Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____

AS
ECONOMICS

Paper 1 The operation of markets and market failure

Monday 16 May 2016 Morning Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:
- the source booklet
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the source booklet provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- There are 70 marks available on this paper.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

Do not write outside the box

Section A

Answer **all** questions in this section.

Only **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD 

WRONG METHODS 

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

0 1 In a free market economy, the economic problem of what goods should be produced is usually solved by

A consumers expressing their tastes and preferences in their pattern of spending. ⬭

B households completing business surveys to reveal their preferred products. ⬭

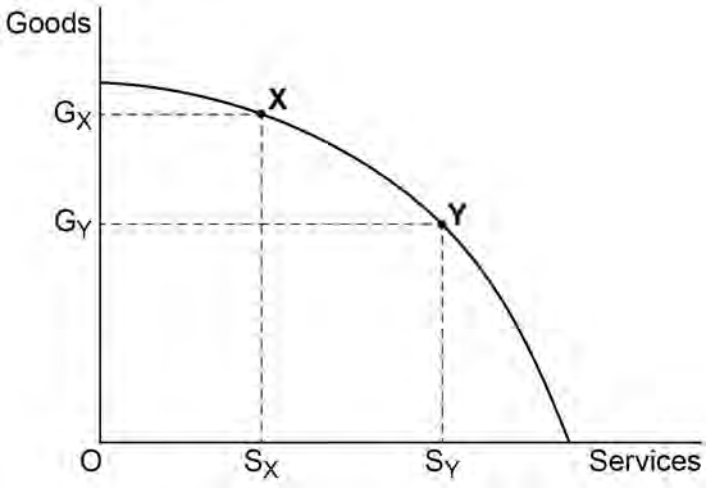
C firms planning their activities to meet production targets set by government. ⬭

D entrepreneurs producing their own goods to satisfy their own needs and wants. ⬭

[1 mark]

Do not write outside the box

0 2 The diagram below shows a production possibility boundary for an economy that produces goods and services.



From the diagram it can be concluded that

A point X is productively efficient and point Y is allocatively efficient. ⬭

B point Y is productively efficient and point X is allocatively efficient. ⬭

C points X and Y are allocatively efficient. ⬭

D points X and Y are productively efficient. ⬭

[1 mark]

0 3 A demand curve is drawn on the assumption that

A quantity demanded always increases as price falls. ⬭

B changes in price do not influence supply. ⬭

C price elasticity of demand does not vary along the demand curve. ⬭

D factors affecting demand, other than price, remain constant. ⬭

[1 mark]

Do not write outside the box

0 4 Monopoly can provide an example of market failure because firms with monopoly power

A may produce a larger output than would be supplied in a competitive market so that they achieve economies of scale. ⬭

B may produce a lower output, less efficiently, than would be supplied by a competitive market. ⬭

C always charge high prices and earn high profits. ⬭

D have no incentive to meet consumer demands. ⬭

[1 mark]

0 5 The cross elasticity of demand between goods X and Y is positive. This implies that they are

A normal goods. ⬭

B substitute goods. ⬭

C goods in composite demand. ⬭

D complementary goods. ⬭

[1 mark]

0 6 Many agricultural products are subject to large fluctuations in price. One reason why these large fluctuations occur is because the

A demand for agricultural products is income inelastic in the long run. ⬭

B supply of agricultural products is price elastic in the long run. ⬭

C supply of agricultural products is price inelastic in the short run. ⬭

D demand for agricultural products is price elastic in the short run. ⬭

[1 mark]

Do not write outside the box

0 7 A good has a price elasticity of supply of +0.8. At present, the quantity supplied of the good is 200 units per week at a market price of £800 per unit. If the price rises to £1000 per unit then the quantity supplied per week would

A increase to 250 units. ⬭

B increase to 240 units. ⬭

C increase to 360 units. ⬭

D decrease to 160 units. ⬭

[1 mark]

0 8 A reduction in the market price of a firm's product will always result in an increase in its profits or a reduction in its losses if it

A increases its share of the market. ⬭

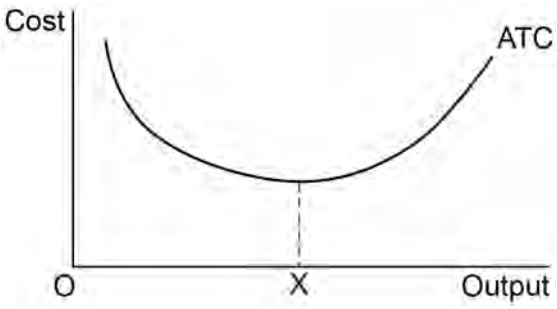
B increases its total revenue by more than its total costs. ⬭

C enables it to reduce its average costs. ⬭

D leads to a reduction in the price of its inputs. ⬭

[1 mark]

0 9 The diagram below shows a firm's average total cost curve (ATC), with the firm producing an output of OX.



The firm's productive efficiency will improve if the

A ATC curve shifts upwards for any given level of output. ⬭

B ATC curve shifts downwards for any given level of output. ⬭

C firm increases its level of output. ⬭

D firm reduces its level of output. ⬭

[1 mark]

Do not write outside the box

1 0 All other things being equal, which one of the following situations always results in a rise in labour productivity?

A Output falls at a slower rate than the fall in the number of workers employed ⬭

B Output falls at a faster rate than the fall in the number of workers employed ⬭

C Output rises at a slower rate than the rise in the number of workers employed ⬭

D Output always rises as the number of workers employed increases ⬭

[1 mark]

1 1 Which one of the following is the best indicator of the degree of competition in an industry?

A The industry's concentration ratio ⬭

B The elasticity of supply of the industry's output ⬭

C The number of workers employed in the industry ⬭

D The total value of the industry's sales ⬭

[1 mark]

1 2 The table below shows the characteristics of four private sector firms. Which one of the firms, **A, B, C or D**, is most likely to be in a competitive market?

	Firm	Profit	Barriers to entry	
A	**A**	Low	High	⬭
B	**B**	Low	Low	⬭
C	**C**	High	High	⬭
D	**D**	High	Low	⬭

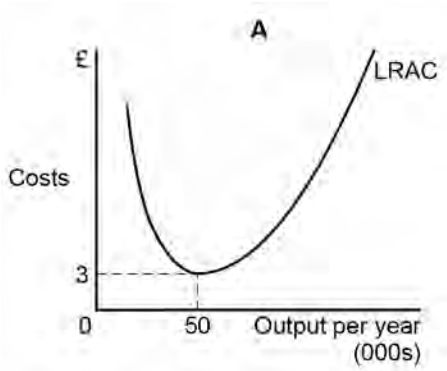
[1 mark]

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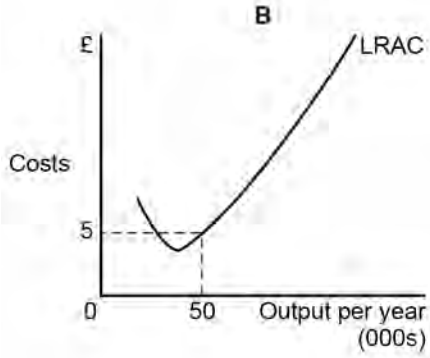
1 3 The diagrams below show four possible long run average cost curves (LRAC) for a firm operating in a market where the annual sales are 400 000 units per year.

All other things being equal, which one of the cost curves, **A, B, C or D**, is most likely to enable the firm to achieve monopoly power in the market for its product?

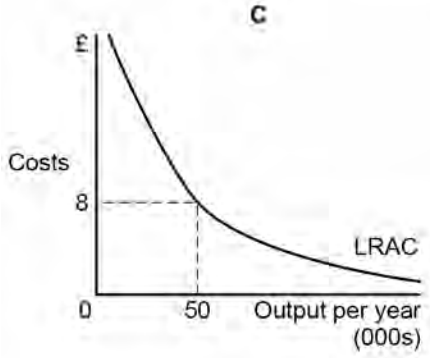
A ⬭



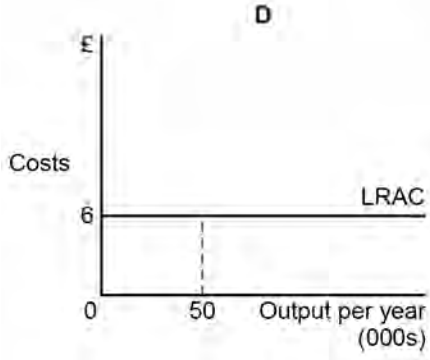
B ⬭



C ⬭



D ⬭



[1 mark]

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1 4 An essential characteristic of a public good is that it is non-excludable. This means that

A public goods are of equal benefit to all consumers. ⬭

B there is no opportunity cost in the provision of public goods. ⬭

C people could consume the good without paying for it. ⬭

D the government should not levy a tax for providing public goods. ⬭

[1 mark]

1 5 The elasticity of supply of a particular good is more likely to be low

A the shorter the time period under consideration. ⬭

B if the good in question has many close substitutes. ⬭

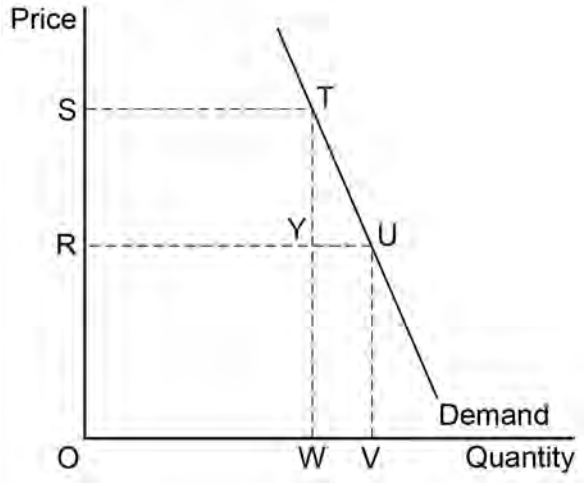
C if the good in question is a necessity. ⬭

D if complementary goods are required for its consumption. ⬭

[1 mark]

Do not write outside the box

1 6 The diagram below illustrates a market in which a monopolist takes control and sets a price above the competitive level.



The price charged by the monopolist is OS. If the market had been competitive, the price would have been OR. Under monopoly, the amount buyers spend on the product has increased by

A RSTY. ⬭

B OS multiplied by OW. ⬭

C RSTU. ⬭

D RSTY minus WYUV. ⬭

[1 mark]

1 7 An increase in the world market price of wheat, following a series of poor harvests, leading to falling sales is an example of

A market failure due to an externality in production. ⬭

B government failure to support agricultural markets. ⬭

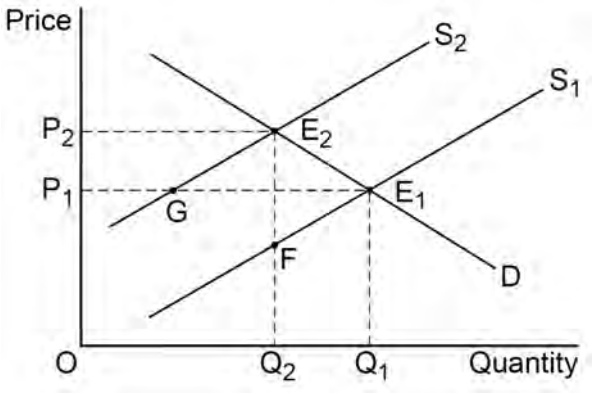
C scarcity caused by high prices. ⬭

D the rationing function of price. ⬭

[1 mark]

Do not write outside the box

1 8 The diagram below shows the market demand curve (D) and two market supply (S_1 and S_2) curves for a good. The initial equilibrium point is at E_1. The introduction by the government of an indirect tax per unit of the good results in a new equilibrium at E_2.



The amount of the indirect tax per unit is measured by the

A vertical distance FE_2. ⬭

B increase in price P_1P_2. ⬭

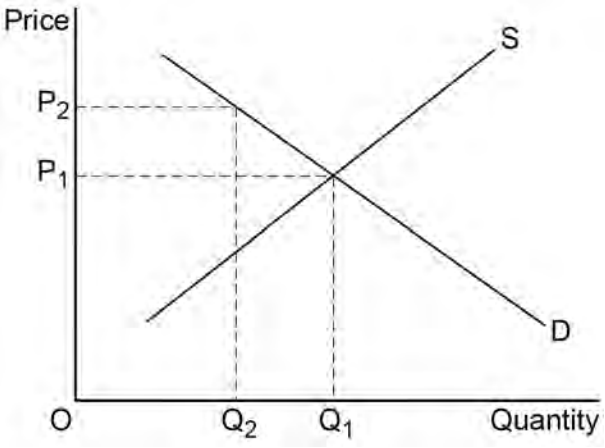
C the diagonal distance E_1E_2. ⬭

D the horizontal distance GE_1. ⬭

[1 mark]

Do not write outside the box

1 9 The diagram below shows the demand and supply curves for a good provided solely by a free market.



Currently, output is at OQ_1. However, there is a misallocation of resources resulting in market failure. The socially optimal level of production is OQ_2. Which one of the following statements is correct? The diagram shows the market for

A a merit good. ⬭

B a public good. ⬭

C a good with negative externalities in production. ⬭

D a good with positive externalities in production. ⬭

[1 mark]

2 0 Which one of the following statements about the distribution of income must be correct?

A The distribution of income is equitable when everyone has the same income ⬭

B 'The distribution of income is equitable' is a positive statement ⬭

C An unequal distribution of income is, by definition, inequitable ⬭

D Whether the distribution of income is equitable depends on a value judgement ⬭

[1 mark]

QUESTION 20 IS THE LAST QUESTION IN SECTION A

Do not write outside the box

Section B

Look at the source booklet and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below

OR

Questions 27 to 32 on pages 22 to 32 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context **0 1** ⬭ Context **0 2** ⬭

WRONG METHODS ⊗ ⦿ ≈ ✓ CORRECT METHOD ●

EITHER

Context 1 **Total for this Context: 50 marks**

THE UK HOUSING MARKET

Use the source booklet provided to study **questions 21** to **26** and **Extracts A, B** and **C**, and then answer the questions in the spaces which follow.

2 1 Define the term 'government failure' **Extract C** (lines 20 and 21).

[3 marks]

Extra space

Do not write outside the box

2 2 Use **Extract C** to calculate, to the nearest whole number, the estimated number of people sleeping on the streets in England on any one night in 2010.

[4 marks]

2 3 Use **Extract A** to identify **two** significant points of comparison between the number of new houses built per year in the UK and the changes in UK population over the period shown.

[4 marks]

Comparison 1

Extra space

Comparison 2

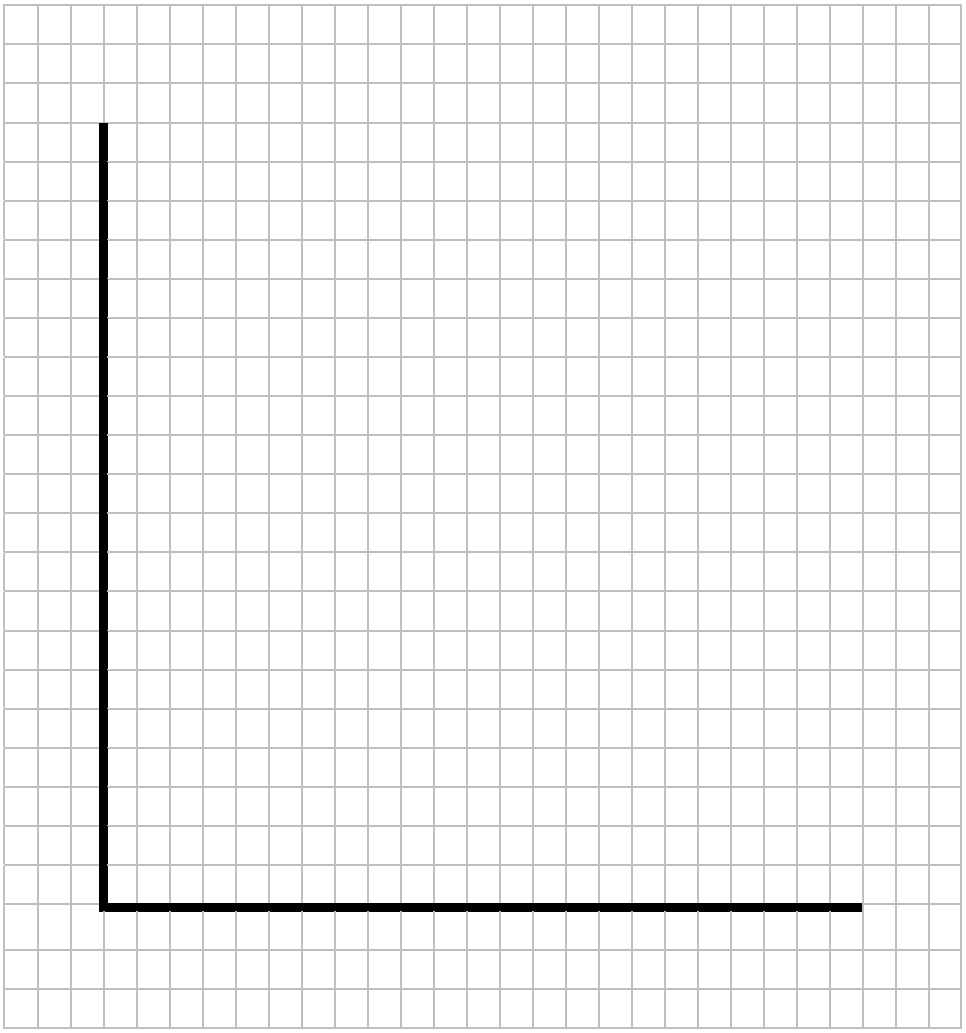
Extra space

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2 4 **Extract C** (lines 17 to 19) states 'Some economists have suggested the implementation of maximum price controls on rented accommodation that prevent landlords from charging the market rent.'

Draw a diagram to show the effects of implementing this suggestion on the market for rented accommodation.

[4 marks]



Do not write outside the box

2 5 **Extract B** (lines 10 and 11) states 'However, the housing market is not a perfectly competitive market.'

Explain why the housing market is not a perfectly competitive market.

[10 marks]

Do not write outside the box

Extra space

Do not write outside the box

2 6 **Extract C** (lines 20 and 21) states 'Some are mindful of government failure and advocate a lesser role for governments.'

Use the extracts and your knowledge of economics to assess the view that housing markets should be left to market forces with only the minimum of intervention from governments.

[25 marks]

Do not write outside the box

Do not write outside the box

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2 **Total for this Context: 50 marks**

THE COSTS OF SMOKING

Use the source booklet provided to study **questions 27** to **32** and **Extracts D, E** and **F,** and then answer the questions in the spaces which follow.

2 7 Define the term 'demerit good' **Extract F** (line 1).

[3 marks]

Extra space

2 8 Use **Extract D** to calculate, to the nearest penny, the mean price of a pack of 20 cigarettes between 2007 and 2013.

[4 marks]

Do not write outside the box

2 9 Use **Extract D** to identify **two** significant points of comparison between the price and the quantity of cigarettes consumed in the UK from 2007 to 2013.

[4 marks]

Comparison 1 _____

Extra space _____

Comparison 2 _____

Extra space _____

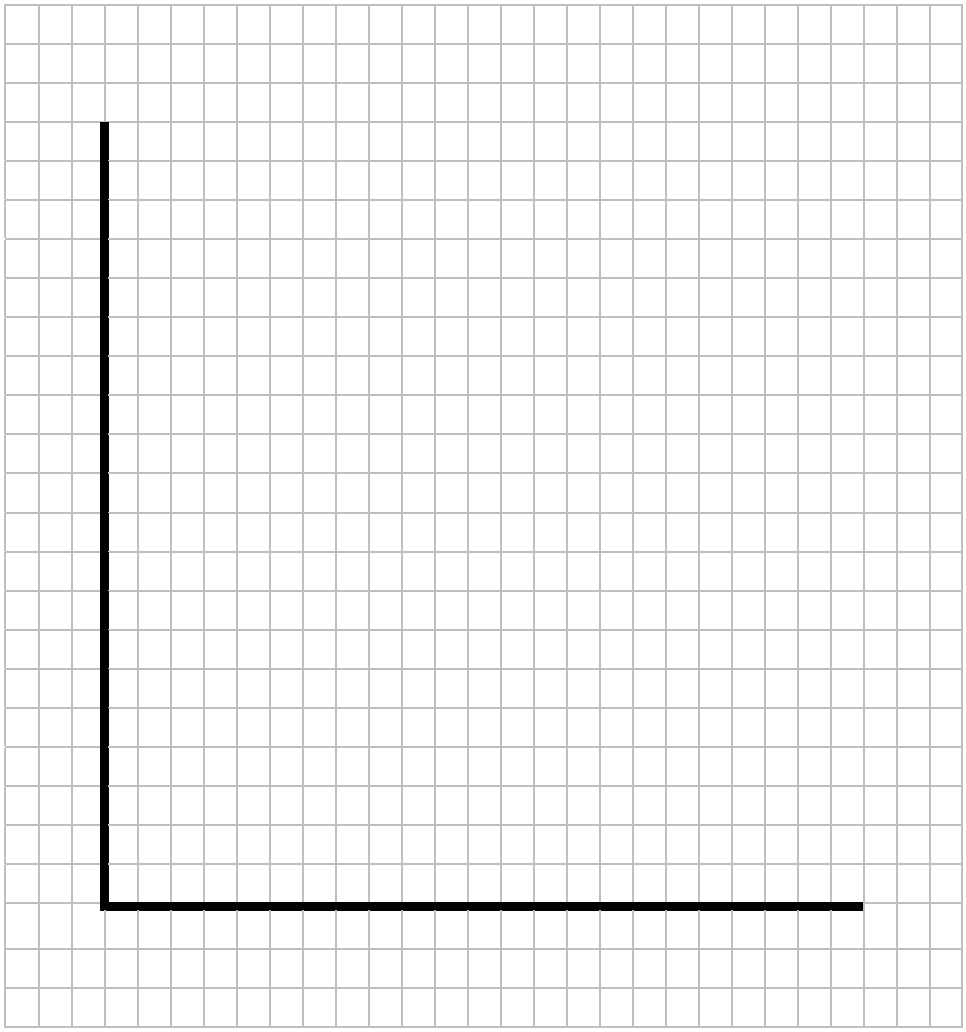
Turn over for the next question

Do not write outside the box

3 0 **Extract E** (lines 10–11) states 'Researchers at the Universities of Glasgow and Stirling offered pregnant smokers up to £400 worth of shopping vouchers to give up smoking …'

Draw a diagram to show the effect on the market for cigarettes of giving shopping vouchers to pregnant women as an incentive to stop smoking.

[4 marks]



Do not write outside the box

3 1 **Extract F** (line 10) states 'Taxation is one way governments attempt to control cigarette consumption.'

Explain the effect of indirect taxation on the consumption of cigarettes.

[10 marks]

Do not write outside the box

Extra space

Do not write outside the box

3 2 **Extract F** (line 12) states 'Regulation to reduce consumption of cigarettes is extensive in the UK.'

Use the extracts and your economic knowledge to assess the view that regulation is the best way of dealing with the market failure that results from the consumption of cigarettes.

[25 marks]

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Extra space

END OF QUESTIONS

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