

Surname	Centre Number	Candidate Number
First name(s)		2



GCE AS

B520U10-1



O20-B520U10-1



MONDAY, 5 OCTOBER 2020 – MORNING

ECONOMICS – AS component 1
Introduction to Economic Principles

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	4	
2.	4	
3.	14	
4.	10	
5.	10	
6.	4	
7.	7	
8.	7	
Total	60	

ADDITIONAL MATERIALS

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** the questions in the spaces provided.

If you run out of space use the continuation page(s) at the back of the booklet, taking care to number the question(s) correctly.

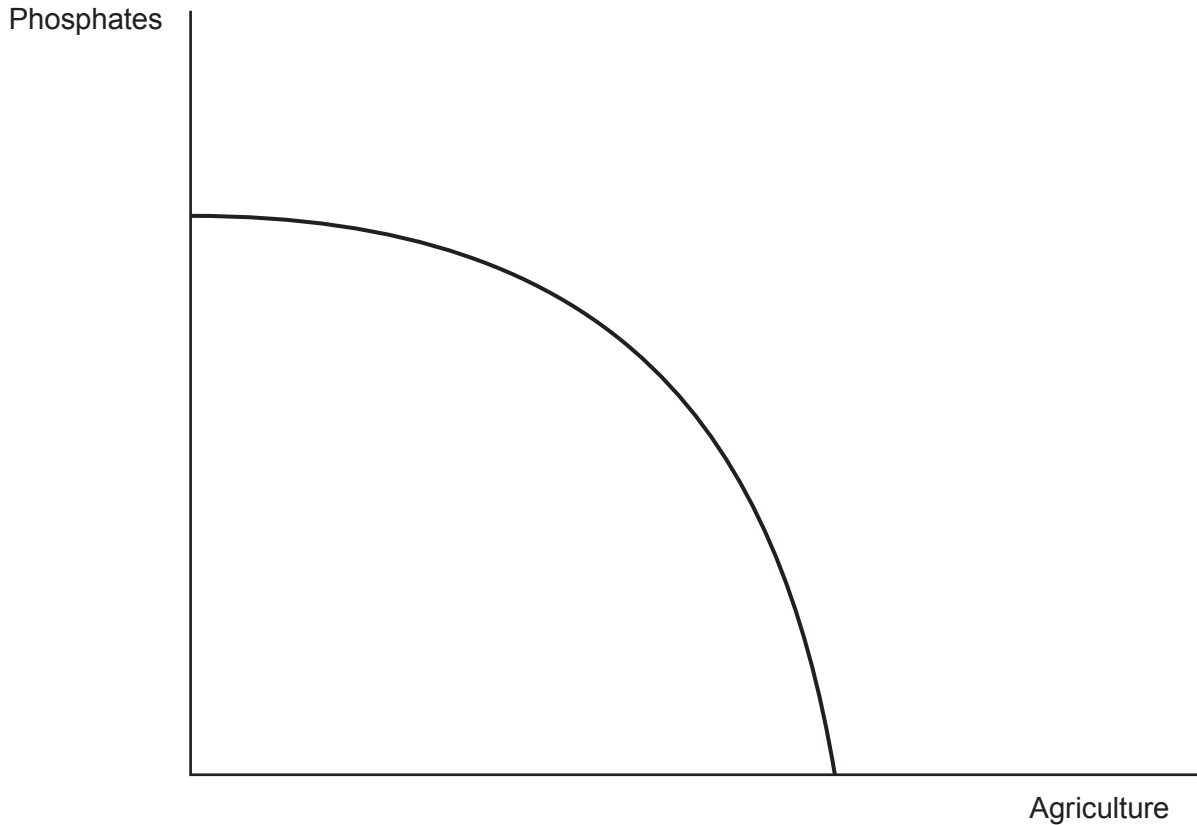
INFORMATION FOR CANDIDATES

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

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

- 1. The production possibility frontier (PPF) diagram below represents Nauru's economy in the 1970s. Nauru is an island nation in the South Pacific, whose major areas of economic activity were phosphate mining and agriculture.

Since then Nauru's phosphate mines have become steadily less productive as the phosphates ran out, but at the same time the government invested in improving agricultural productivity.



Adapt the PPF diagram to show how the factors in the data affected Nauru's economy and outline your reasons for the changes you make. [4]

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2. EU’s wood-burning targets are bad for the planet, say scientists

According to a recent study, government policies to promote the burning of wood as an environmentally friendly ‘renewable fuel’ will increase greenhouse gas emissions and risk damaging global forests.

Using the data, outline what is meant by government failure. [4]

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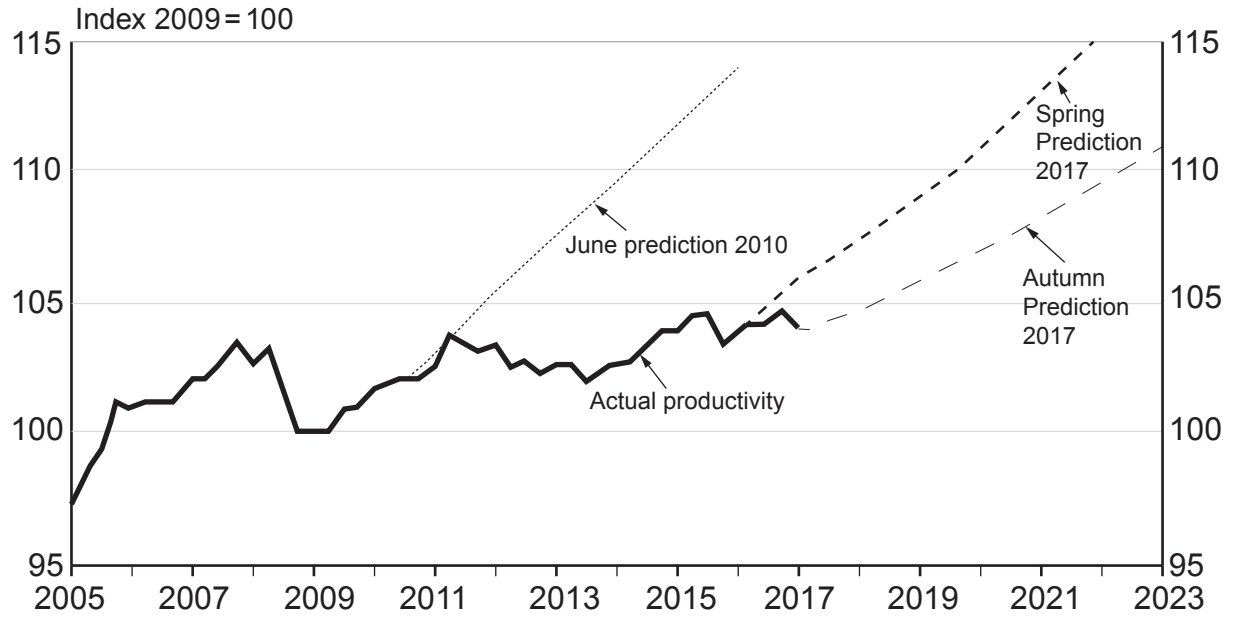
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03

3. Study the chart below and answer the questions that follow.

Productivity growth revised down

Output per hour



Source: Office for National Statistics, Office for Budget Responsibility

(a) Calculate the percentage rise in actual productivity between 2005 and 2017. [2]

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(b) Identify **two** possible causes of the low productivity growth in the UK from 2011 to 2017. [2]

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Over the period shown in the chart, UK Governments have used a variety of supply-side policies in an attempt to improve UK productivity.

(c) To what extent can supply-side policies bring about productivity growth in the UK economy? Refer to the data in your answer. [10]

Dotted lines for writing the answer.

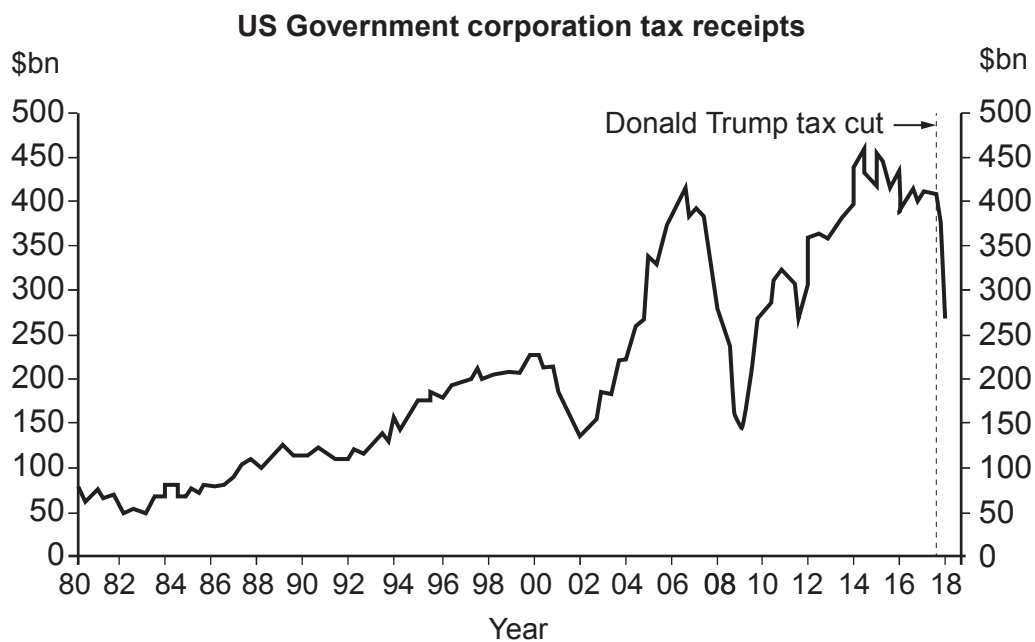
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4. Art Laffer says Donald Trump’s tax cuts don’t go far enough

Art Laffer (an American Economist) says the \$1.5 trillion in tax cuts – temporarily reducing US income tax rates and permanently cutting US corporation tax rates – should be even larger.

Other economists disagree because US government tax receipts were 7% less in June 2018 than in June 2017, including a 33% drop in corporation tax revenue, leaving a \$607bn budget/fiscal deficit for the first 9 months of 2018.

Laffer argued that the reduced government tax receipts were to be expected initially, but that increased economic growth would offset those losses in the long run. However, others argued that with the US economy close to full employment, the scope for significant increases in GDP is limited.



With reference to the data, discuss the extent to which “even larger” tax cuts would be likely to significantly reduce the US government’s budget/fiscal deficit. [10]

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5. The table below gives information on the estimated price elasticities of demand (PED) for conventional cigarettes (tobacco) and e-cigarettes (vaping). It also shows the cross price elasticity of demand between e-cigarettes and conventional cigarettes. The data is for 11–17 year olds in the US.

PED for conventional cigarettes (tobacco)	-0.4
PED for e-cigarettes (vaping)	-1.9
Cross price elasticity between e-cigarettes and tobacco	+2.2

The health problems associated with smoking tobacco are well known, but scientists are uncertain as to the health risks of e-cigarettes. Most research suggests that they are less harmful than conventional cigarettes, but the long-term health risks are not yet known.

Suppose that a US State Government is considering whether to introduce a tax which would raise the price of cigarettes by 10% **or alternatively** a subsidy which would reduce the price of e-cigarettes by 10%.

Using calculations to support your answer, discuss which of the two policies suggested would be most likely to correct the market failures associated with the smoking of conventional cigarettes. [10]

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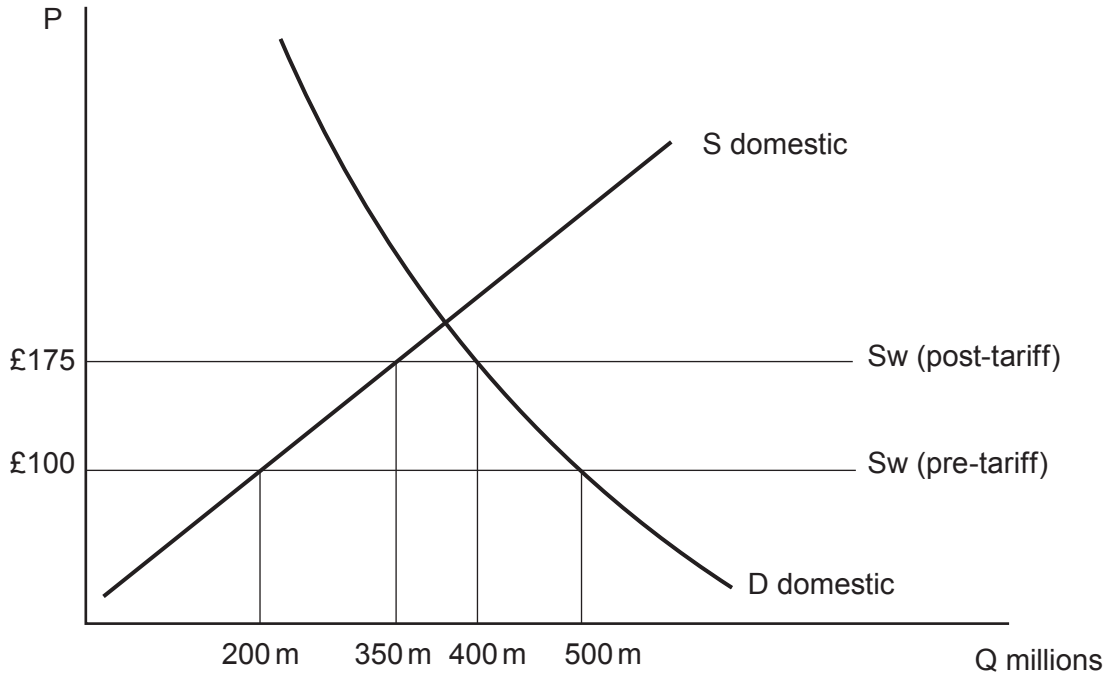
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6. The diagram below shows the impact on a domestic market of the introduction of tariffs on the import of a product.



Calculate

- (i) The tax revenue generated for the government. [2]

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- (ii) The increase in domestic producer surplus. [2]

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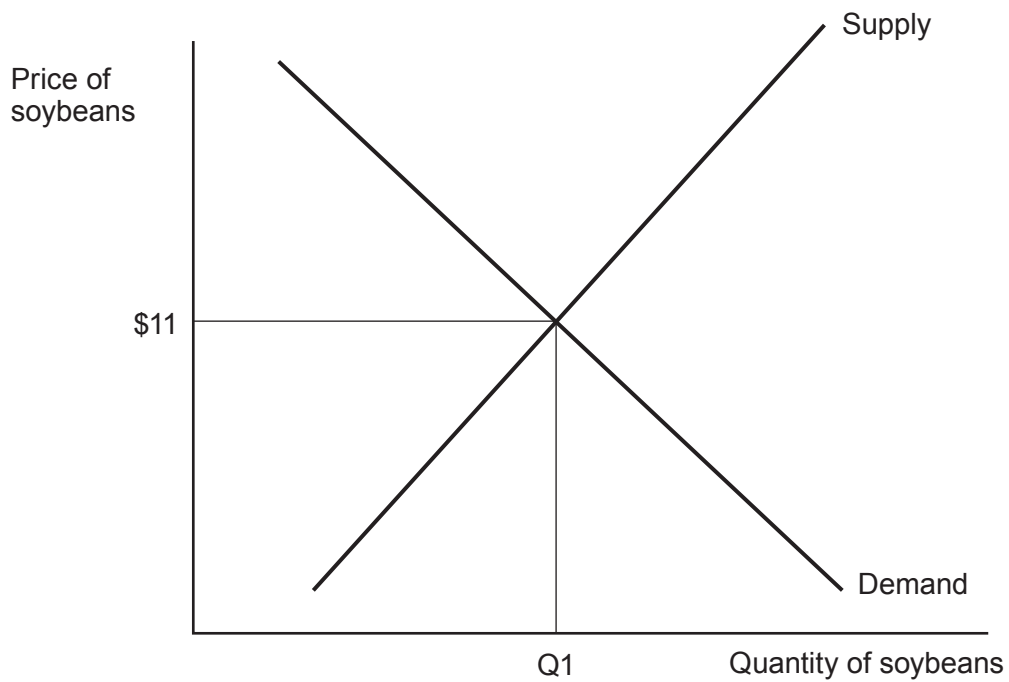
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- 7. As part of the US-China trade war, China has retaliated against US protectionism by imposing a tariff on imported US soybeans. Since China announced the tariff, soybean prices inside the US have dropped from around \$11 per unit to around \$8 per unit. More than half of US soybeans go to China, the world's largest consumer of the beans.

In addition, soybean production was also forecast to reach a record high, 6% above the previous year.

Adapting the supply and demand diagram below and with reference to the data, explain why soybean prices have gone down inside the US. [7]



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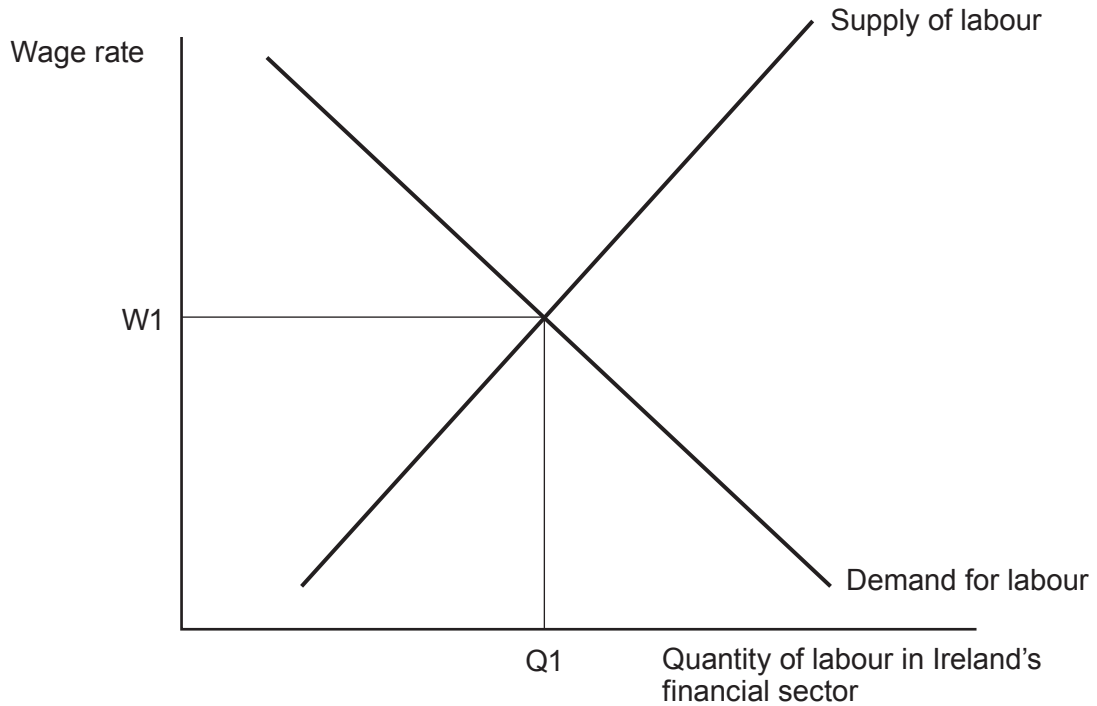
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- 8. Ireland has been a popular destination for financial firms leaving London, causing wages for some staff in this sector to rise by 15%. This has occurred even though there has been an inflow of workers from as far away as Australia and the United States, many of whom were returning having left Ireland after the 2008 financial crisis.

Adapting the diagram below, explain the impact of these changes on wages in the financial sector in Ireland. [7]



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