Surname	Centre Number	Candidate Number
First name(s)		2

GCE A LEVEL

1520U30-1

S25-1520U30-1

FRIDAY, 23 MAY 2025 – AFTERNOON

ECONOMICS – A2 unit 3
Exploring Economic Behaviour

2 hours

	For Examiner's use only		
	Question	Maximum Mark	Mark Awarded
Section A	1.	9	
	2.	11	
	3.	9	
	4.	6	
	5.	5	
Section B	6.	8	
	7.	4	
	8.	10	
	9.	8	
	10.	10	
	Total	80	

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ADDITIONAL MATERIALS

In addition to this paper you may require a calculator and a ruler.

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 presentation in your answers.

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SECTION A

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

1. The table below provides a firm's costs and revenues at different levels of daily output.

Daily output	Average Revenue (AR)	Average Cost (AC)	Marginal Cost (MC)
1	£80	£50	£50
2	£74	£35	£20
3	£68	£28	£14
4	£62	£22	£4
5	£56	£20	£12
6	£50	£20	£20
7	£44	£22	£34
8	£38	£24	£38
9	£32	£26	£42

(a) State the level of daily output at which the firm is:

(i) Allocatively efficient [1]

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(ii) Productively efficient [1]

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(b) Calculate the firm's total daily profit when producing a daily output of 6 units. You are advised to show your working. [2]

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(c) The firm targets a daily output of 9 to maximise revenue. Explain, using relevant calculations, whether this is the correct level of output for this objective. [3]

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(d) Outline the difference between accounting profit and economic profit. [2]

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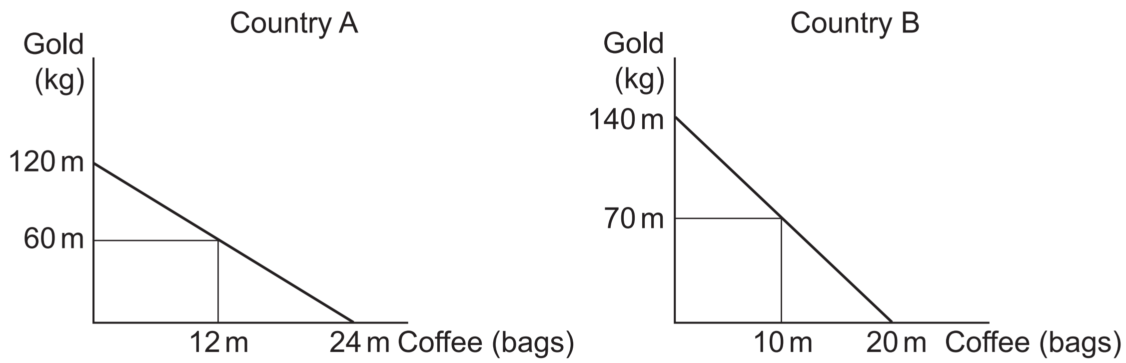
2. The data below provides information on two countries, country A and country B.

Country A is one of the world's largest coffee producers and produces approximately 12 million coffee bags per year. Country B is also a coffee producing country and produces approximately 10 million coffee bags per year. Each coffee bag contains 60 kg of coffee beans.

Country A is a gold producing country and produces approximately 60 million kilograms (kg) of gold per year. Country B is one of the world's largest producers of gold. Country B produces approximately 70 million kg of gold per year.

David Ricardo introduced the theory of comparative advantage which justified international trade based upon the relative opportunity costs of production. According to his theory, country A should only produce coffee, while country B should focus its production on gold alone. Once specialised, both countries should trade these two goods with one another.

The production possibility frontier diagrams below represent production possibilities of gold and coffee for country A and country B.



Diagrams are not drawn to scale

(a) Using the production possibility frontier diagrams, complete the following opportunity cost ratios.

(i) For country A

1 m coffee bags : .... m gold (kg). [1]

(ii) For country B

1 m coffee bags : .... m gold (kg). [1]

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(b) Using your answers to part (a), suggest a suitable quantity of gold country B could exchange for 1 million bags of coffee from country A, describing how both countries gain from this trade. [3]

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(c) Discuss the view that the theory of comparative advantage is relevant in determining whether countries should specialise and trade. [6]

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3. The Eurotunnel is a train service between Folkestone (UK) and Calais (France). The operator, Getlink, charges different ticket prices depending on the day and time of travel. Prices for tickets on the same train vary depending on whether tickets are bought in advance or on the day of travel.

The table below shows ticket prices bought in advance for travelling from Folkestone to Calais during August 2024:

	Between 00.00 and 05.59	**Between 06.00 and 11.59**	**Between 12.00 and 17.59**	**Between 18.00 and 21.59**	**Between 22.00 and 23.59**
Saturday 3rd August 2024	£129	**(a) (i)**	£129	£116	£107
Sunday 4th August 2024	£98	£107	£98	£98	£84

(a) (i) On Saturday 3rd August 2024 between 06.00 and 11.59 the ticket price was 14% higher than the price between 00.00 and 05.59 on the same day. To the nearest whole number calculate the price of this ticket. [2]

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(ii) Outline how Getlink might be using price discrimination. [2]

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(b) Discuss whether it is only producers that benefit from price discrimination. [5]

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4. The charts below provide data relating to the UK economy between January 2021 and November 2023.

Chart 1: UK base interest rate (%) set by the Bank of England

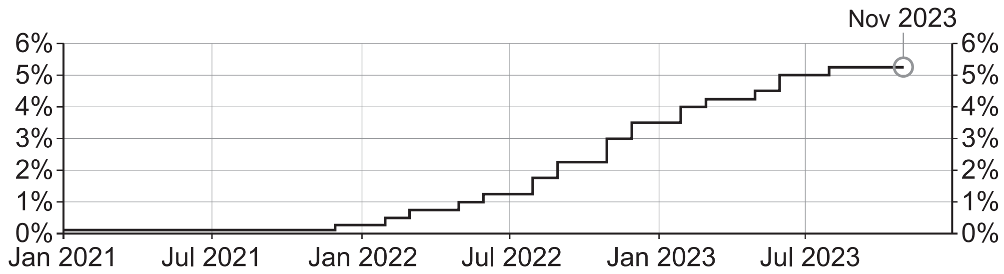
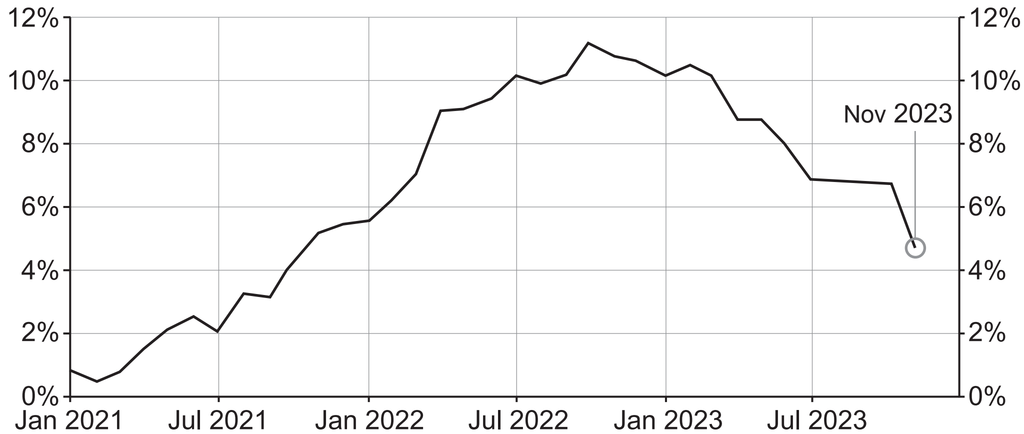


Chart 2: Annual UK inflation rate (CPI) (%)



With reference to the data, discuss the extent to which the changes to the UK's base interest rate have been effective in controlling the UK's inflation rate over the period shown. [6]

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5. Halifax, a UK high street bank reported in July 2023 that UK house prices fell at their fastest rate in 12 years, while mortgage costs continued to rise due to rising interest rates. The report stated that the annual fall of 2.6% was equivalent to a £7 500 reduction in the average UK house price compared to the previous year.

According to property website Zoopla, 60% of all house purchases are made using a mortgage.

With reference to the housing market, describe one cause and one consequence of asset bubbles. [5]

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SECTION B

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

The changing Welsh economy

The economy of Wales has evolved over time, from originally specialising in agriculture and mining to a current focus on manufacturing and service-based industries.

Extract 1: Wales and its international trade in goods

The manufacturing sector in Wales employs around 140 000 people, with many thousands more employed in roles linked to this sector. Manufacturing contributes over 16% to Wales' national economic output, which is significantly higher than the UK average contribution of around 9%.

Figure 1: Wales' international trade in goods

	2021 (£ billions)	**2022 (£ billions)**
Exports of goods	15.2	20.5
Imports of goods	16.1	24.1

Extract 2: Tata Steel warns future of its UK business is in doubt

Tata Steel employed around 8 000 people in the UK. Its plant at Port Talbot in South Wales employed around 4 000 people. Iron and Steel was Wales' 4th most valuable exported good in 2022, contributing £1.3 bn to the Welsh economy.

However, in its March 2023 financial report, Tata Steel warned of an "uncertainty" over the future of its UK steel manufacturing business. Tata cited tough trading conditions and a lack of clarity over government support to help it move to greener forms of steelmaking.

The report showed that pre-tax profits at Tata Steel Europe, fell 60% to £477 m between March 2022 and March 2023. Tata cited factors such as higher inflation, energy costs and interest rates.

The industry is struggling given the challenge to meet tough climate targets and the warnings raised concern among the company's workforce. The chair of Tata Group warned it might have to close its UK operations if it didn't receive government financial support to help reduce its emissions.

In September 2023, the BBC reported that the UK government would be giving Tata's Port Talbot steelworks a support package of £500 m. This was done in a bid to keep the plant open and help fund investment in 'green' steel production technology. This government support will help fund the installation of new electric furnaces for steelmaking at Port Talbot which will cost £1.25 bn in total.

However, Tata originally stated that it required a £1.5 bn government support package to save the Port Talbot site from closure. The UK government's financial support package is also lower than the billions offered by governments abroad to Tata's European rivals.

On the announcement of the £500 m government financial support package, the trade union for steel workers at Tata raised concerns over the new electric furnaces as they would require thousands fewer workers to operate them.

Extract 3: Freeports for Port Talbot – Milford Haven and Anglesey

At the moment, importers of some goods and raw materials that enter the UK have to pay import taxes (tariffs). Generally, a freeport means that companies importing products into the freeport do not have to pay any import taxes when they bring them in. If they use those products to make something else and then export it, they do not have to pay any import taxes. They will only have to pay import taxes if the product leaves the freeport and enters the UK. A freeport is effectively outside a country's customs borders.

Two Welsh freeports are to be created which aim to bring 20 000 jobs by 2030 and investment worth £5 bn. A Port Talbot – Milford Haven joint freeport and a freeport in Anglesey were intended to be operational by the end of 2023. Up to £26 m of non-repayable funding was agreed for each freeport by the UK Government.

The freeports were chosen to exploit renewable energy opportunities and will be expected to contribute to the UK net-zero ambitions.

In England, businesses within freeports pay lower business rates and a lower rate of national insurance for new staff. For the two new Welsh freeports it would be up to the Welsh government as to whether it adopts these two policies.

The argument in favour of freeports is that they create new jobs and attract investment. But critics argue they do not create new jobs but simply encourage businesses to move from one location to another.

Tata Steel said it was delighted with the news of the Port Talbot – Milford Haven freeport. Council leaders in the locations of these new freeports said that the freeports would "unleash green industrial potential" and was "an absolute game changer" for the counties and Wales. "Too many of our young people have had to leave their communities to find decent jobs and a secure future. We want that to change, and freeports can help."

Extract 4: The growing financial sector in the UK

New research shows that outside of London, Wales has the UK's biggest output growth in financial services.

Finance and insurance firms employ 33 000 people in Wales, with another 22 000 being employed in related professional services. Over half of these jobs are based in Cardiff and Swansea.

These 55 000 jobs represent 4.4% of total Welsh employment. They contribute £4.7bn to the Welsh economy, which is equivalent to 7% of total Welsh economic output.

Figure 2: Annual percentage change in jobs by sector in Wales, April 2022 – April 2023

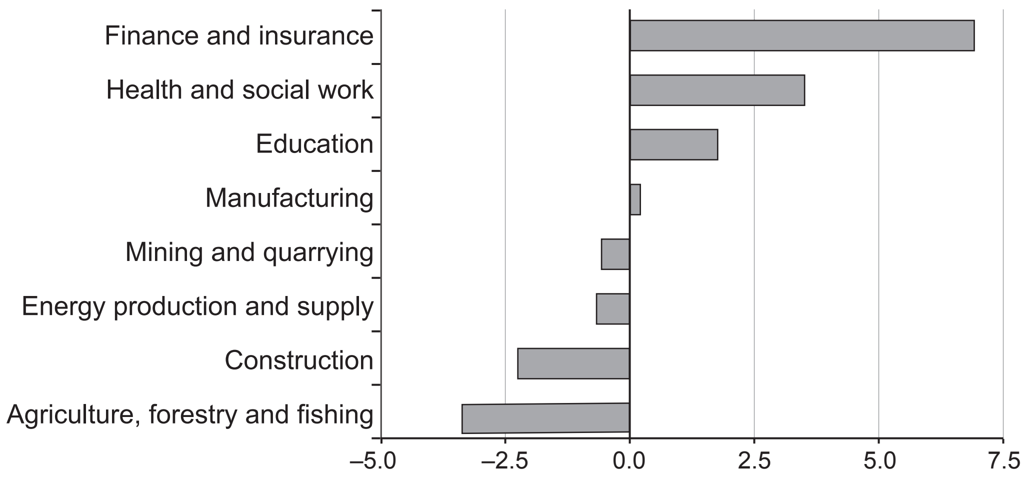
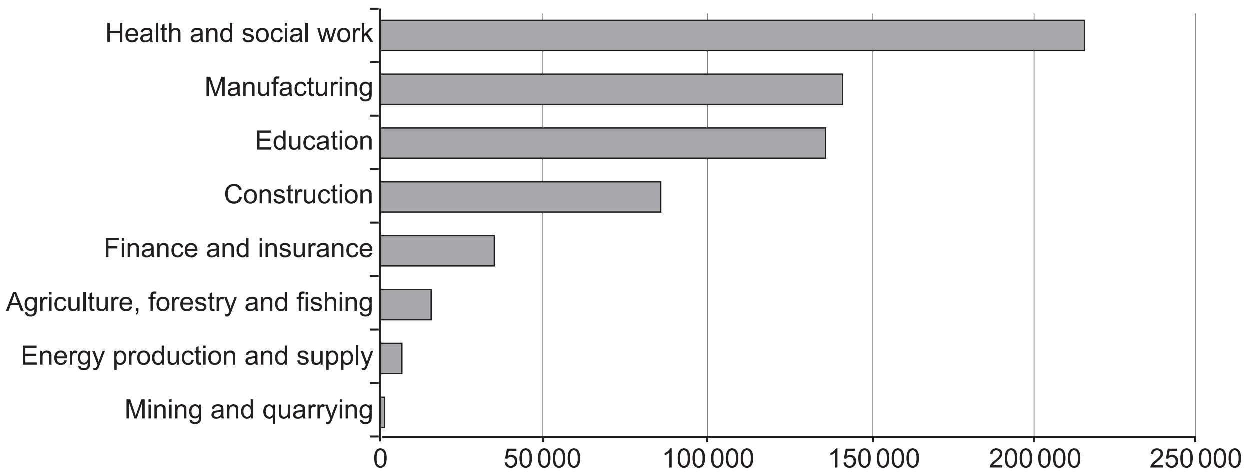


Figure 3: Total number of jobs by sector in Wales, March 2023



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6. (a) Using **Figure 1**, calculate and interpret the percentage change in the trade in goods balance for Wales between 2021 and 2022. [2]

(b) Explain **two** possible reasons for Wales' worsening trade in goods balance in recent years. [6]

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7. With reference to lines 17–19 and the use of an appropriate cost and revenue diagram, describe why Tata Steel experienced a fall in profits between March 2022 and March 2023. [4]

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8. Discuss whether the government financial support for 'green' technology will lead to a positive impact on economic development in Wales. [10]

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9. Using **Extract 3**, discuss the factors that may determine whether the introduction of freeports will be beneficial for the Welsh economy. [8]

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10. With reference to **Figures 2** and **3**, and other relevant information, to what extent does the growing UK financial sector benefit the Welsh economy? [10]

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END OF PAPER

Turn over.

Question number	Additional page, if required. Write the question number(s) in the left-hand margin.

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