AQA

AS
ECONOMICS
7135/1

Paper 1 The operation of markets and market failure

Specimen 2014 Morning Time allowed: 1 hour 30 minutes

Materials

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

Instructions

- Use a black ball-point pen. Do **not** use pencil.
- 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**.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.
- You must answer the question in the spaces provided. Do not write outside the box around each page or on blank pages.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 70.
- No deductions will be made for wrong answers.

Please write clearly, in block capitals, to allow character computer recognition.

Centre number ☐☐☐☐☐ Candidate number ☐☐☐☐

Surname ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Forename(s) ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Candidate signature _____

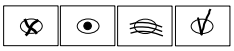
Section A

Answer **all** questions in this section

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

For each answer completely fill in the lozenge 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 Diseconomies of scale occur when

A average cost falls due to the growth of a firm. ⬭

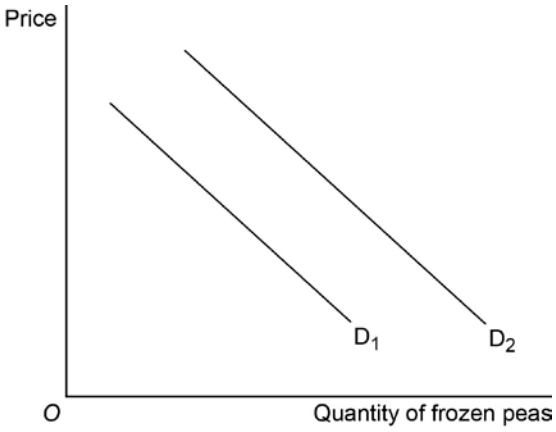
B average cost rises due to a firm reducing its output. ⬭

C total cost rises due to the growth of a firm. ⬭

D average cost rises due to the growth of a firm. ⬭

[1 mark]

0 2 The diagram below shows two demand curves for frozen peas.



The diagram shows that, all other things being equal, the shift of the demand curve for frozen peas from D_1 to D_2 can result from

A an increase in the quantity of frozen peas supplied. ⬭

B an increase in the price of frozen peas. ⬭

C a change in consumer preference for frozen peas. ⬭

D a decrease in the price of a substitute for frozen peas. ⬭

[1 mark]

0 3 A key distinction between merit goods and demerit goods is that

A the consumption of merit goods usually gives rise to positive externalities and not negative externalities. ⬭

B in a free market demerit goods will be under-consumed but merit goods will be over-consumed. ⬭

C merit goods have to be provided by the government but demerit goods do not. ⬭

D demerit goods are an example of market failure but merit goods are not. ⬭

[1 mark]

0 4 A profit-maximising firm with market power is most likely to use that market power to

A improve the allocation of resources. ⬭

B charge higher prices than firms with little market power. ⬭

C charge customers for its negative externalities in production. ⬭

D increase the elasticity of its supply curve. ⬭

[1 mark]

0 5 If demand for a product is unit elastic, for a given percentage increase in price, total revenue will

A rise by the same percentage. ⬭

B rise by a smaller percentage. ⬭

C fall by the same percentage. ⬭

D remain unchanged. ⬭

[1 mark]

0 6 The table below shows the production possibilities for a firm producing butter and cheese.

Output of butter (million kilos)	Output of cheese (million kilos)
0	100
1	90
2	70
3	40
4	0

It can be concluded from the table that, as production of butter increases, the opportunity cost of such production, in terms of cheese

A remains constant. ⬭

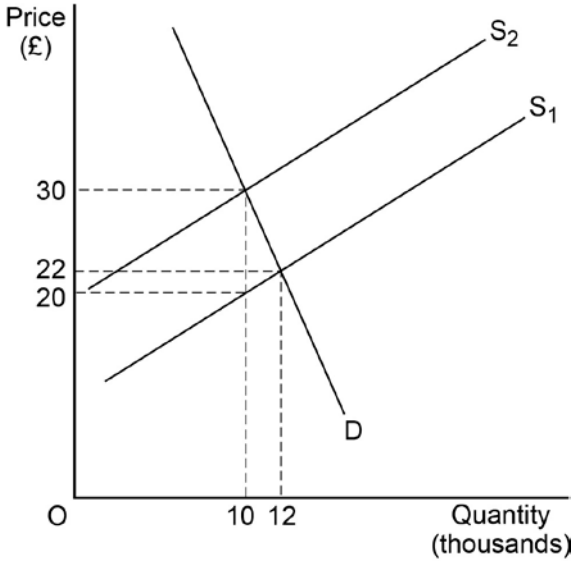
B falls. ⬭

C rises. ⬭

D rises and then falls. ⬭

[1 mark]

0 7 The diagram below shows the market demand and supply curves and the market equilibrium both before and after an indirect tax is applied to a good.



According to the diagram, the revenue the government collects from this tax is

A £300 000 ⬭

B £200 000 ⬭

C £100 000 ⬭

D £80 000 ⬭

[1 mark]

0 8 Which one of the following is most likely to make a market more competitive?

A An increase in the cost of equipment used in the production process. ⬭

B The development of a successful new product by the largest firm in the market. ⬭

C An increase in the degree of concentration in the market. ⬭

D The removal of legal barriers to entry into the market. ⬭

[1 mark]

0 9 A supermarket reduces the price of tins of biscuits from £4 to £3 per tin. Subsequently, the sales increase from 200 to 300 tins of biscuits per day. The price elasticity of demand is

A –2.0 ⬭

B –1.0 ⬭

C –0.50 ⬭

D –0.25 ⬭

[1 mark]

1 0 Which one of the following statements about money and specialisation is correct?

A Money can be used only in markets where there is specialisation in production. ⬭

B Money is used as a medium of exchange which aids specialisation. ⬭

C Greater specialisation is likely to lead to a reduction in the use of money in a market. ⬭

D The use of money benefits workers more than consumers because of specialisation. ⬭

[1 mark]

1 1 The table below shows the value of income elasticities of demand for three goods, X, Y and Z, over a period of time.

Good	Income elasticity of demand
X	+2.0
Y	+0.2
Z	-1.9

From the data in the table, it may be concluded that an increase in consumer income would lead to

A a decrease in demand for Good Z only. ⬭

B an increase in demand for all three goods. ⬭

C a more than proportionate increase in demand for Good Y. ⬭

D an equal percentage increase in demand for Good X. ⬭

[1 mark]

1 2 Which one of the following is the reason why public goods are supplied by the government?

A Sellers of the good or service are unable to prevent consumers from enjoying its benefits without payment. ⬭

B Producers demand a higher price than some members of the public are prepared to pay. ⬭

C Only governments have the technical knowledge required to produce public goods and services. ⬭

D They can only be produced by a monopoly firm to prevent competition from rival suppliers. ⬭

[1 mark]

1 3 Price elasticity of supply in an industry is likely to be elastic when

A firms have limited stocks of raw materials. ⬭

B there are high barriers to entry into the industry. ⬭

C production involves the use of highly skilled labour. ⬭

D firms are operating below full capacity. ⬭

[1 mark]

1 4 Which one of these is a function of the market mechanism?

A Maintaining stable prices between different markets. ⬭

B Eliminating shortages of goods by allowing market prices to fall. ⬭

C Achieving an equitable distribution of scarce resources. ⬭

D Providing incentives for firms to provide goods to make a profit. ⬭

[1 mark]

1 5 The table below shows how the total output of a factory changes as the number of workers employed changes.

Total output (in units)	Number of workers
1000	100
2500	200
6000	300
7000	400
8000	500

Referring to the data in the table, what happens to labour productivity as the number of workers increases from 100 to 500? Labour productivity

A remains constant. ⬭

B falls over the whole range. ⬭

C rises at first and then falls. ⬭

D falls at first and then rises. ⬭

[1 mark]

1 6 Which one of the following is a positive economic statement?

A The pattern of wealth ownership in the UK is unfair. ⬭

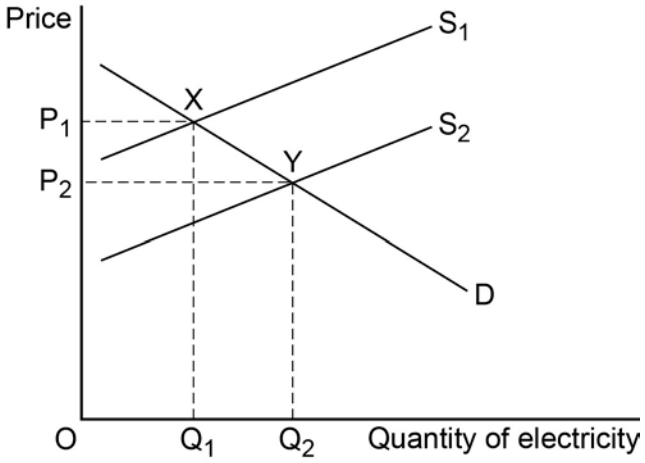
B There are too many poor people in the UK today. ⬭

C The distribution of income in the UK is unequal. ⬭

D The rich should be taxed more than the poor. ⬭

[1 mark]

1 7 The diagram below shows the demand and supply curves for an energy company which sells electricity produced using renewable sources.



Which one of the following will shift the market equilibrium position from X to Y?

A More consumers buying electricity. ⬭

B A government subsidy paid to the company. ⬭

C An environmental tax levied on the company. ⬭

D An increase in wages of workers in the electricity sector. ⬭

[1 mark]

1 8 The basic model of monopoly suggests inefficiency and a misallocation of resources. This could be explained by monopolists

A producing goods and services which match people's needs and preferences. ⬭

B using their profits to finance invention and innovation. ⬭

C having production facilities of a large size, hence obtaining economies of scale. ⬭

D charging higher prices than in competitive markets. ⬭

[1 mark]

1 9 The table below shows the world beer market share (%) by volume for brewing companies.

Company	Market share (%)
AB InBev	22
SABMiller	13
Heineken	9
Carlsberg	7
Molson Coors	3
Grupo Modelo	3
Tsingtao	3
Beijing Yanjing	2
FEMSA	2
Other	36
Total	**100**

From the data in the table, what is the eight-firm concentration ratio?

A 57% ⬭

B 60% ⬭

C 62% ⬭

D 64% ⬭

[1 mark]

2 0 In the table below, all other things being equal, which combination of factors **A**, **B**, **C or D** is most likely to enable a firm in a competitive market to increase its market share?

	Price elasticity of demand for firm's product	Firm's degree of product differentiation	Firm's long run average cost subject to	
A	High	Low	Diseconomies of scale	⬭
B	Low	High	Diseconomies of scale	⬭
C	High	High	Economies of scale	⬭
D	Low	Low	Economies of scale	⬭

[1 mark]

QUESTION 20 IS THE LAST QUESTION IN SECTION A

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 19 to 27 of this answer booklet.

There is a total of 50 marks for either context.

Shade the lozenge 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**

FREE SCHOOL MEALS

Using the provided source booklet, 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 'externalities' (**Extract B**, line 22).

[3 marks]

Extra space

2 2 **Extract B** (line 2) states that spending on food by low-income families 'forms a significant part of their total weekly spend.'

Calculate the income elasticity of demand for food if an increase in income from £25 000 to £30 000 leads to an increase in the quantity demanded of food of 10%.

[4 marks]

2 3 Using **Extract A**, identify **two** significant points of comparison between the changes in the index of average disposable income and the changes in the index of food prices over the period shown.

[4 marks]

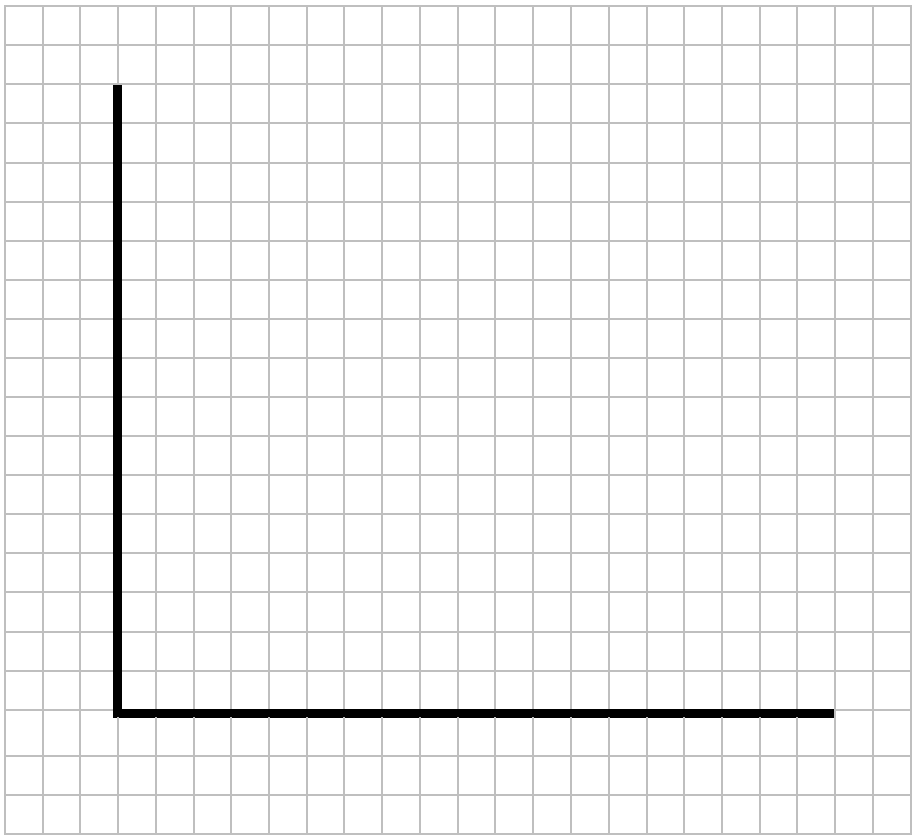
Comparison 1

Comparison 2

2 4 In **Extract B** (line 11) it states that a spokesperson for the Food Ethics Council charity recently claimed that 'cheap food' is often an inferior good.

Draw a supply and demand diagram showing the effects of an increase in income on the price and quantity sold of an inferior good.

[4 marks]



2 5 **Extract B** (line 1) states that 'In recent years, food prices have risen faster than incomes.'

Explain **two** possible reasons, **other than a change in income**, for the rise in the price of food over the period shown.

[10 marks]

Extra space

2 6 **Extract C** (lines 15–17) states that 'Free school meals will help give every child the chance in life they deserve, building a stronger economy and a fairer society'.

Using the data in the extracts and your economic knowledge, assess whether the government should provide free school meals for all, some or no school children.

[25 marks]

Extra space

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

OR

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

COMMODITY PRICES

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

2 7 Define 'monopoly' (**Extract E**, line 4).

[3 marks]

Extra space

2 8 **Extract E** (line 6–7) states that 'the price of potash is expected to fall from around $400 to $300 per tonne by the end of 2013.'

Calculate the price elasticity of demand for potash if this fall in price leads to an increase in the quantity demanded of 10%.

[4 marks]

2 9 Using **Extract D**, identify **two** significant points of comparison between the changes in the price of potash and the changes in the price of crude oil over the period shown.

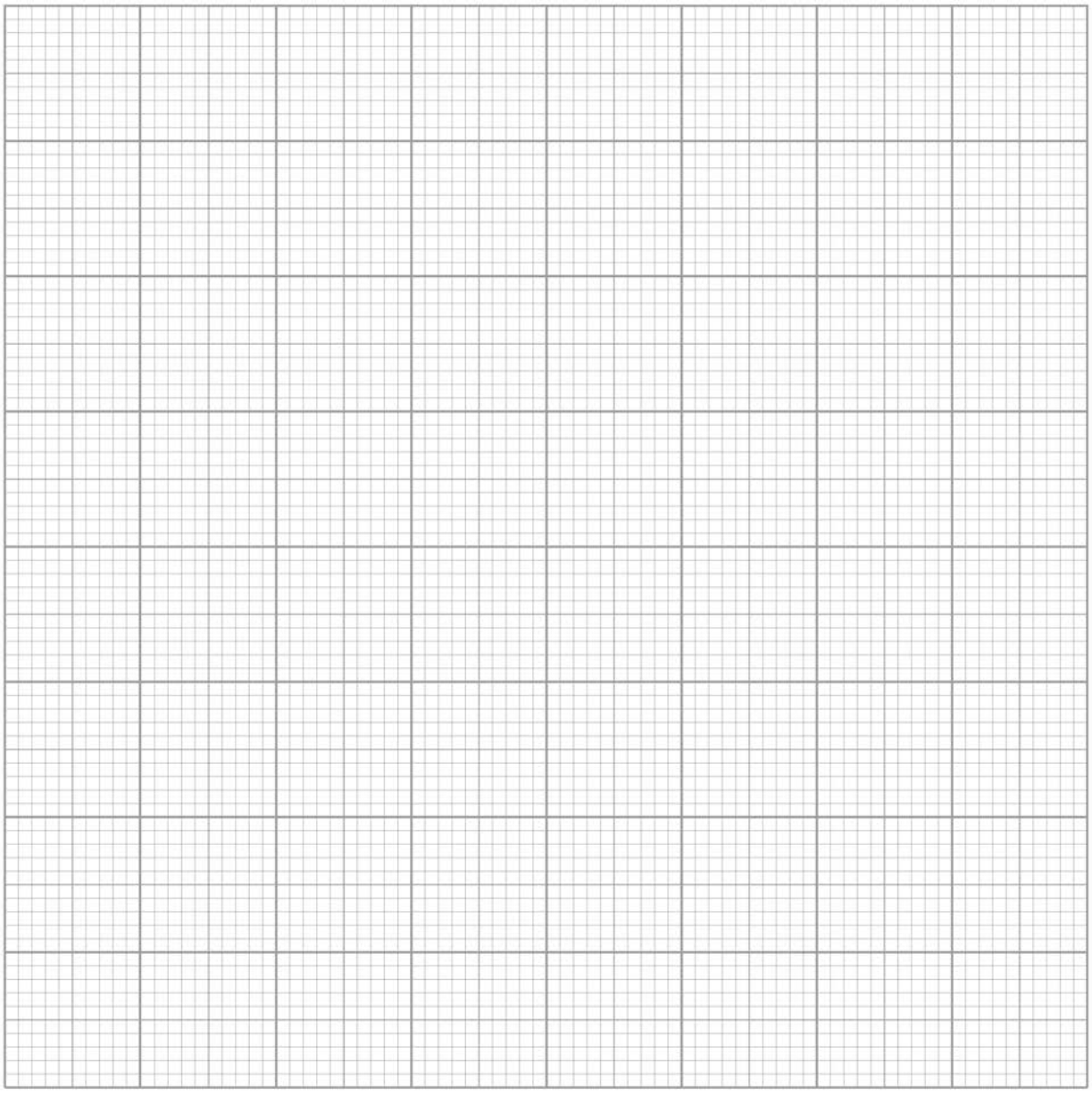
[4 marks]

Comparison 1

Comparison 2

3 0 Using **Extract D**, draw a bar chart to show the average monthly price of potash in the years 2009 to 2013.

[4 marks]



3 1 **Extract E** (lines 1–2), states 'Potash is one of three main fertiliser products which farmers use to increase their output before planting crops such as wheat.'

Explain the possible effects on the market for wheat of a fall in the price of a fertiliser such as potash.

[10 marks]

Extra space

3 2 **Extract F** (lines 15-16) states that 'Commodities are vital as the raw materials and energy sources to make finished products'.

Using the data in the extracts and your economic knowledge, assess whether market forces should be left to determine the price of commodities such as potash, oil and gas.

[25 marks]

Extra space

END OF QUESTIONS

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