3**). These higher interest rates contributed to the World Bank cutting its growth forecast for Pakistan to only 0.4% for 2023.

Figure 3

Pakistan: Base interest rate



2 | 1 **i)** Use an exchange rate diagram to outline how import restrictions would have stopped the rupee from depreciating. [4]

ii) Using the data, discuss the possible macroeconomic benefits to Pakistan of ending the policy of keeping the exchange rate artificially above its free market level. [10]

2 | 2 **i)** Using the data and an AD/AS diagram, explain **two** reasons why inflation rose in Pakistan (**Figure 2**). [6]

ii) Using the data, discuss how effective the increase in interest rates is likely to have been in returning Pakistan's inflation to target. [10]

2 | 3 Using the data, discuss whether the IMF's fiscal recommendations (lines 16–22) are likely to be beneficial for Pakistan. [10]

END OF PAPER