

Surname	Centre Number	Candidate Number
First name(s)		2



**GCE A LEVEL**

A520U10-1



**MONDAY, 23 MAY 2022 – AFTERNOON**

**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	3	
22	5	
23	8	
24	8	
25	8	
26	8	
<b>Total</b>	<b>60</b>	

**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** questions.

Write your answers in the spaces provided in this booklet. If you run out of space use the continuation pages 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.

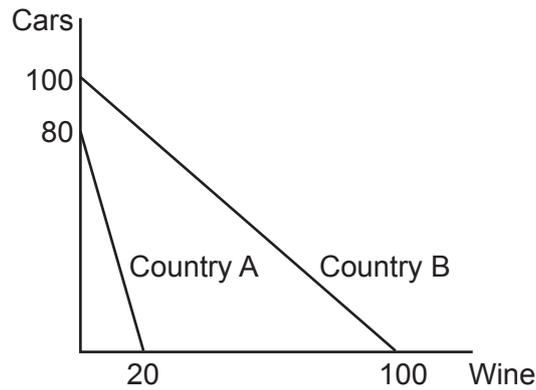
You are reminded of the necessity for good English and orderly presentation in your answers.

**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. The diagram below shows the PPFs for the economies of Country A and Country B.

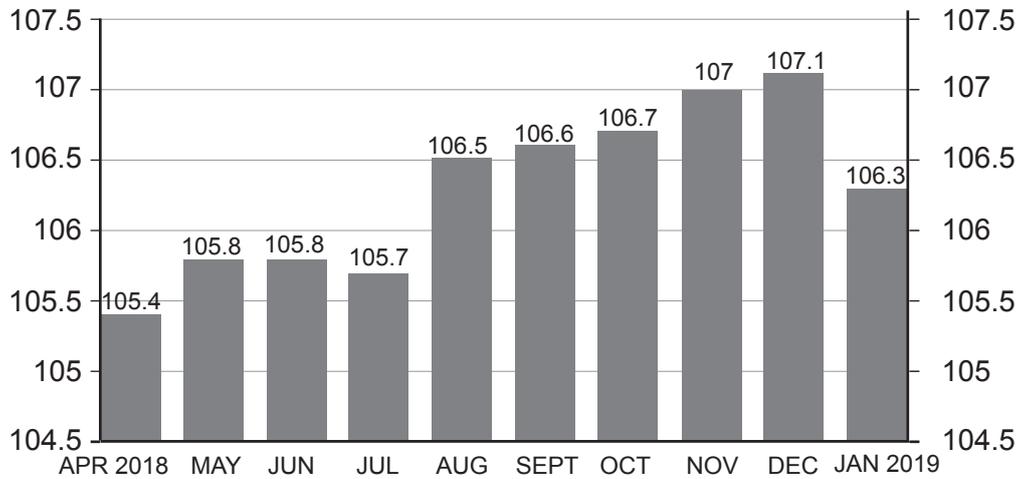


Which **one** of the following statements is correct?

[1]

- A** There are no gains from trade between Country A and Country B
- B** Country A has an absolute advantage in the production of wine
- C** Country B has comparative advantage in the production of cars
- D** Country B has comparative advantage in the production of both goods
- E** Country A has comparative advantage in the production of cars

2. The chart below shows the UK's CPI between April 2018 and January 2019.

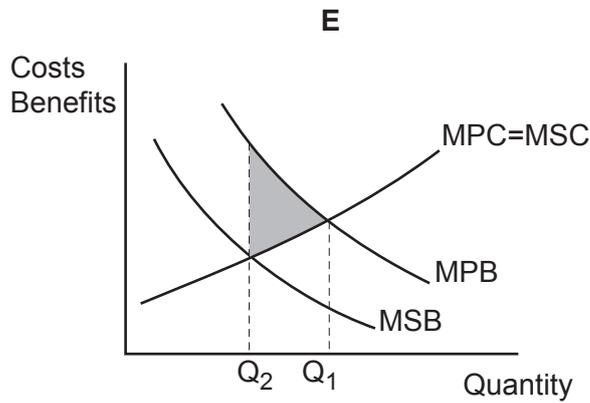
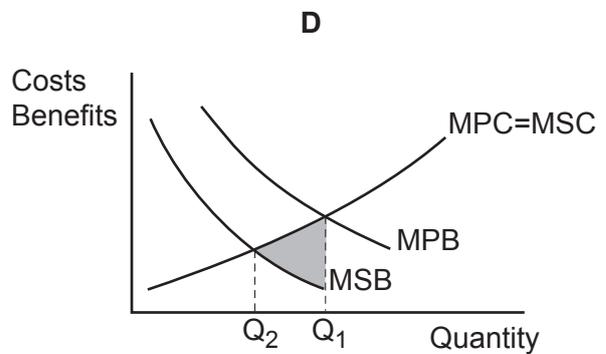
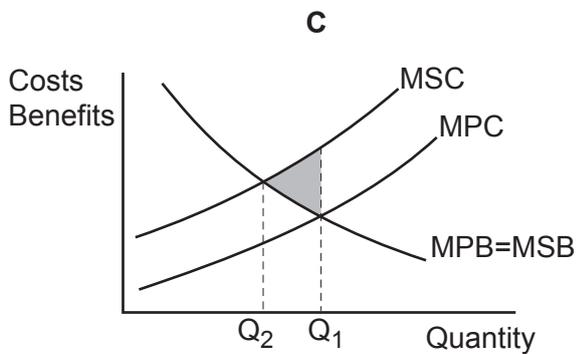
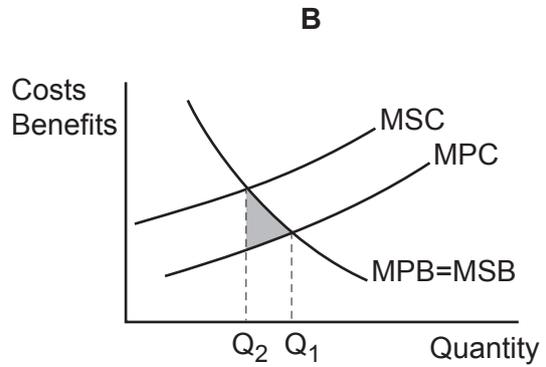
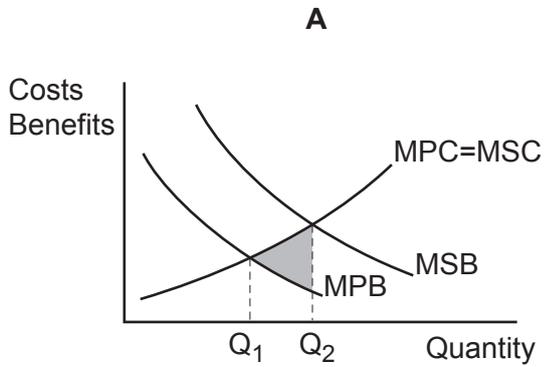


Which of the following is true?

[1]

- A** Prices rose by 1.6% between April 2018 and December 2018
- B** Prices rose by 0.9% between April 2018 and January 2019
- C** Inflation was positive in every month in the period shown
- D** Prices rose by 5.4% in April 2018
- E** Prices were highest at the end of the period

3. The excessive consumption of junk food imposes external costs on society, resulting in market failure. Which of the following diagrams best illustrates this economic problem? [1]



Key:

= Welfare loss in all diagrams

- MPC = marginal private cost
- MSC = marginal social cost
- MPB = marginal private benefit
- MSB = marginal social benefit



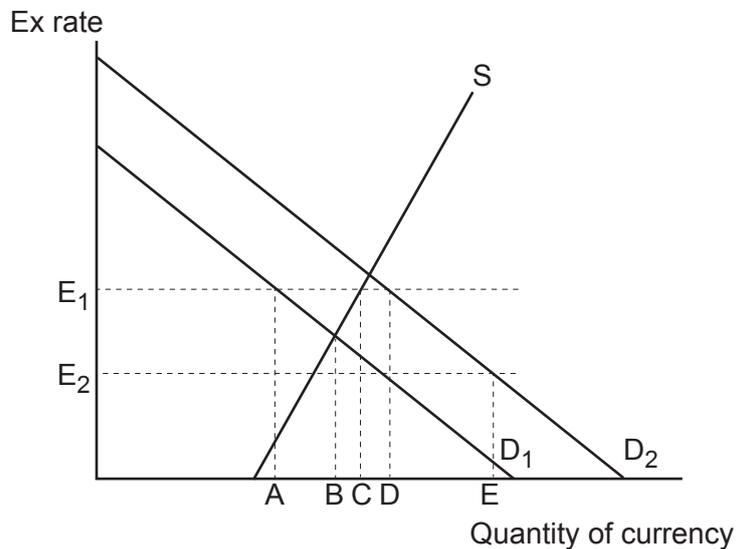
4. Suppose that a firm's research has shown that its total revenue increases if any one of the following occurs:
- (i) It increases its prices
  - (ii) The economy enters a recession
  - (iii) A related firm cuts its prices

It can be concluded that for this firm's product:

[1]

	PED is	YED is	XED is
<b>A</b>	Elastic	Positive	Negative
<b>B</b>	Inelastic	Negative	Negative
<b>C</b>	Elastic	Positive	Positive
<b>D</b>	Inelastic	Positive	Negative
<b>E</b>	Inelastic	Negative	Positive

5. The diagram below shows the supply and demand for a country's currency. The central bank manages the exchange rate to keep it between  $E_1$  and  $E_2$ .



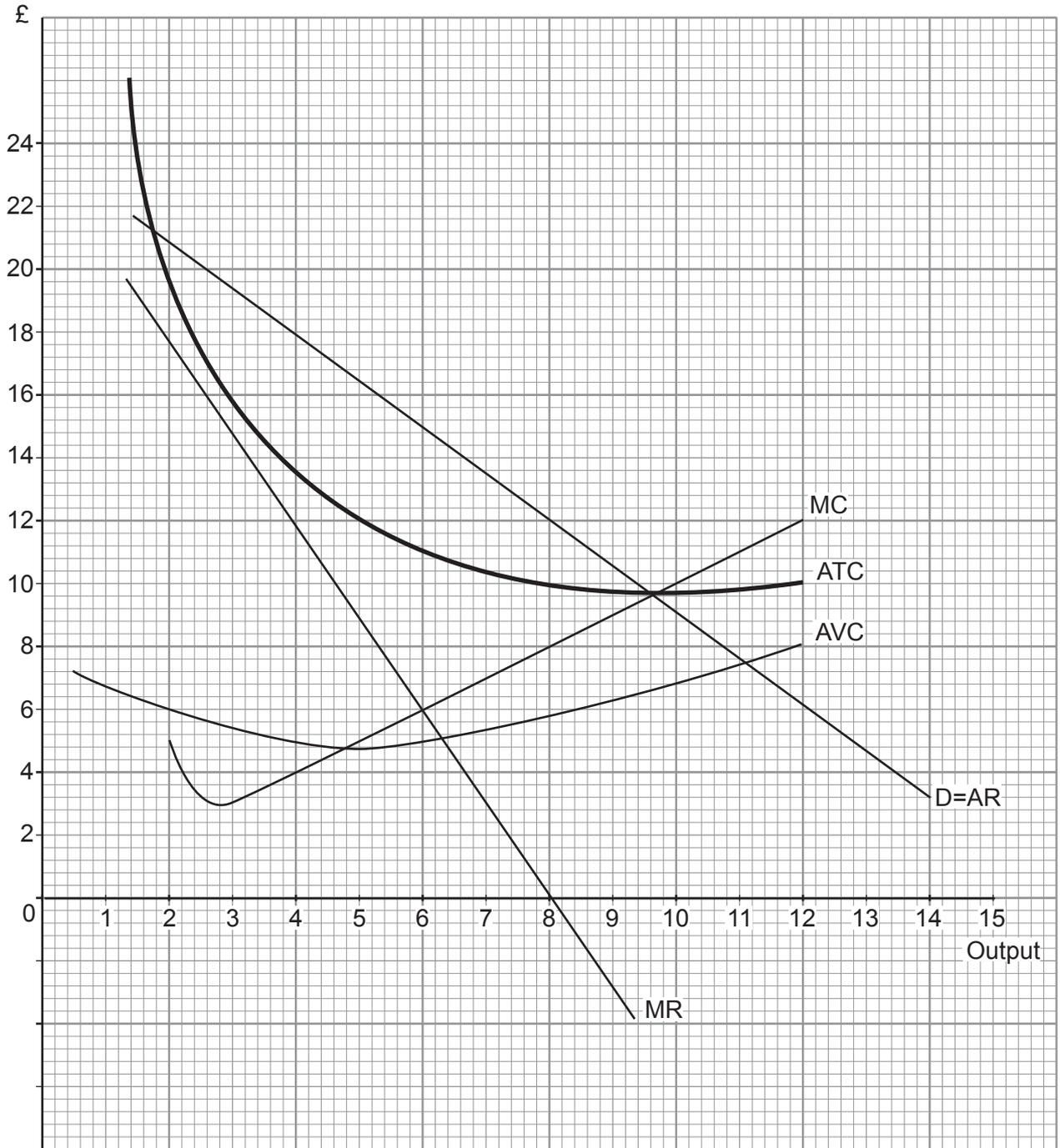
Suppose that demand rises from  $D_1$  to  $D_2$ , what would the central bank need to do to maintain the exchange rate at  $E_1$ ? [1]

- A** Buy AC of its own currency
- B** Buy AD of its own currency
- C** Sell BD of its own currency
- D** Sell AD of its own currency
- E** Sell CD of its own currency

6. Which **one** of the following is an internal economy of scale? [1]
- A Discounts from suppliers to firms who order in bulk
  - B Efficient local transport networks
  - C Specialist training facilities provided by local colleges
  - D The reputation of an area for a particular product
  - E New technology becomes available to all firms in an industry
- 

Study the graph opposite, which shows a firm in an imperfect market, to answer questions 7 and 8.

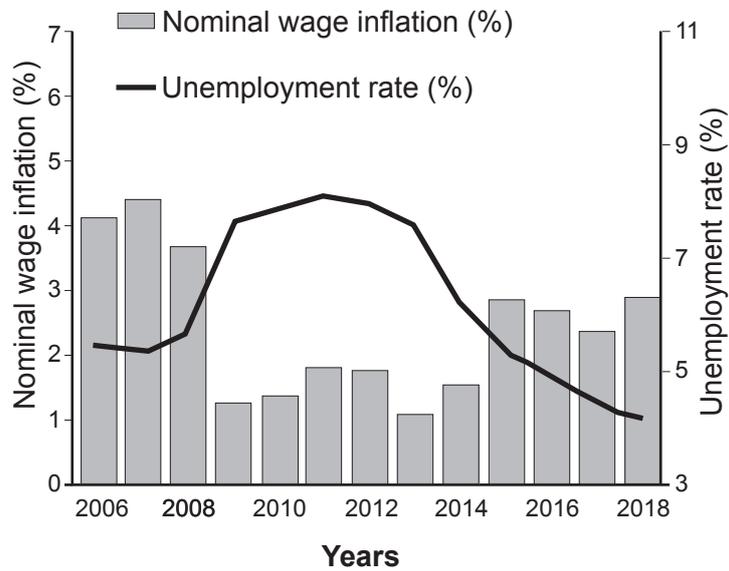
7. The firm's total fixed costs if it produces the profit maximising output are (to the nearest £): [1]
- A £30
  - B £36
  - C £44
  - D £66
  - E £95
- 
8. The firm's abnormal profit if it produces the sales revenue maximising output will be: [1]
- A £96
  - B £90
  - C £30
  - D £16
  - E £0 (Normal profit)
-



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9.

**UK: more people at work**  
The unemployment rate is at historical lows  
and wage growth has recovered



The chart shows that over the period:

[1]

- A** Low levels of nominal wage growth cause high levels of unemployment
- B** Unemployment increased and then fell, but nominal wages fell and then increased
- C** Unemployment increased and then fell, but nominal wages increased in each year
- D** Increased unemployment causes nominal wages to fall
- E** Reductions in unemployment always increase nominal wage growth



10. The table below has information on the US money supply and nominal GDP.

	Money supply	Nominal GDP
2015	\$2.9bn	\$18.0bn
2016	\$3.1bn	\$18.4bn
2017	\$3.3bn	\$19.2bn
2018	\$3.5bn	\$20.0bn
2019	\$3.7bn	\$20.9bn

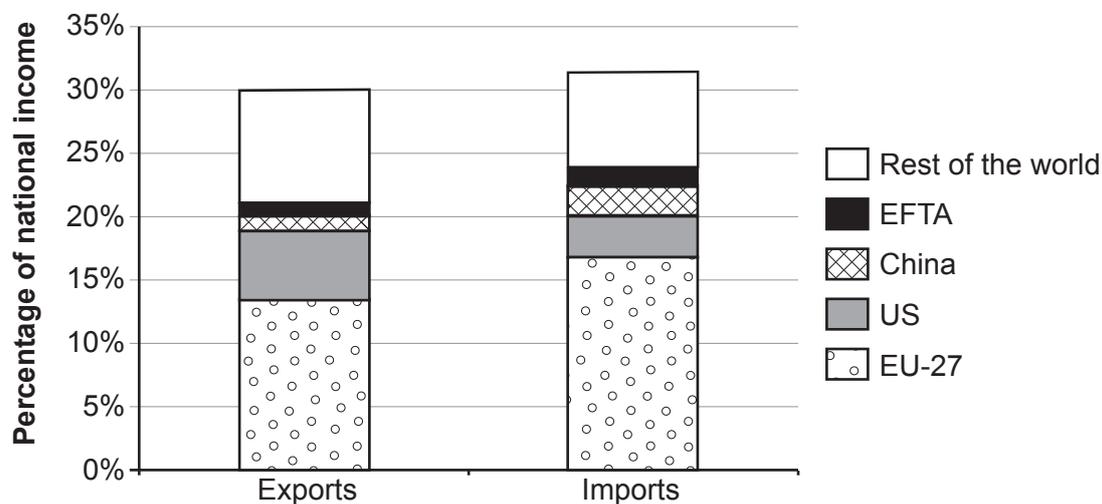
It can be concluded that:

[1]

- A The price level must have been rising
- B Real GDP must have been rising
- C The velocity of circulation was constant
- D The velocity of circulation was falling
- E The price level and real GDP must both have been rising

11. The chart below gives data on the UK's imports and exports of goods and services as a percentage of UK GDP.

**Value of exports from and imports to the UK as a percentage of GDP, 2017**



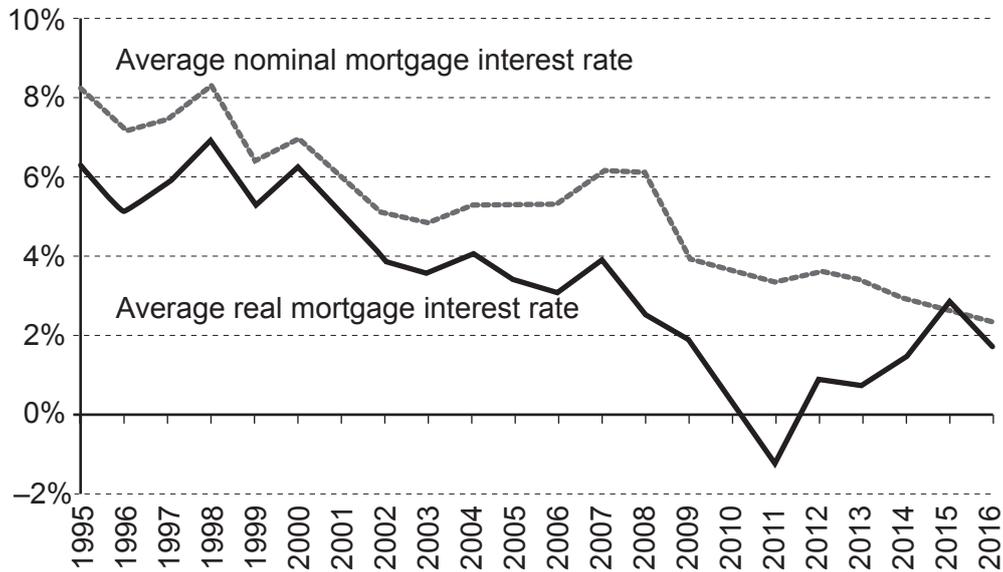
It can be concluded that:

[1]

- A** The UK had an overall balance of trade surplus on goods and services
- B** The UK had a balance of trade surplus on goods and services with EFTA
- C** The UK had a balance of trade surplus on goods and services with the US
- D** The UK had a balance of trade surplus on goods and services with China
- E** The UK had a balance of trade surplus on goods and services with the EU

12. The chart below gives information on real and nominal mortgage interest rates between 1995 and 2016.

**Average nominal and real mortgage interest rates on variable mortgages, 1995–2016**



Note: Real mortgage interest rate is after adjusting for CPI inflation (excluding housing costs)

It can be concluded that:

[1]

- A** Inflation was positive each year between 1995 and 2016
- B** Inflation was highest in 1998
- C** Inflation was rising between 2011 and 2015
- D** There was deflation in 2011
- E** Inflation was rising between 2009 and 2011

13. An **appreciation** in the exchange rate would be most likely to improve the current account balance if the price elasticities of demand (PED) for exports and imports were:

[1]

	PED for exports	PED for imports
<b>A</b>	-0.2	-0.2
<b>B</b>	-0.5	-0.5
<b>C</b>	-0.9	-1.4
<b>D</b>	-1.4	-0.9
<b>E</b>	-1.4	-1.4

14. A firm faces the following cost and revenue situation:

The firm's total fixed costs are £20 per day.

Output per day	Marginal cost	Marginal revenue
1	£5	£15
2	£7	£15
3	£9	£15
4	£11	£15
5	£13	£15
6	£16	£15
7	£19	£15

If the firm produces the output at which profits are highest, its overall level of profit or loss will be:

[1]

- A** £20 loss  
**B** £0  
**C** £9 profit  
**D** £10 profit  
**E** £30 profit

15. The table below gives information on the index of UK export prices and the index of UK import prices between January 2016 and January 2018:

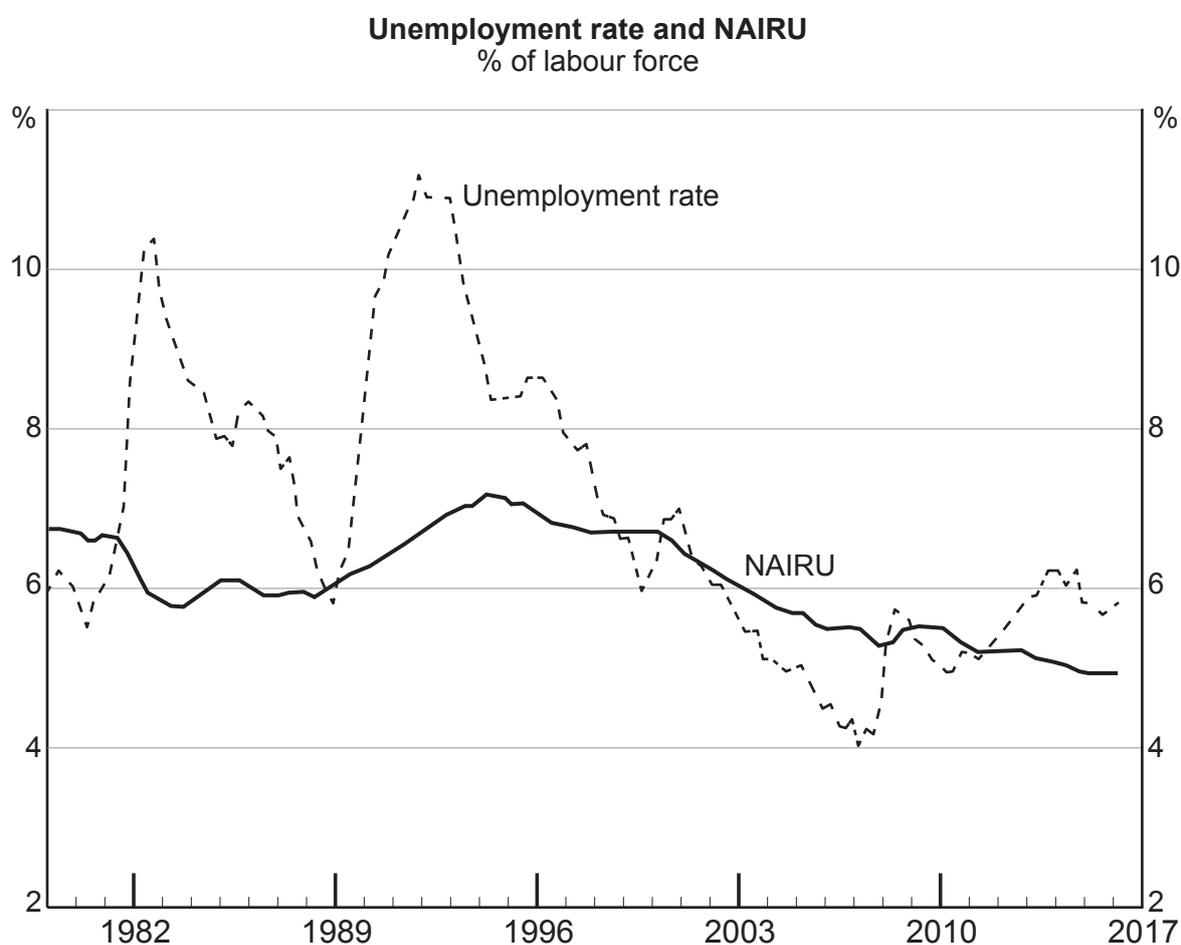
	Export price index	Import price index
January 2016	98	99
January 2017	111	109.5
January 2018	112	111

It can be concluded from the table that:

[1]

- A** The terms of trade worsened between January 2016 and January 2017
- B** The terms of trade worsened between January 2017 and January 2018
- C** There was a trade deficit in January 2016
- D** The terms of trade index improved each year
- E** There was a trade deficit in January 2018

16. The chart below contains information on the unemployment rate and the NAIRU (the non-accelerating inflation rate of unemployment) in Australia.



The information in the chart suggests that it is most likely that:

[1]

- A** Increases in the NAIRU increase unemployment
- B** Inflation should have been rising in the mid-1980s
- C** Inflation should have been falling in the 1990s
- D** Increases in unemployment increase the NAIRU
- E** Inflation should have been falling between 2003 and 2008

17. The table below gives information on a hypothetical country's income tax structure:

Annual income	Income tax due
£10 000	£1 000
£15 000	£1 200
£20 000	£1 400
£40 000	£2 400
£60 000	£3 000

It can be deduced from the above data that the tax being imposed is:

[1]

- A A progressive tax
- B An ad valorem tax
- C An indirect tax
- D A specific tax
- E A regressive tax

18. Suppose an economy has a GDP of \$200bn and enjoys constant 2% economic growth for the next 5 years. What will be the value of the economy's GDP after 5 years? [1]

- A \$220.00bn
- B \$220.82bn
- C \$221.84bn
- D \$222.22bn
- E \$223.52bn

19. The price elasticity of demand for a product is unity ( $-1$ ). Which of the following will increase as a result of an increase in the supply of the product? [1]

- A** Expenditure on the product  
**B** Expenditure on substitute products  
**C** Marginal revenue  
**D** Quantity demanded  
**E** The price of the product

20. The payoff matrix below shows two firms' expected revenues from different pricing decisions:

		Firm B	
		£20	£25
Firm A	£10	£500, £2000	£750, £1750
	£9	£450, £1800	£650, £1500

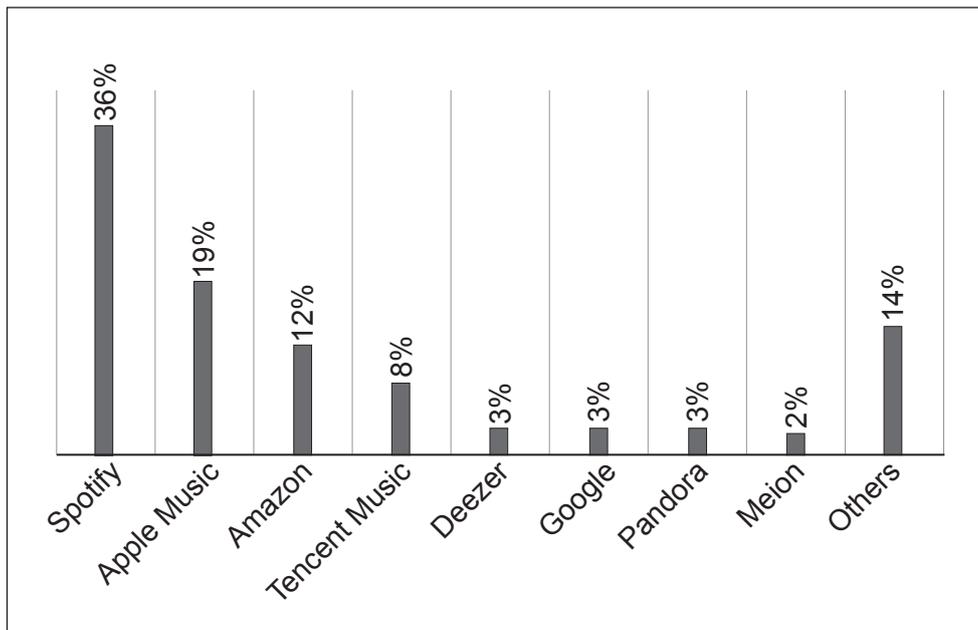
It can be concluded, other things being equal, that the price elasticity of demand for each firm's product is: [1]

	Firm A	Firm B
<b>A</b>	Elastic	Elastic
<b>B</b>	Elastic	Inelastic
<b>C</b>	Inelastic	Elastic
<b>D</b>	Inelastic	Inelastic
<b>E</b>	Unknown	Unknown

**SECTION B**

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

21. The data below shows the market share of firms supplying music downloads and streaming services.



- (a) Calculate the four firm concentration ratio for this sector.

[1]

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- (b) Outline the market structure of the industry.

[2]

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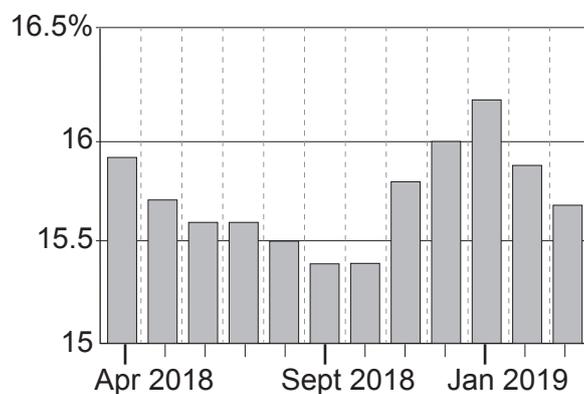
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22. The chart below gives information on Sainsbury's market share in 2018 and early 2019. In 2018 Sainsbury's announced plans to merge with its competitor, Asda. In April 2019 this proposed merger was blocked by the Competition and Markets Authority.

**Sainsbury's market share (% of total value of supermarket sales)**



- (a) State the type of integration involved if Sainsbury's had merged with Asda. [1]

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- (b) Using a cost and revenue diagram, explain how a switch from profit maximisation to sales revenue maximisation might affect Sainsbury's market share. [4]

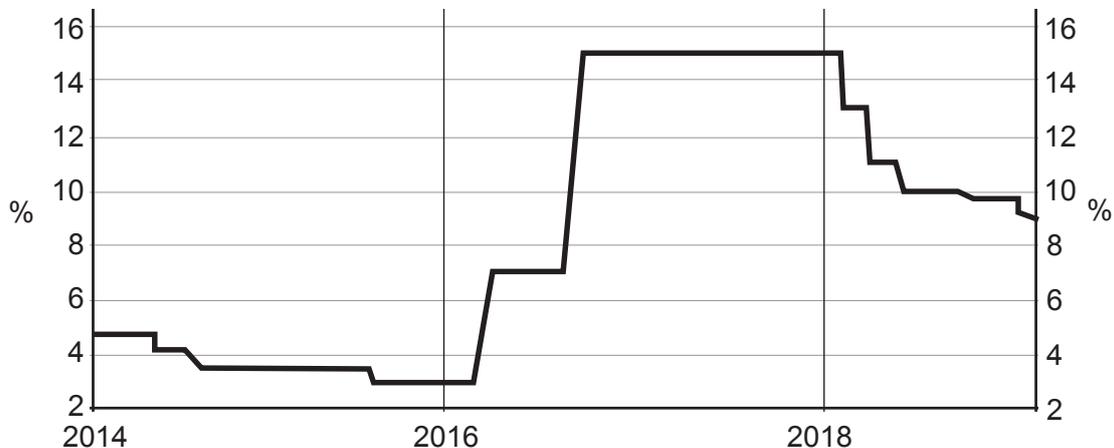




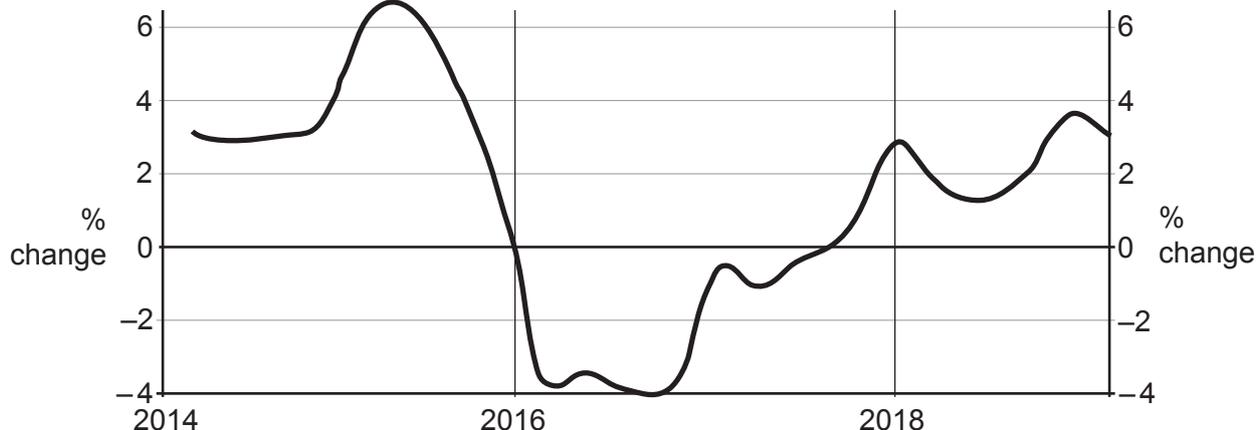


25. The charts below give information on base interest rates in Azerbaijan and Azerbaijan's annual rate of economic growth:

**Azerbaijan base interest rates (%)**



**Azerbaijan annual economic growth (% change on previous year)**



Azerbaijan is a developing economy in Eurasia which is highly oil dependent. The economy was impacted significantly by the fall in global oil prices in 2015 which also caused a drop in the exchange rate of the manat, Azerbaijan's currency.

Using economic theory and the information above, discuss the relationship between base interest rates and economic growth in Azerbaijan.

[8]

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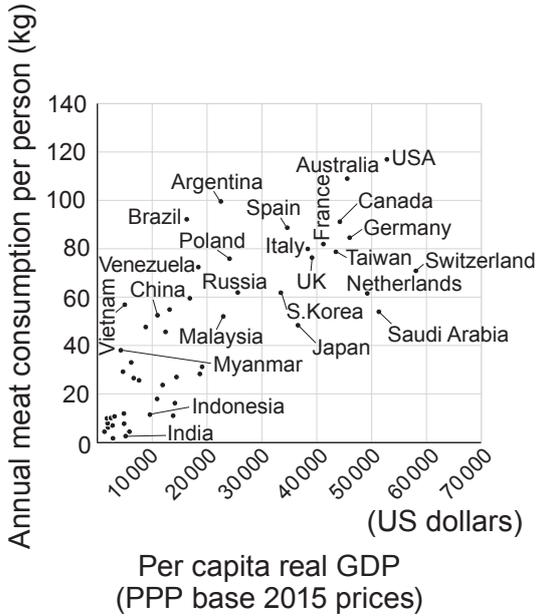
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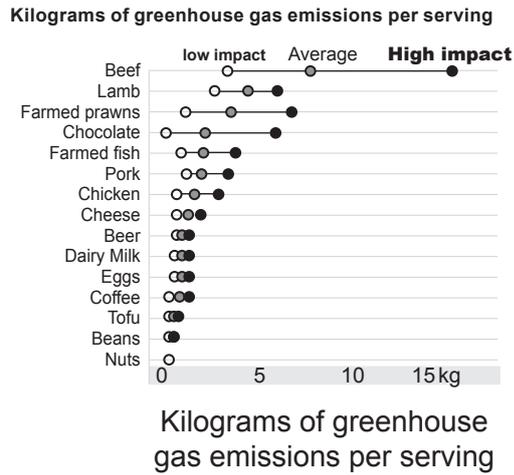
26. Vegan diet to save the planet?

According to a recent report, avoiding meat and dairy products is the single biggest way to reduce your environmental impact on the planet, but rising global incomes look likely to cause a rapid increase in meat consumption.

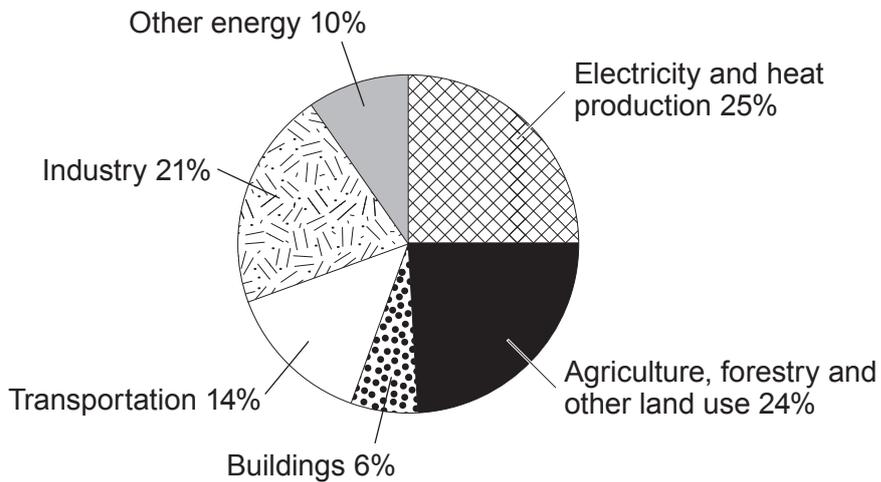
**GDP per capita and annual meat consumption per person (kg)**



**Beef has the biggest carbon footprint – but the same food can have a range of impacts**



**Greenhouse gas emissions by sector**



With reference to the data, and using appropriate economic analysis, discuss whether governments should significantly increase indirect taxes on meat.

[8]

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