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 14 May 2018 Morning Time allowed: 1 hour 30 minutes

For Examiner's Use	
Question	Mark
Section A	
Section B	
TOTAL	

Materials

For this paper you must have:
- the insert
- 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 insert 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
- The maximum mark for this paper is 70.
- 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 The central purpose of the production of goods and services is to

A achieve more technological innovation. ⬭

B maximise exports. ⬭

C maximise profits. ⬭

D satisfy consumer wants. ⬭

[1 mark]

0 2 In an economy, competitive firms supply electricity that is generated using coal-fired power stations.

If the government tries to reduce pollution by imposing an indirect tax on the firms, this would

A shift the market demand curve to the left. ⬭

B shift the market demand curve to the right. ⬭

C shift the market supply curve to the left. ⬭

D shift the market supply curve to the right. ⬭

[1 mark]



Do not write outside the box

0 3 The price elasticity of demand (PED) for petrol used by car drivers in an economy is estimated to be –0.2.

Which one of the following is the most likely reason for the low PED?

A A tax on petrol ⬭

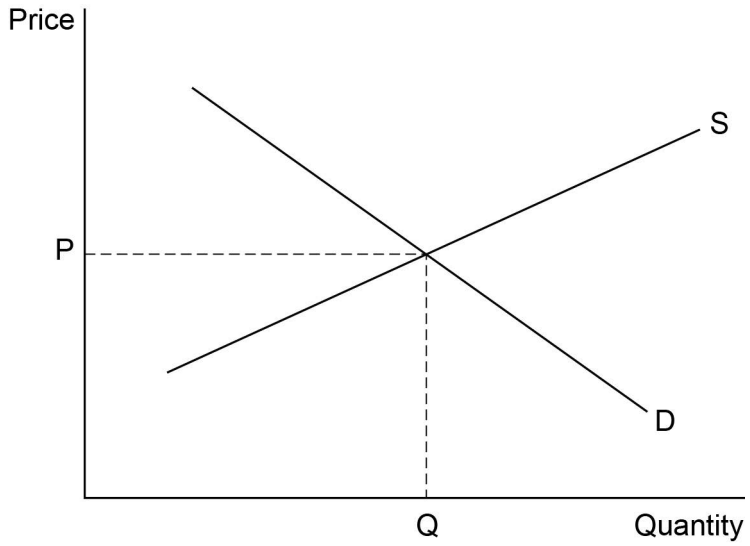
B Cycle lanes on many roads ⬭

C Few bus and rail services ⬭

D Low household incomes ⬭

[1 mark]

0 4 The diagram below shows the demand curve (D) and the supply curve (S) in the market for tomatoes.



Which one of the following would result in a higher quantity consumed and a lower price charged for tomatoes?

A A fall in the price of the fertiliser used to grow tomatoes ⬭

B A hot summer causes consumers to eat more tomato salad ⬭

C The minimum wage for farm workers is increased ⬭

D The price of cucumbers falls ⬭

[1 mark]

Do not write outside the box

0 5 Ben owns a small business that makes hand-made guitars.

One year he sells 160 guitars, his total revenue is £78 400, and his total costs are £59 200.

The average profit that Ben earns on each guitar is

A £120 ⬭

B £370 ⬭

C £490 ⬭

D £860 ⬭

[1 mark]

0 6 Which one of the following is most likely to reduce the benefits of specialisation?

A A reduction in government regulations ⬭

B An increase in competition ⬭

C Taxes on pollution ⬭

D Trade conducted by bartering ⬭

[1 mark]

0 7 Smoking cigarettes generates negative consumption externalities.

This means that

A the private benefit from smoking includes the consumption externalities. ⬭

B the social benefit from smoking is less than the private benefit. ⬭

C the social benefit from smoking is negative. ⬭

D the social optimum level of smoking is zero. ⬭

[1 mark]

Do not write outside the box

0 8 Which one of the following is an example of the economic resource capital?

A A bank loan to a small business ⬭

B A scientific research laboratory ⬭

C Government subsidies for wind power ⬭

D Money in a savings account ⬭

[1 mark]

0 9 Training provided by firms in a free market economy may be underprovided because some of the benefits from training may be captured by other firms when the workers change jobs. Which one of the following best describes this situation?

A A negative production externality and a missing market ⬭

B A negative production externality and partial market failure ⬭

C A positive production externality and a missing market ⬭

D A positive production externality and partial market failure ⬭

[1 mark]

1 0 The income elasticity of demand for baked beans is –0.4.

Weekly sales of baked beans are 73 000 tins.

If household incomes fall by 5%, then the new weekly sales of baked bean tins would be

A 63 875 ⬭

B 71 540 ⬭

C 74 460 ⬭

D 82 125 ⬭

[1 mark]

Do not write outside the box

1 1 There is a large increase in the number of different models of bicycles produced by the bicycle industry.

The most likely impact of this would be

A a decrease in advertising expenditure by bicycle firms. ⬭

B a fall in the price elasticity of demand for any one model of bicycle. ⬭

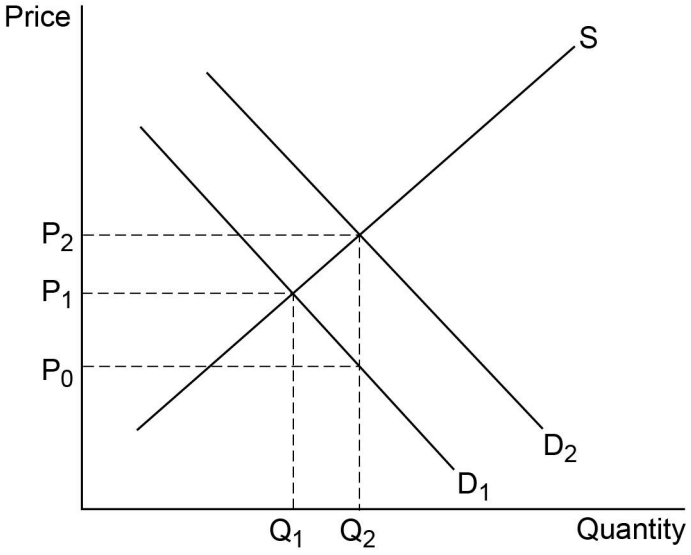
C an increase in barriers to entry to the bicycle industry. ⬭

D an increase in productivity of manufacturing bicycles. ⬭

[1 mark]

Do not write outside the box

1 2 In the following diagram D_1 shows the market demand for smoke alarms when consumers have imperfect information about the benefits of installing a smoke alarm. If consumers had full information, the market demand for smoke alarms would be D_2.



Which one of the following policies is most likely to ensure that consumption and production of smoke alarms are at the social optimum level?

A A maximum price set at P_0 ⬭

B A maximum price set at P_2 ⬭

C A subsidy per unit equal to $P_1 - P_0$ ⬭

D A subsidy per unit equal to $P_2 - P_0$ ⬭

[1 mark]

1 3 In an economy hit by a recession, the owner of a small firm decides to continue to operate despite making losses.

This decision suggests that

A firms may have objectives other than profit maximisation. ⬭

B monopoly power is widespread in the economy. ⬭

C some small firms produce merit goods. ⬭

D the firm's average revenue is greater than its average cost. ⬭

[1 mark]

Do not write outside the box

1 4 The table below shows the relationship between a firm's output and its production costs.

Output	Average variable costs (£)	Average total costs (£)
10	50	80
20	40	55
30	35	45

When the firm increases its output from

A 10 to 20 units, average fixed costs do not change. ⬭

B 10 to 20 units, average fixed costs fall by £15. ⬭

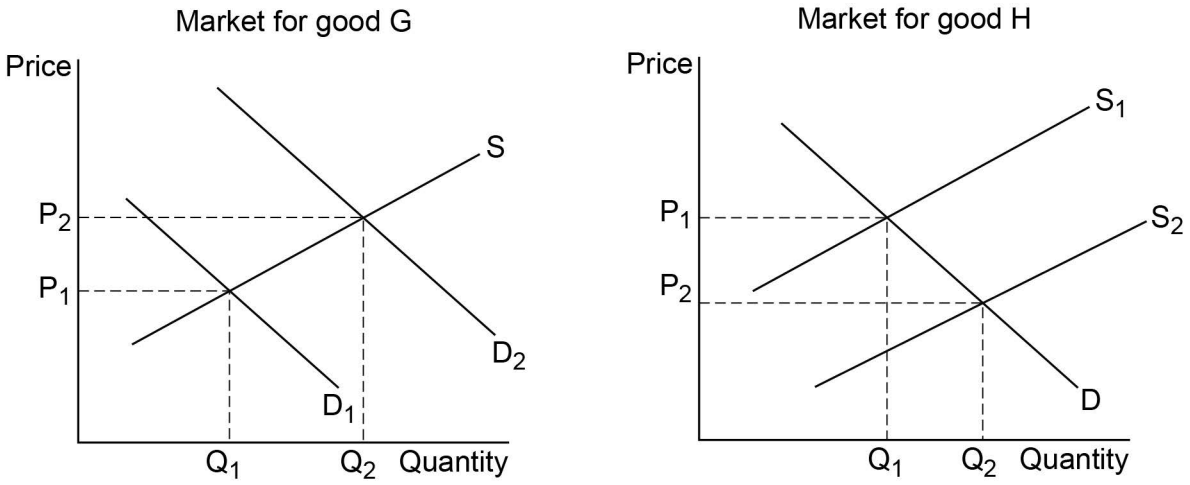
C 20 to 30 units, average fixed costs fall by £10. ⬭

D 20 to 30 units, average fixed costs fall by £15. ⬭

[1 mark]

Do not write outside the box

1 5 The diagrams below show the impact of an increase in demand for good G and the resulting change in the related market for good H.



These changes imply that goods G and H are in

A composite demand. ⬭

B derived demand. ⬭

C joint demand. ⬭

D joint supply. ⬭

[1 mark]

1 6 Which one of the following statements about the distribution of income must be correct?

A An unequal distribution of income has to be inequitable ⬭

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

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

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

[1 mark]

Do not write outside the box

1 7 Which one of the following would generate a short-run disequilibrium with excess supply in the market for Cornish pasties?

A A minimum price for Cornish pasties is set above the current market price ⬭

B Higher meat prices increase the cost of producing Cornish pasties ⬭

C More advertising increases the demand for Cornish pasties ⬭

D The government levies a new indirect tax on Cornish pasties ⬭

[1 mark]

1 8 One way to allocate road space in a congested city would be to charge drivers to use the roads.

One reason why this policy is likely to result in a more efficient allocation of resources is because

A incentives to build new roads would be higher. ⬭

B only higher income drivers would choose to use the roads. ⬭

C road use would be rationed to drivers who benefit from it the most. ⬭

D the government would raise a large amount of revenue from drivers. ⬭

[1 mark]

1 9 Firms in an industry with a high concentration ratio will typically experience

A a large amount of competition. ⬭

B a large degree of monopoly power. ⬭

C few economies of scale. ⬭

D low prices and profits. ⬭

[1 mark]

Do not write outside the box

2 0 Online clothes retailers invest in new warehouses to enable them to hold larger stocks of clothes.

Other things remaining the same, this is most likely to result in

A a higher price elasticity of supply of clothes sold online. ⬭

B an increase in demand for clothes sold online. ⬭

C diseconomies of scale in the online clothes industry. ⬭

D lower barriers to entry to the online clothes industry. ⬭

[1 mark]

20

QUESTION 20 IS THE LAST QUESTION IN SECTION A

Do not write outside the box

Section B

Look at the insert 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 23 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**

LIBRARIES

Use the insert 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 'public good' **Extract C** (line 18).

[3 marks]

Extra space

Do not write outside the box

2 2 **Extract C** (lines 11–13) states: 'A relatively small amount … was spent on libraries in England in 2014/15.'

If the population of England in 2014/15 was 54.5 million, calculate, to the nearest pound, the amount spent on libraries per person.

[4 marks]

Turn over for the next question

Do not write outside the box

2 3 Use **Extract A** to identify **two** significant points of comparison between the percentage of people aged 16–24 and those aged 75+ who visited a library in England over the period shown.

[4 marks]

Comparison 1

Extra space

Comparison 2

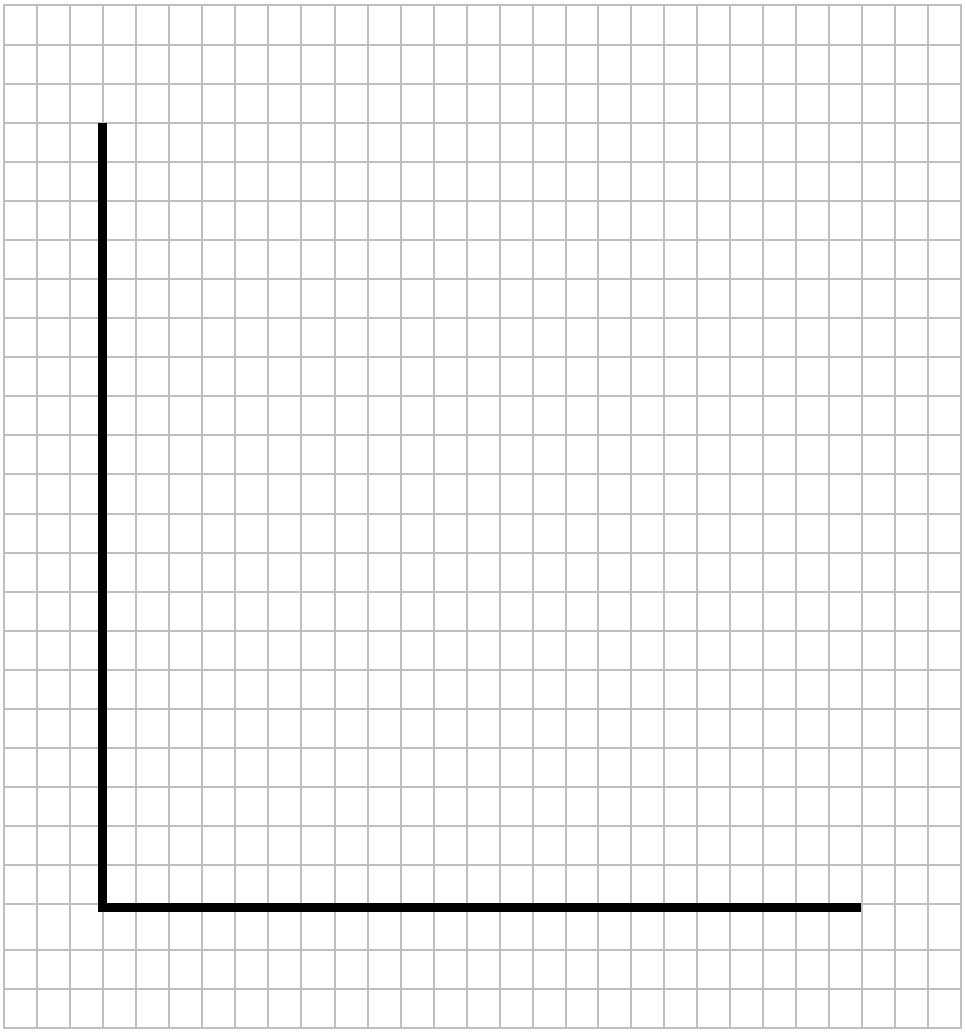
Extra space

Do not write outside the box

2 4 A local authority has a limited sum of money to spend on two services, libraries and other local government services.

Draw a production possibility diagram showing the potential provision of these two services **and** assuming resources are fully employed, label a point X where no resources are used for libraries.

[4 marks]



Turn over for the next question

Do not write outside the box

2 5 **Extract B** (lines 2–3) states: 'a recent survey found that only a third of adults had used a library in the previous year, a significant fall since data collection began in 2005'.

Explain **two** reasons why the demand for library services has fallen.

[10 marks]

Extra space

Do not write outside the box

Do not write outside the box

2 6 **Extract C** (line 10) states: 'Faced with funding cuts, local authorities have to make difficult choices'.

Use the extracts and your knowledge of economics to assess whether local authorities should continue to provide public libraries.

[25 marks]

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

50

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

Do not write outside the box

OR

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

AGRICULTURE

Use the insert 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 'minimum price' **Extract E** (line 6).

[3 marks]

2 8 **Extract E** (lines 8–9) states: 'One prediction was that 20% of dairy farms would close in 2016'.

If there were 9633 dairy farms in England and Wales in January 2016, calculate, to the nearest whole number, how many dairy farms there would be in January 2017 if the prediction for the percentage of dairy farms closing in 2016 is correct.

[4 marks]

Do not write outside the box

2 9 Use **Extract D** to identify **two** significant points of comparison between the changes in employment and output in agriculture, forestry and fishing in the UK over the period shown.

[4 marks]

Comparison 1

Extra space

Comparison 2

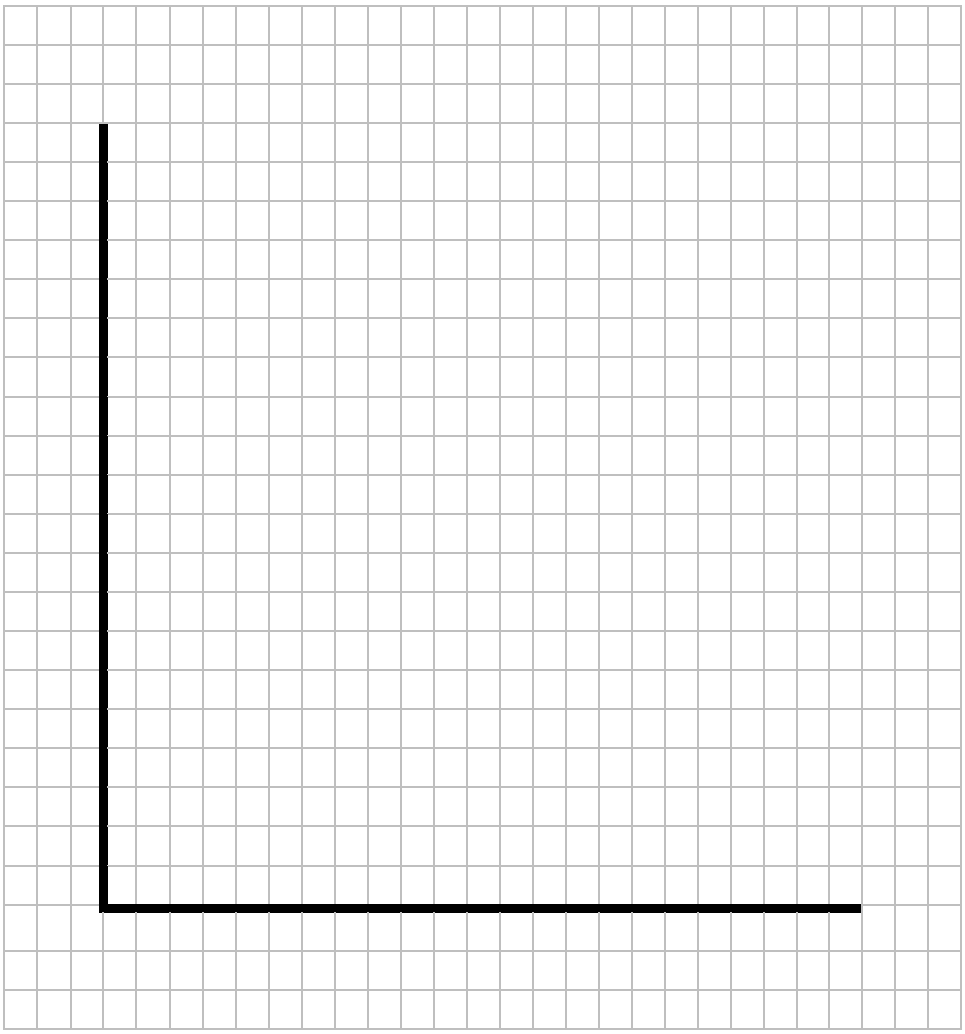
Extra space

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3 0 Agricultural production can be divided into genetically modified (GM) food and non-GM food.

Draw a production possibility diagram showing the production of genetically modified (GM) food and non-GM food **and**, on the same diagram, draw a new production possibility curve to show the effect of increased productivity in GM food but no change in non-GM food.

[4 marks]



Turn over for the next question

Do not write outside the box

3 1 **Extract F** (lines 2–3) states: 'Dairy prices are expected to rise in 2017'.

Explain **two** factors that could increase the price of milk.

[10 marks]

Extra space

Do not write outside the box

Do not write outside the box

3 2 **Extract F** (lines 18–19) states: 'Should the UK government take an active role in agriculture, and if so, what policies should it implement?'

Use the extracts and your knowledge of economics to assess to what extent, if at all, the UK government should intervene in the agricultural sector.

[25 marks]

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

Do not write outside the box

50

END OF QUESTIONS

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