

Surname	Centre Number	Candidate Number
First name(s)		2



GCE A LEVEL

A520U10-1



WEDNESDAY, 15 MAY 2024 – MORNING

ECONOMICS – A level component 1
Economic Principles

1 hour 30 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1–20	20	
21.	4	
22.	7	
23.	4	
24.	8	
25.	8	
26.	9	
Total	60	

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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.

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 presentation in your answers.



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Answer **all** questions.

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.

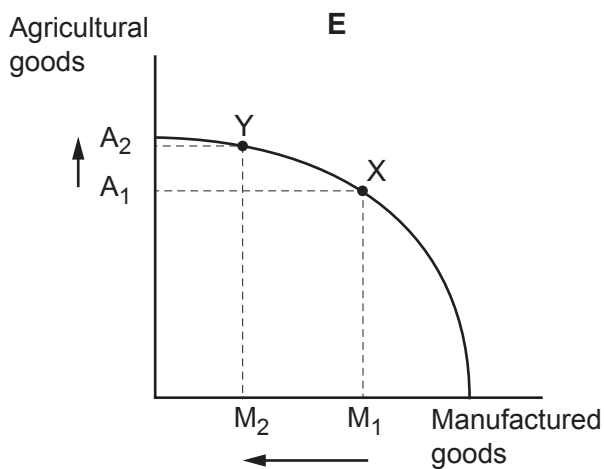
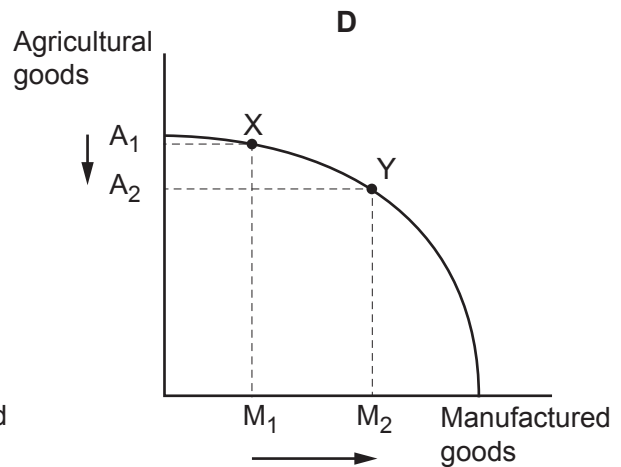
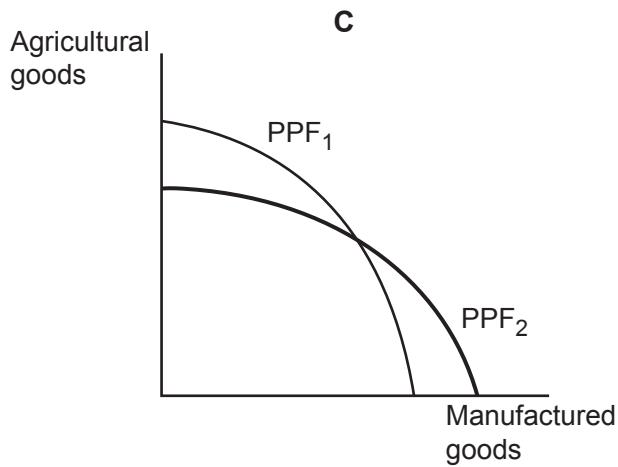
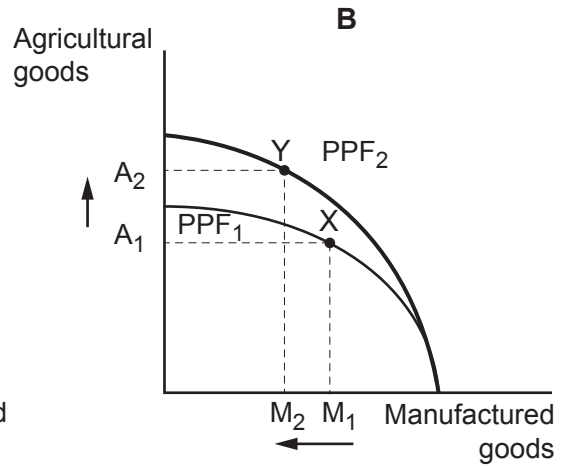
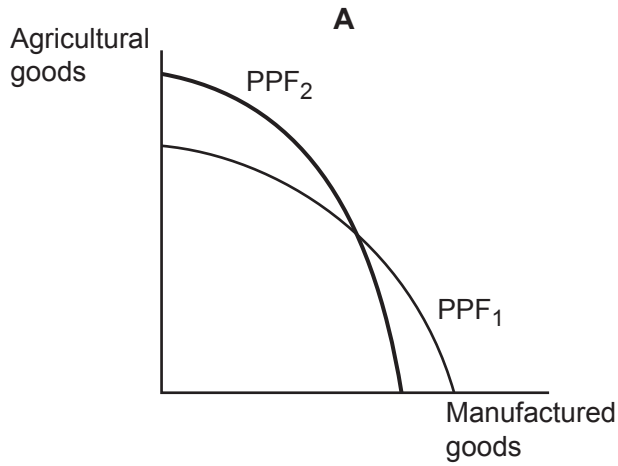
1. Which one of the following shows a relationship between income tax rates and income tax revenue? [1]

- A** Phillips curve
- B** Production possibility frontier diagram
- C** Aggregate demand curve
- D** Marshall-Lerner condition
- E** Laffer curve



2. Following a change in the pattern of demand, an economy starts to produce more agricultural goods and fewer manufactured goods. There are no other changes in the economy.

Which of the following production possibility frontier diagrams best shows this change? [1]



3. The table below contains estimates of price elasticity of demand and income elasticity of demand for cigarettes in Greece.

Price elasticity of demand (PED)	−0.44
Income elasticity of demand (YED)	+1.04

Which of the following is true for cigarette demand in Greece?

[1]

- A** Cigarettes are an inferior good with inelastic PED
- B** PED is inelastic and cigarettes are a normal good
- C** Cigarettes are an inferior good with elastic YED
- D** Changes in price and income both cause a more than proportional change in the demand for cigarettes
- E** YED is inelastic and PED is elastic

☐

4. A firm in perfect competition is in long run equilibrium.

If that firm increased its output, which of the following would show the effects on its marginal cost, price and profit?

[1]

	Marginal cost	Price	Profit
A	Fall	Fall	Rise
B	Rise	Fall	Fall
C	No change	Fall	Rise
D	Rise	No change	Fall
E	Fall	No change	Fall

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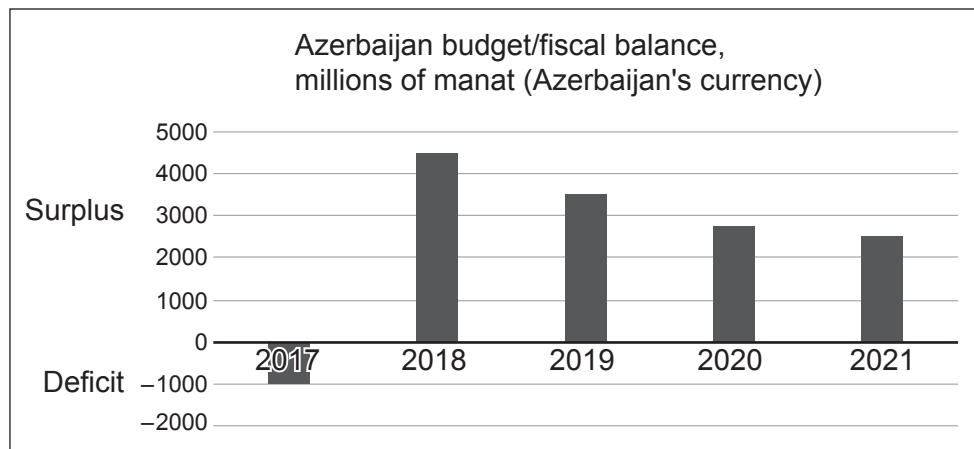

5. A rational individual will consume a product which has a zero price up to the point at which:

[1]

- A Marginal utility is maximised
- B Total utility = marginal utility
- C Marginal utility = 0
- D Marginal utility begins to diminish
- E Total utility exceeds marginal utility

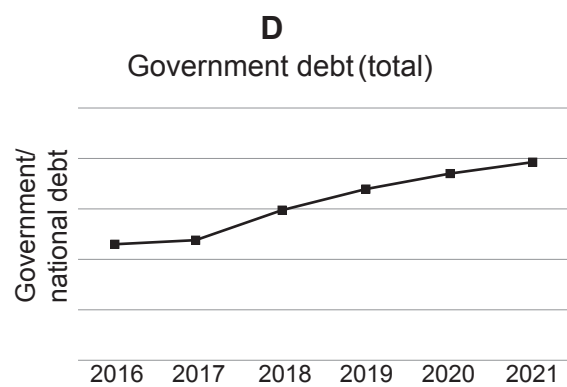
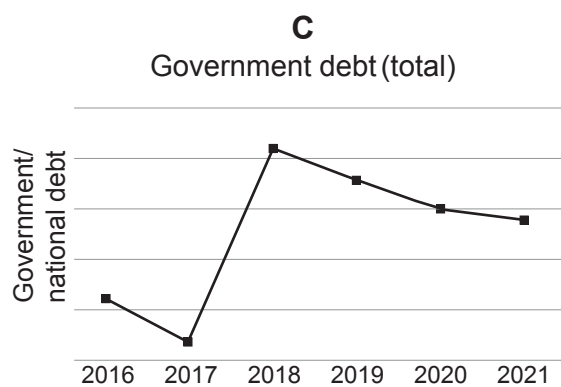
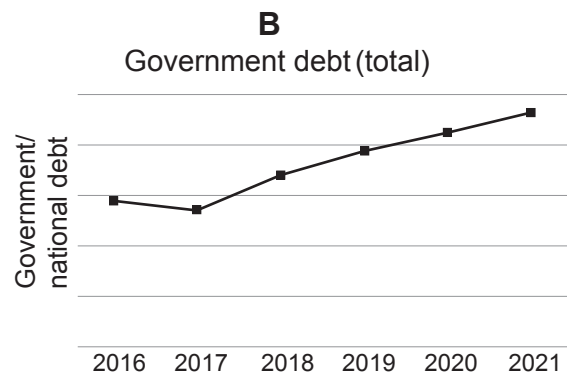
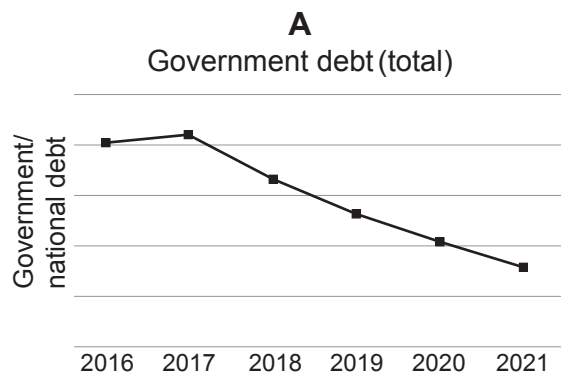
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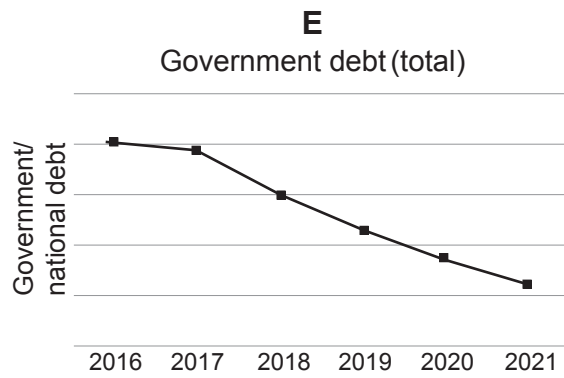
6. The chart below shows Azerbaijan's budget/fiscal balance between 2017 and 2021:



Which of the following charts best represents what would have happened to Azerbaijan's government/national debt in manat?

[1]





7. According to the Phillips curve, in the short run:

[1]

- A Higher inflation leads to higher unemployment
- B Higher inflation leads to lower unemployment
- C Lower unemployment leads to higher inflation
- D Higher unemployment leads to higher inflation
- E Unemployment has no effect on the level of inflation

☐

8. A driver paid £90 for unleaded petrol, including 20% VAT.

How much would the petrol have cost before VAT was added?

[1]

- A £18
- B £70
- C £72
- D £75
- E £78

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9. The table below shows Consumer Prices Index (CPI) data for five countries.

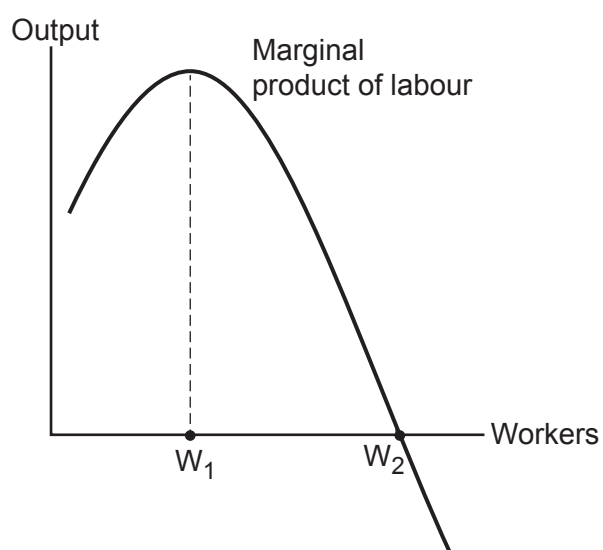
	May 2021	May 2022
Brazil	5740	6410
Chile	109	122
Honduras	355	387
UK	110	120
USA	269	292

Which of the countries in the table had the highest rate of inflation over the period shown? [1]

- A** Brazil
- B** Chile
- C** Honduras
- D** UK
- E** USA

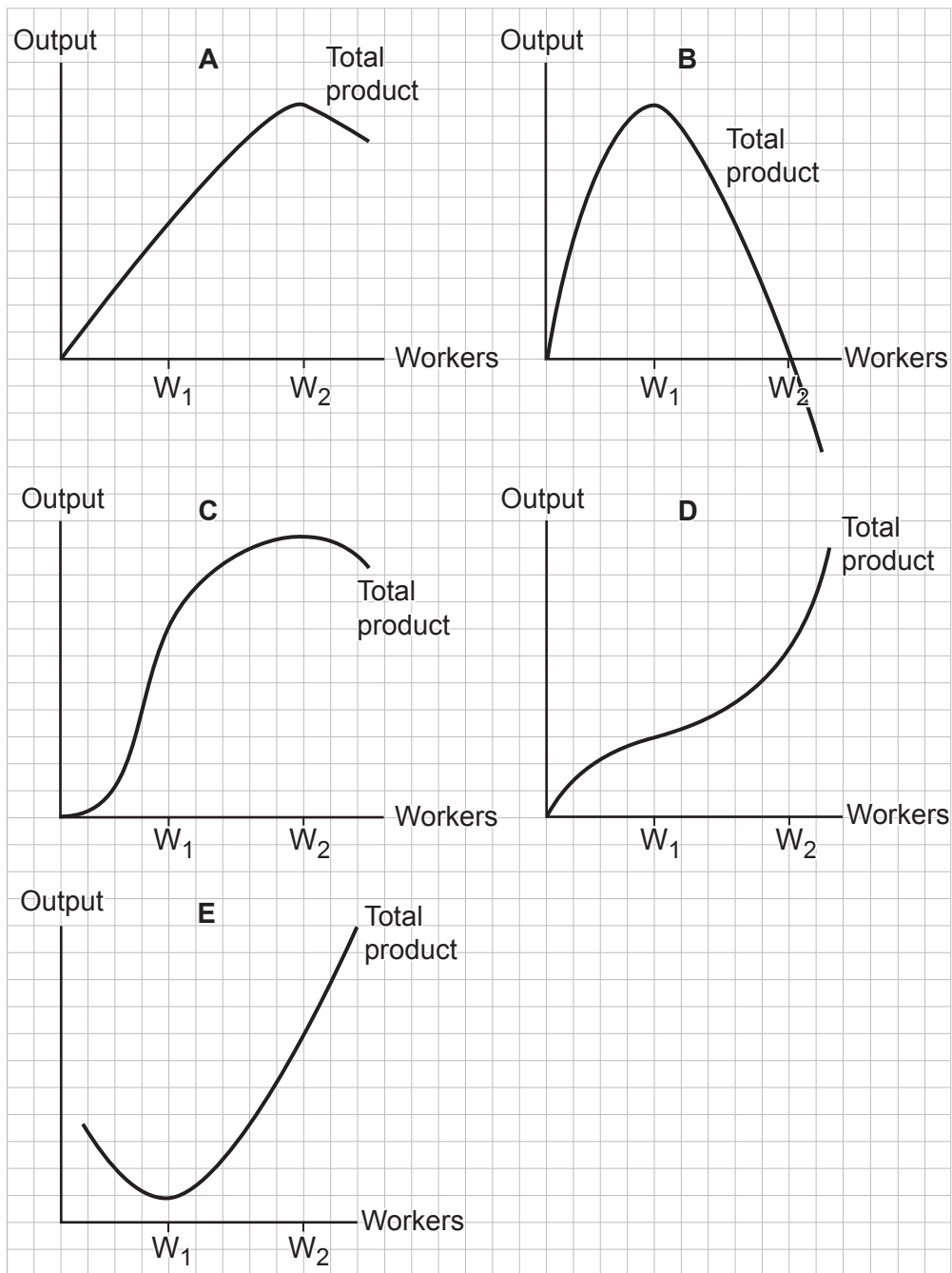


10. The diagram below shows the marginal product of labour for a firm at different levels of employment.



Which of the following total product curves would be consistent with the marginal product curve shown opposite?

[1]



11. A firm produces 3 products, **X**, **Y** and **Z**. The firm cuts the price of **X** from £20 to £16. The impact on the annual demand for **X**, **Y** and **Z** is shown in the table below.

Price of X	Demand for X	Demand for Y	Demand for Z
£20	150 million	250 million	80 million
£16	165 million	300 million	60 million

The cross price elasticity of demand (XED) between product **X** and its complement is:

[1]

- A** -0.5
- B** -1.0
- C** -1.25
- D** +1.0
- E** +1.25

12. In 2021 smartwatches were added to the basket of goods used to calculate the Consumer Prices Index (CPI), but white chocolate was removed.

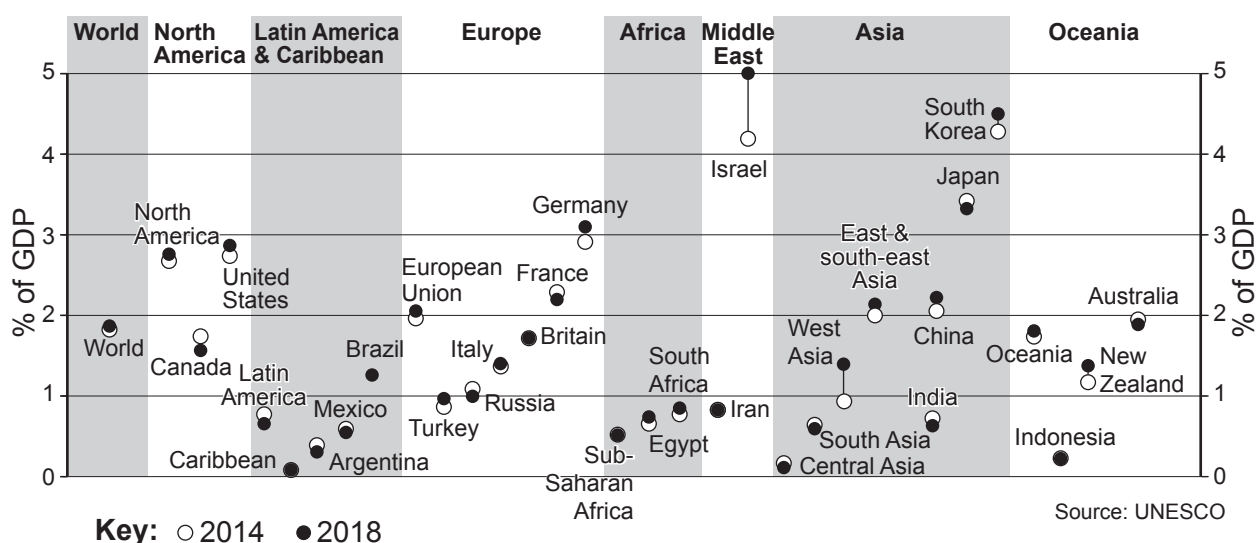
Which of the following is the most likely explanation for this decision?

[1]

- A** Smartwatches have been on sale for some years
- B** Sales of white chocolate have fallen to zero
- C** The price of smartwatches has risen
- D** The tax on chocolate has increased
- E** There has been a change in the pattern of demand



13. The chart below shows expenditure on research and development (R&D) as a percentage of GDP in different countries and regions:



For the countries and regions shown, which of the following can be concluded from the chart? [1]

- A Australia spent less in total on R&D in 2018 than it did in 2014
- B In total, Israel spends the largest amount on R&D
- C Total spending on R&D is lowest in the Caribbean
- D Spending on R&D as a percentage of GDP rose in all countries between 2014 and 2018
- E West Asia had the fastest proportional growth in R&D spending as a percentage of GDP between 2014 and 2018

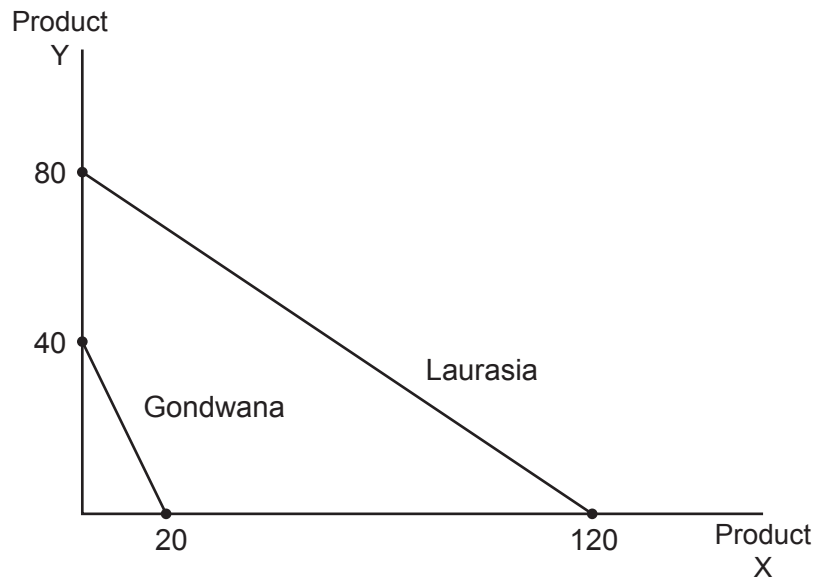


14. Some countries have much higher GNP/GNI than GDP. One possible reason for this might be: [1]

- A** Large numbers of multinational corporations producing in these countries but sending profits abroad
- B** Citizens of these countries working abroad but sending some of their salary back home
- C** Countries such as these having large budget/fiscal surpluses
- D** Countries such as these having large current account deficits
- E** These countries often pay large amounts of foreign aid to other countries

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15. The diagram below shows the production possibilities for two fictional countries, Gondwana and Laurasia.



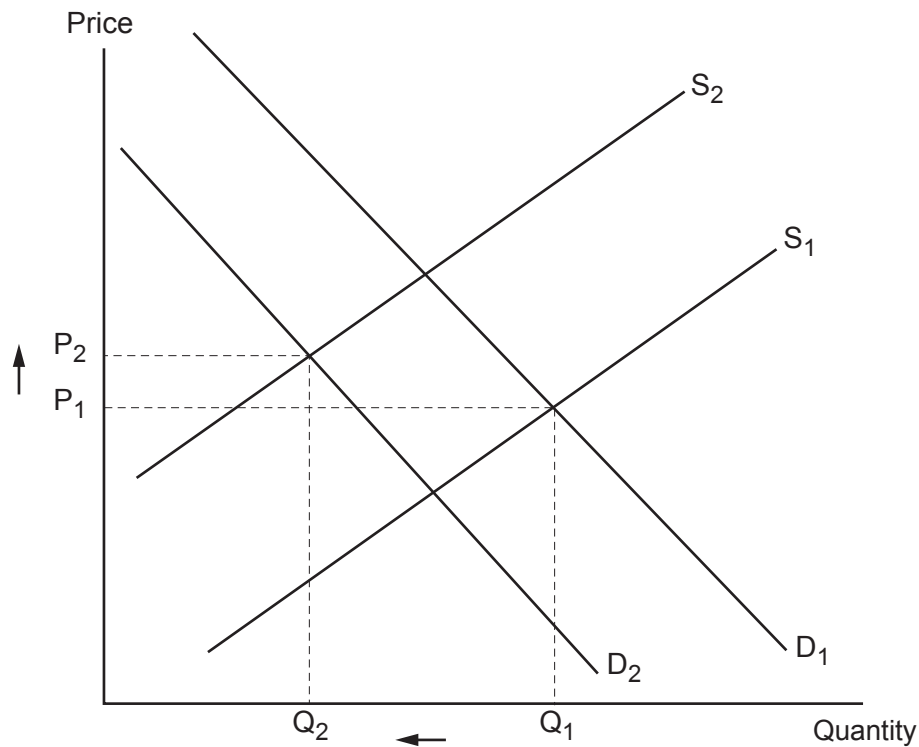
The theory of comparative advantage would suggest that:

[1]

- A Trade is possible at a rate of exchange of 1X for 1Y
- B Trade is not possible because Laurasia has an absolute advantage in the production of both X and Y
- C Laurasia has comparative advantage in the production of Y
- D Gondwana has absolute advantage in Y
- E Gondwana will sell X to Laurasia



16. The diagram below shows the results of government action to reduce the consumption of a demerit good.



Which of the following policies are best represented by the diagram?

[1]

- A** A subsidy for a substitute and regulations that increase the cost of the ingredients
- B** A maximum price for the product and an information campaign outlining the dangers of consumption
- C** An increase in a specific indirect tax on the product
- D** A reduction in the legal age at which the product can be bought by consumers
- E** A minimum price for the product and a subsidy for a substitute



17. In 2021 Amazon purchased film studio MGM, which has a film catalogue of more than 4000 films that can be streamed on Amazon Prime.

This is an example of

[1]

- A** Backward vertical integration
- B** Forward vertical integration
- C** Conglomerate integration
- D** Horizontal integration
- E** Diseconomies of scale

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18. An economy is experiencing a sharp fall in aggregate demand (AD).

Which of the following sets of policies would be consistent with trying to reverse this?

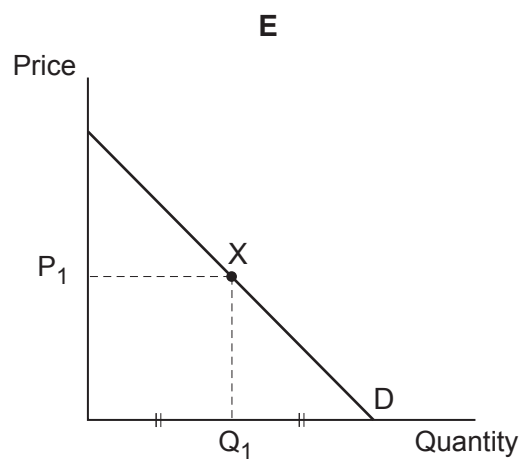
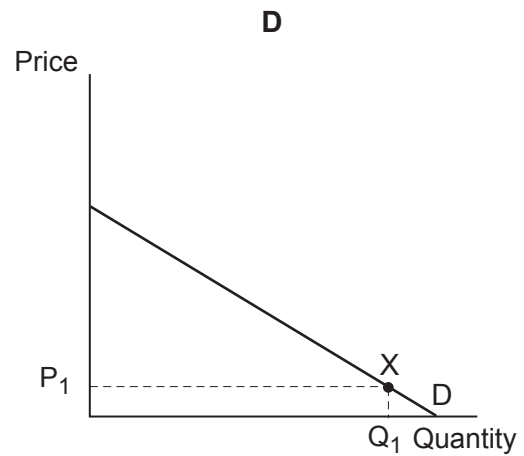
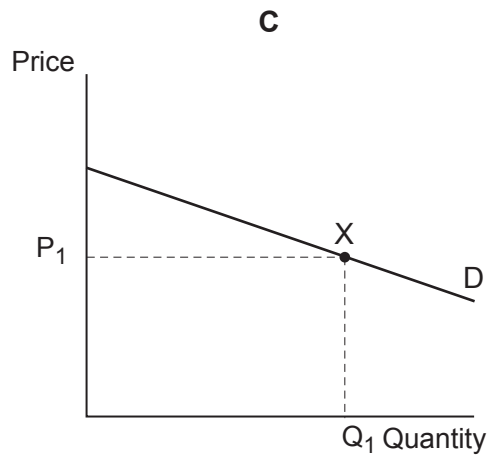
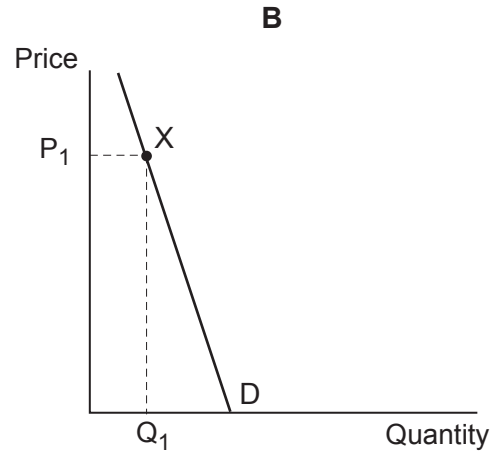
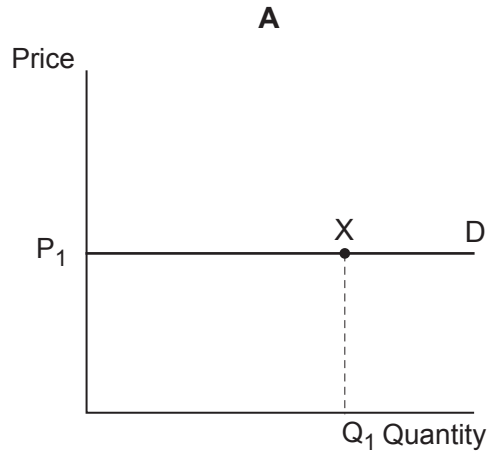
[1]

	Taxes	Government spending	Central bank interest rate	Central bank bond purchases/sales	Currency purchases/sales (on foreign currency markets)
A	Increase	Increase	Increase	Increase purchases	Buy own currency
B	Decrease	Increase	Decrease	Increase sales	Sell own currency
C	Decrease	Increase	Decrease	Increase purchases	Sell own currency
D	Decrease	Decrease	Increase	Increase sales	Buy own currency
E	Increase	Decrease	Decrease	Increase sales	Buy own currency

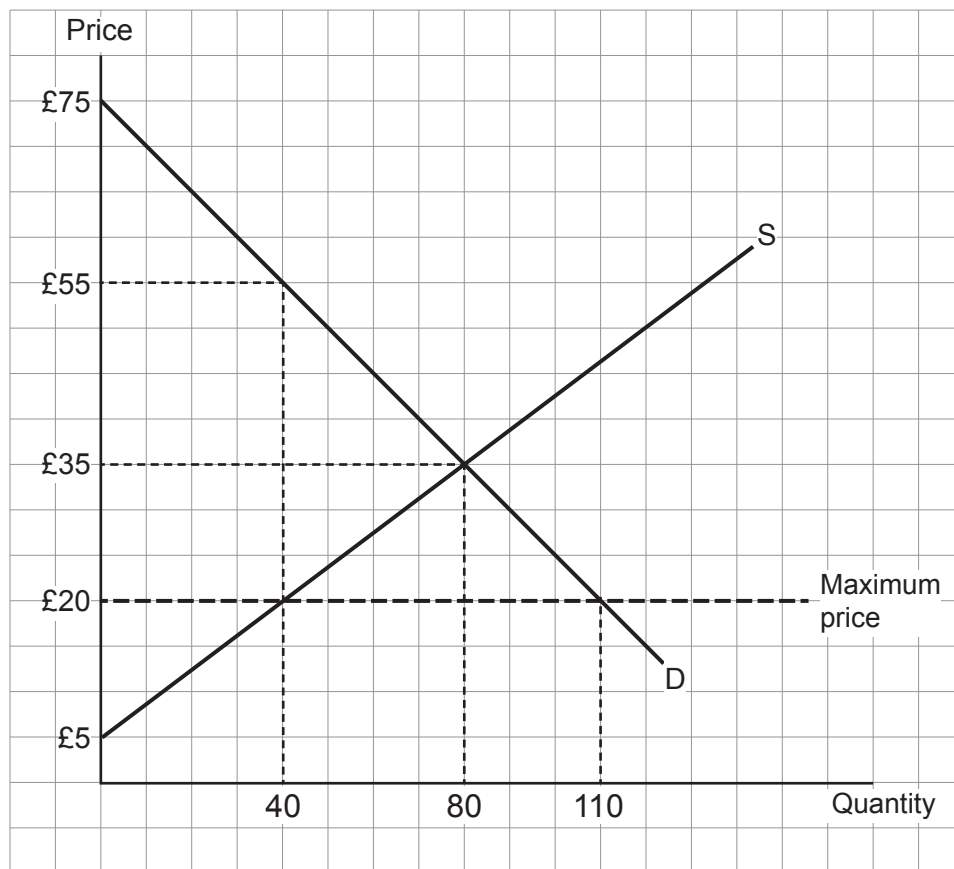
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19. The diagrams below show different demand curves for different firms (A–E). Which firm would gain higher revenue from a small increase in price?

[1]



20. The diagram below shows the effect on the market for a product following the imposition of a maximum price.



The value of consumer surplus and producer surplus if price is at £20 are:

[1]

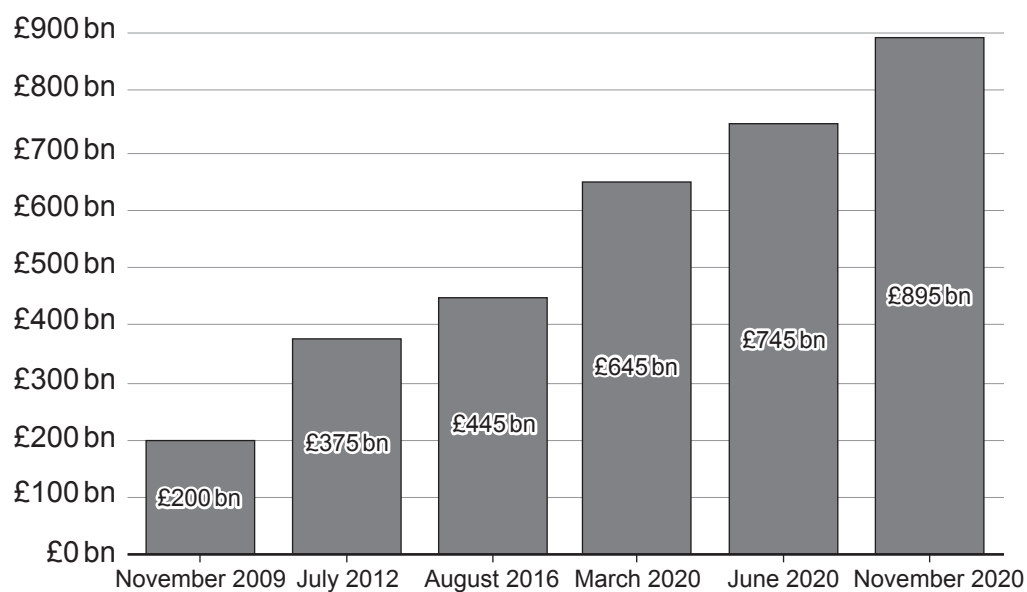
	Consumer surplus	Producer surplus
A	£400	£1200
B	£400	£300
C	£1600	£1200
D	£3025	£300
E	£1800	£300



SECTION B.

21. The charts below show the Bank of England's purchases of bonds and the yield on UK government bonds.

Bank of England purchases of bonds in £ billion



UK government bond yields



Source: Macrobond; The Independent



Using the data, explain the link between the two charts.

[4]

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23. The matrix below shows the expected profits made by two firms as a result of different pricing decisions. Neither firm knows what the other firm is planning and also neither firm trusts the other one. The two firms' products are close substitutes.

		Firm B	
		PRICES	
		£4	£3
Firm A	£4	£50m, £45m	£20m, £65m
	£3	£70m, £15m	£25m, £25m

Use the data to explain where the Nash equilibrium is in this matrix.

[4]

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24. The diagrams below show (1) how the Bank of England believes that changes in interest rates will affect inflation and (2) the UK's inflation rate between 2012 and 2022.

Diagram 1

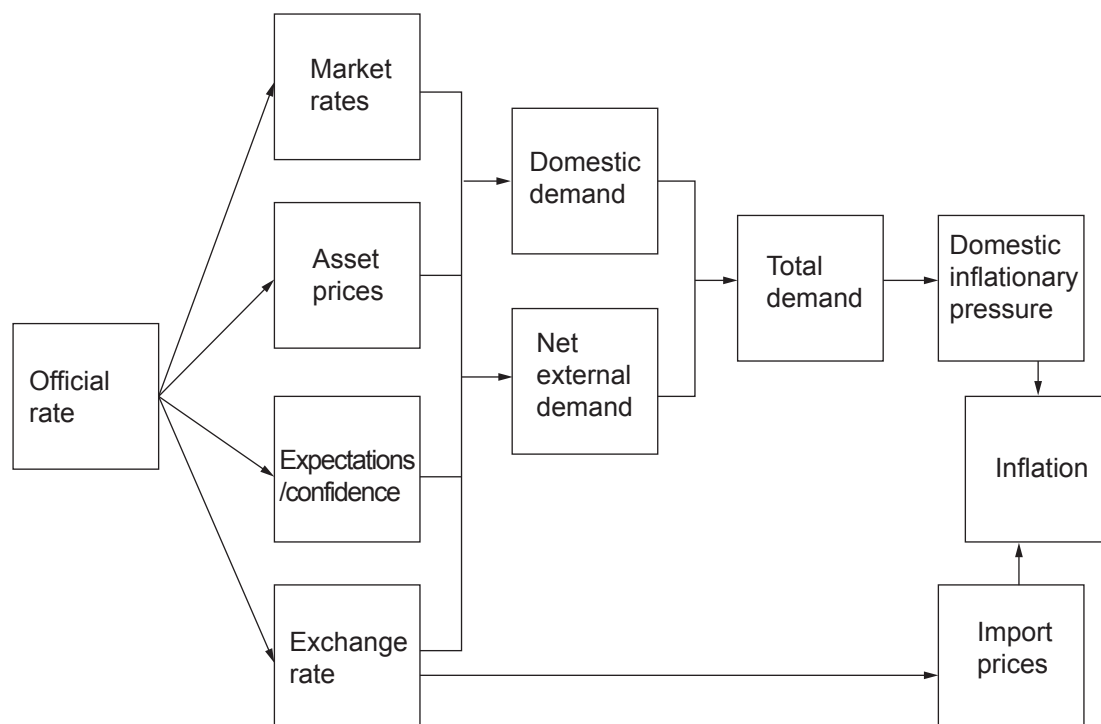


Diagram 2



Using the data, discuss whether a rise in interest rates decided by the Monetary Policy Committee of the Bank of England will bring down inflation to its target level.

[8]

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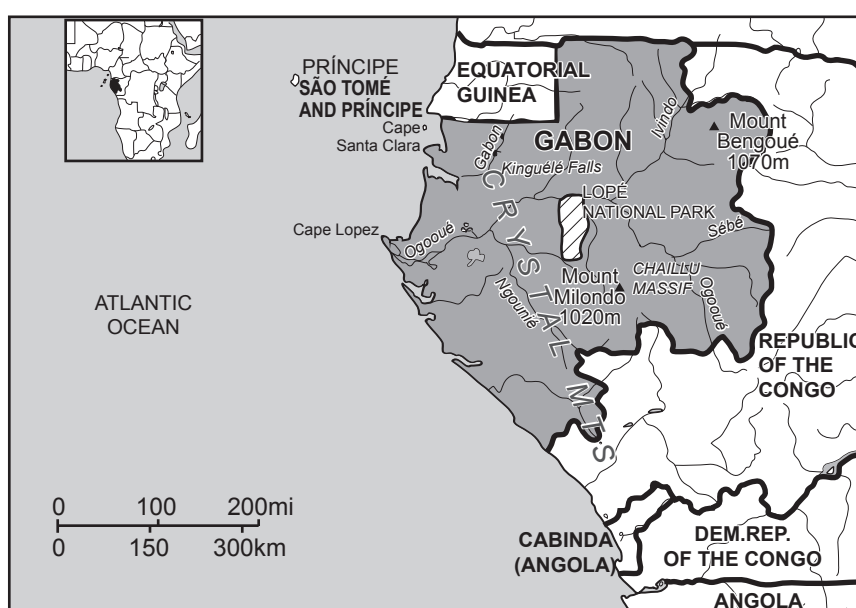
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25. The table below gives 2020 Human Development Index (HDI) data on two countries, Gabon and Tajikistan.

	Classification of development level	HDI	Life expectancy at birth	Mean years of schooling	Expected years of schooling	GNI/capita (PPP \$)
Gabon	High	0.703	66.5	8.7	13	13 930
Tajikistan	Medium	0.668	71.1	10.7	11.7	3954

Gabon is located on the West coast of Africa. Tajikistan is in central Asia.



Discuss whether it is reasonable to say that Gabon has a higher level of human development than Tajikistan. [8]

26. The chart and extract below give information on copper prices.



Copper prices have dropped to their lowest levels since 2021, but the forecast for the future is mixed. There are fears that rising inflation and higher interest rates will cause a global recession.

Longer term, however, the global move towards clean energy will require larger quantities of copper for wiring in electric vehicles and solar panels. At the same time, high oil prices are increasing costs for copper producers, but are also accelerating the trend towards clean energy.

In Chile (the world's largest copper producer) the government is increasing taxes on larger copper producers in an attempt to reduce its budget/fiscal deficit.

Using a supply and demand diagram(s), discuss whether the data suggests that copper prices are more likely to rise or fall in the future. [9]

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