A-level
ECONOMICS
7136/3

Paper 3 Economic principles and issues

Specimen 2014 | Morning | Time allowed: 2 hours

Materials
For this paper you must have:
- a calculator.

Instructions
- Answer **all** questions.
- Use a black ball-point pen. Do **not** use pencil.
- 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 80.
- No deductions will be made for wrong answers.

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 Which one of the following is a true statement about average fixed costs?
Average fixed costs

A do not change as output changes. ⬭

B fall as output increases. ⬭

C include rent and raw materials. ⬭

D equal total costs minus total variable costs. ⬭

[1 mark]

0 2 Which one of the following is an example of a supply-side policy rather than a demand-side policy?

A An increase in the supply of money. ⬭

B Increased government expenditure on welfare benefits. ⬭

C An increase in export subsidies. ⬭

D Increased government expenditure on education and training. ⬭

[1 mark]

0 3 The table below shows the total utility of an individual's consumption of chocolate bars.

Quantity	Total utility
1	100
2	180
3	250
4	300
5	330

What is the marginal utility gained by the consumption of the fourth chocolate bar?

A 30 ⬭

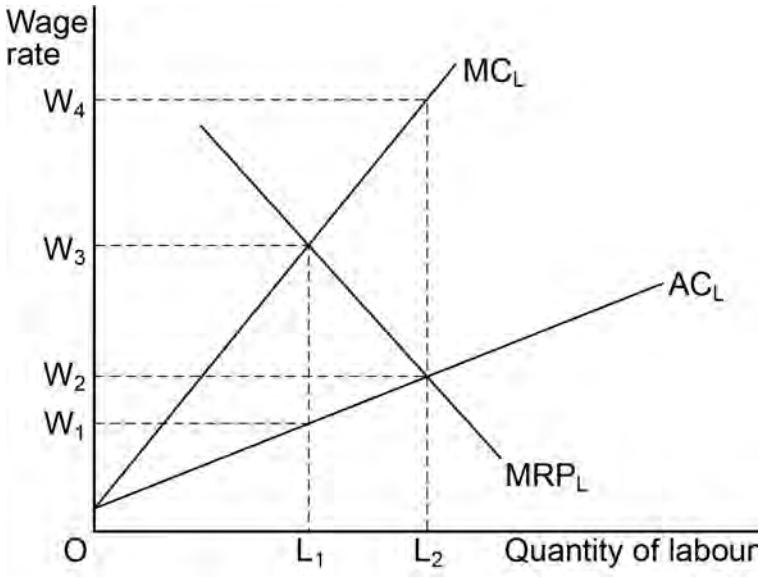
B 50 ⬭

C 70 ⬭

D 300 ⬭

[1 mark]

0 4 The diagram below shows the Marginal Revenue Product of Labour (MRP_L), Marginal Cost of Labour (MC_L) and Average Cost of Labour (AC_L) curves in a market where there is a single employer but labour is supplied competitively.



The employer's profit-maximising wage rate and level of employment is a

A wage of W_1 and employment of L_1 ⬭

B wage of W_2 and employment of L_2 ⬭

C wage of W_3 and employment of L_1 ⬭

D wage of W_4 and employment of L_2 ⬭

[1 mark]

0 5 Over a period of time, the value of the pound against the US dollar changes from £1 = $2.00 to £1 = $1.50. All other things being equal, this is most likely to result in

A UK products becoming more expensive in the US. ⬭

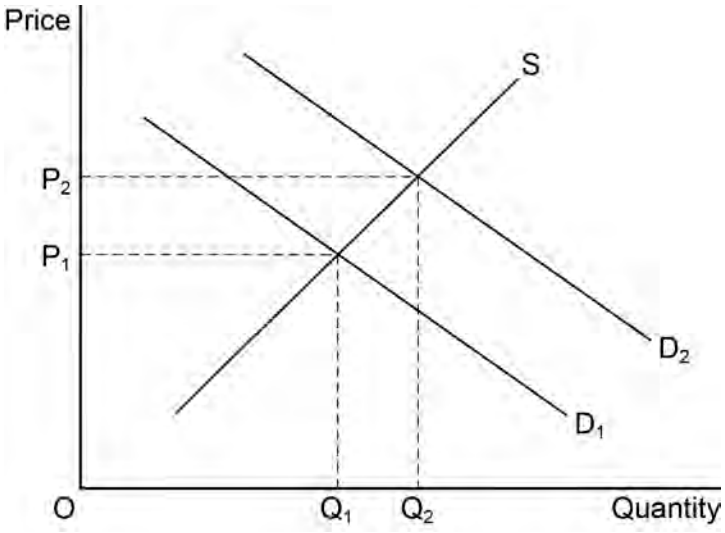
B a downturn in the UK's economic cycle. ⬭

C a higher inflation rate in the UK. ⬭

D an increase in the UK's budget deficit. ⬭

[1 mark]

0 6 The diagram below shows the market demand and supply curves for electric light bulbs.



Assuming that electric light bulbs are a normal good, the shift in the demand curve from D_1 to D_2 and the rise in the equilibrium price from P_1 and P_2 can be explained by

A an increase in household incomes. ⬭

B an increase in the price of electricity. ⬭

C a decrease in the rate of value added tax (VAT) on light bulbs. ⬭

D the introduction of a government subsidy to the producers of light bulbs. ⬭

[1 mark]

0 7 Which one of the following is used to measure inequality in the distribution of income?

A The size of the employed labour force. ⬭

B The value of the Gini coefficient. ⬭

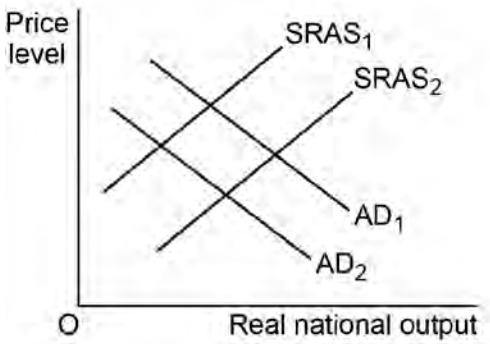
C The size of the income multiplier. ⬭

D The marginal rate of income tax. ⬭

[1 mark]

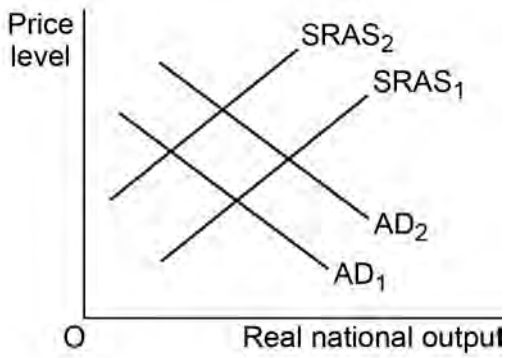
0 8 The four diagrams below show aggregate demand (AD) and short-run aggregate supply (SRAS) curves for the UK economy. All other things being equal, which one of the diagrams **A**, **B**, **C** or **D** shows the most likely effects of an increase in raw material prices and an increase in income taxes on consumers?

A



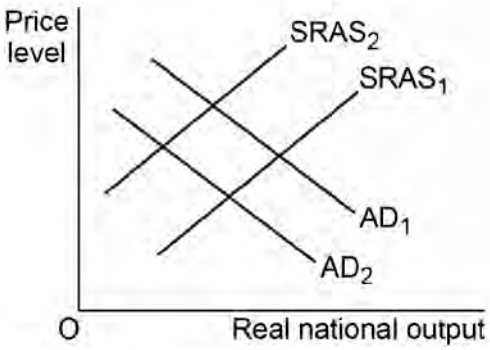
○

B



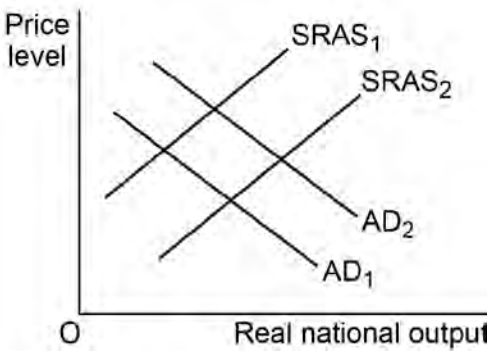
○

C



○

D



○

[1 mark]

0 9 All other things being equal, a rise in which one of the following would shift an economy's short-run aggregate supply curve to the left?

A Wage rates ⬭

B Imports of consumer goods ⬭

C The money supply ⬭

D Labour productivity ⬭

[1 mark]

1 0 The table below shows the marginal private and external benefits and the marginal private and external costs of two products at their free market equilibrium level of output.

	Product X (£)	**Product Y (£)**
Marginal private benefit	200	70
Marginal external benefit	50	40
Marginal private cost	200	70
Marginal external cost	90	30

To improve the allocation of resources, what should the government do?

A Tax product X and subsidise product Y ⬭

B Tax product X and tax product Y ⬭

C Subsidise product X and tax product Y ⬭

D Subsidise product X and subsidise product Y ⬭

[1 mark]

1 1 Three aims of commercial banks are liquidity, profitability and security. To achieve these aims, the banks hold a range of assets. Which one of the following shows a list of banks' assets ranging from the most liquid to the least liquid?

	Most liquid →			Least liquid	
A	Balances at the Bank of England	Treasury bills	Government bonds	Advances	⬭
B	Treasury bills	Balances at the Bank of England	Advances	Government bonds	⬭
C	Government bonds	Advances	Balances at the Bank of England	Treasury bills	⬭
D	Advances	Government bonds	Treasury bills	Balances at the Bank of England	⬭

[1 mark]

1 2 According to the principle of comparative advantage, on what does a country's gains from international trade depend?

A Its level of money wage rates compared to its trading partners. ⬭

B It imposing a higher level of tariffs compared to those of its trading partners. ⬭

C Its greater productive capacity in some goods compared to its trading partners. ⬭

D Its lower opportunity cost in the production of some goods compared to its trading partners. ⬭

[1 mark]

1 3 The table below shows the effective exchange rate index for Country X in 2010 and 2012 (2012 = 100).

Year	Effective exchange rate index
2010	125
2012	100

All other things being equal, which one of the following options provides both the correct percentage change in the index from 2010 to 2012 and a valid reason why this change may have occurred?

	Change in exchange rate	Reason	
A	20%	An increase in interest rates in Country X	⬭
B	20%	An increase in interest rates in other countries	⬭
C	25%	An increase in interest rate in Country X	⬭
D	25%	An increase in interest rates in other countries	⬭

[1 mark]

1 4 The lack of clearly defined property rights in a country is most likely to lead to

A overproduction of merit goods. ⬭

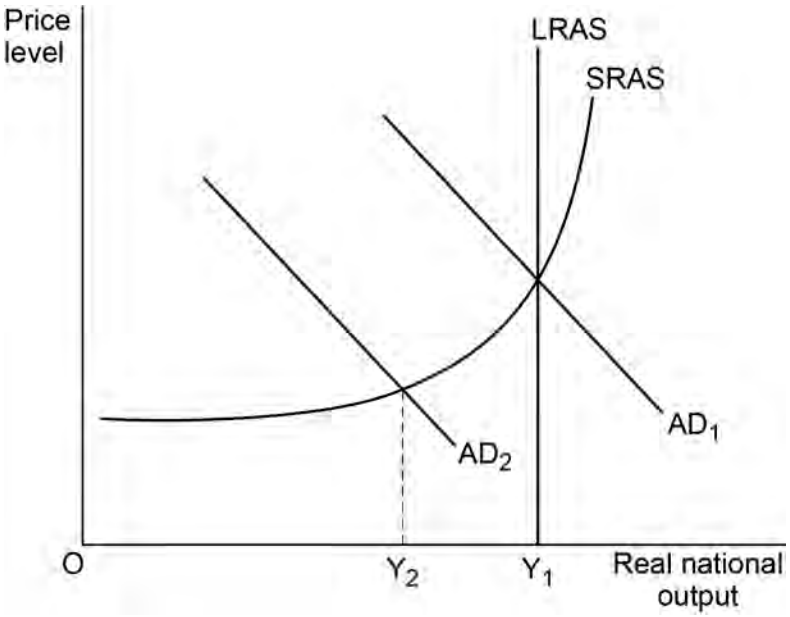
B equality of private costs with social costs. ⬭

C overuse of scarce natural resources. ⬭

D an efficient allocation of resources. ⬭

[1 mark]

1 5 The diagram below shows aggregate demand (AD), short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS) curves for the UK economy. Initial aggregate demand is AD_1. The shift of the aggregate demand curve to AD_2 is the result of a decrease in bank lending following the 2008–2009 financial crisis.



The shift in the AD curve indicates that the effect of the financial crisis on the UK economy was to create a

A negative output gap and structural unemployment. ⬭

B positive output gap and cyclical unemployment. ⬭

C positive output gap and structural unemployment. ⬭

D negative output gap and cyclical unemployment. ⬭

[1 mark]

1 6 If the price elasticity of supply of a good is +4.0 and its price increases by 10%, the increase in quantity supplied is

A 0.4% ⬭

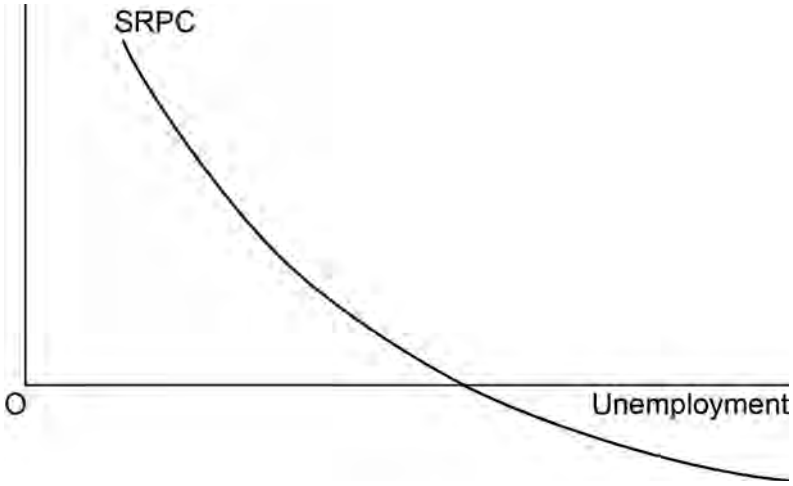
B 2.5% ⬭

C 25% ⬭

D 40% ⬭

[1 mark]

1 7 In the diagram below, SRPC is a short-run Phillips curve.



The vertical axis measures the

A rate of interest. ○

B price level. ○

C percentage change in aggregate demand. ○

D rate of inflation. ○

[1 mark]

1 8 Assuming a perfectly competitive labour market, a firm's demand curve for labour would be derived from its marginal

A cost curve. ○

B revenue product curve. ○

C utility curve. ○

D revenue curve. ○

[1 mark]

1 9 An injection into an economy, with a marginal propensity to consume of 0.8, leads to a total increase in national income of £350 million. What was the value of the initial injection?

A £35 million ○

B £70 million ○

C £120 million ○

D £280 million ○

[1 mark]

2 0 An essential difference between behavioural and traditional economic theory is that behavioural economic models assume that

A people act rationally. ⬭

B consumers attempt to maximise utility. ⬭

C people consider all the available options when making choices. ⬭

D emotional factors influence economic decision-making. ⬭

[1 mark]

2 1 Which one of the following macroeconomic policies is a Keynesian economist most likely to recommend as a means of stimulating recovery for an economy that has been in recession for several years?

A Increasing taxes to finance increased government expenditure. ⬭

B Increasing the money supply to maintain very low interest rates. ⬭

C Increasing government expenditure financed by increased government borrowing. ⬭

D Cutting government expenditure to balance its budget. ⬭

[1 mark]

2 2 Government intervention will result in a more efficient allocation of resources if

A it leads to a reduction in the consumption of demerit goods. ⬭

B it leads to a reduction in the subsidies received by firms. ⬭

C it reduces the number of competing firms in an industry. ⬭

D consumers are charged for the provision of public goods. ⬭

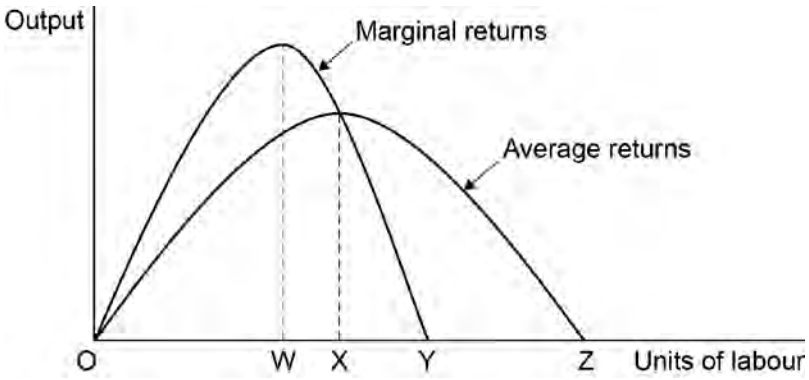
[1 mark]

2 3 According to the Quantity Theory of Money, as illustrated by the equation of exchange MV = PQ, a rise in the money supply will have most effect on inflation when which one of the following combination of events occurs?

	Velocity of circulation (V)	Final output (Q)	
A	Decrease	Decrease	⬭
B	Decrease	Increase	⬭
C	Increase	Increase	⬭
D	Increase	Decrease	⬭

[1 mark]

2 4 The diagram below illustrates the short-run effect on output of increasing the amount of labour employed in combination with a fixed factor of production.



At which level of employment will the total output of the firm be at its maximum?

A OW ⬭

B OX ⬭

C OY ⬭

D OZ ⬭

[1 mark]

2 5 In 2012, the UK Government issued a £100 bond with a coupon of £3 per annum and 40 years until maturity. Two years later, the interest that could be earned on a similar asset had risen to 6%. What is likely to have happened to the price of the bond and its yield?

A The price of the bond will have risen but the yield will be unchanged. ⬭

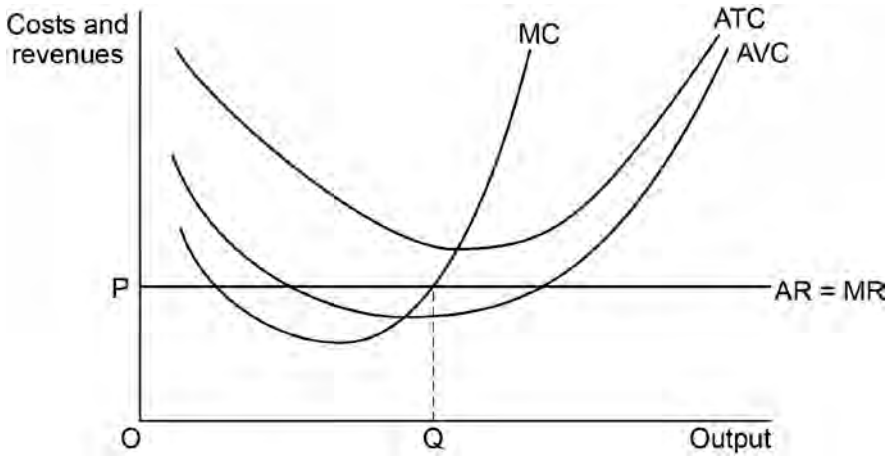
B The price of the bond will have fallen but the yield will have increased. ⬭

C The price of the bond will have risen but the yield will have increased. ⬭

D The price of the bond will be unchanged but the yield will have fallen. ⬭

[1 mark]

2 6 The diagram below shows the cost and revenue curves for a firm in a perfectly competitive market.



All other things being equal, the firm

A is making a loss in the short run but will remain in the market in the long run. ⬭

B is making a profit and will remain in the market in the long run. ⬭

C will exit the market immediately to minimise its loss. ⬭

D is minimising its loss by staying in the market in the short run. ⬭

[1 mark]

2 7 The table below contains index number data for an economy's GDP, population size and its price level for the years 2005 and 2014. All three indices have 2005 for their base year.

	GDP	Population	Price level
2005	100	100	100
2014	200	120	150

Using the data, the increase in real GDP per capita between 2005 and 2014 is approximately

A 10%. ⬭

B 20%. ⬭

C 50%. ⬭

D 100%. ⬭

[1 mark]

2 8 The data below shows economic growth rates, unemployment rates and inflation rates for an economy.

Year	Real output growth rate (%)	Unemployment rate (%)	Inflation rate (%)
2010	2	4	6
2011	3	3	5
2012	4	3	4
2013	5	2	3

All other things being equal, which one of the following is the most likely explanation for the relationship between the rates of growth of real output, rates of unemployment and inflation between 2010 and 2013?

A A decrease in the money supply. ⬭

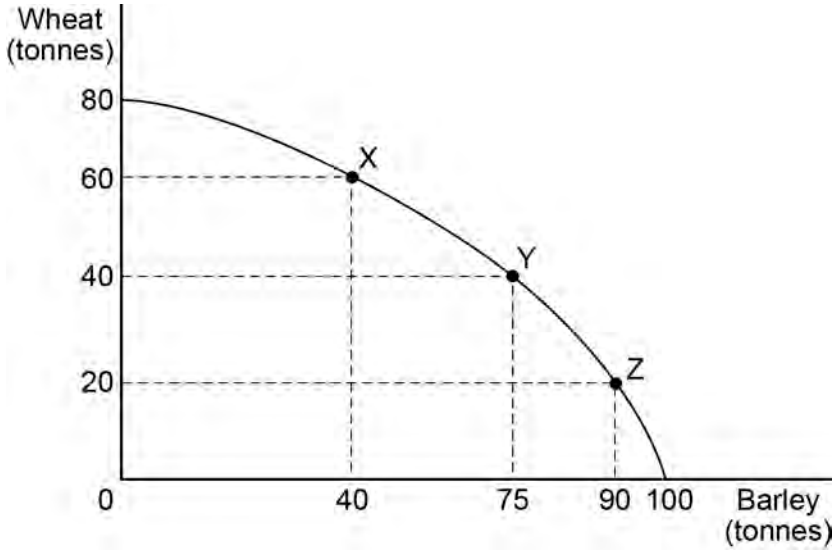
B An increase in innovation and productivity. ⬭

C A decrease in the savings ratio. ⬭

D An increase in the current account deficit. ⬭

[1 mark]

2 9 A farmer can produce two types of grain on his farm, wheat and barley. The production possibility boundary below shows the different quantities of the two grains that can be produced on the farm in a single year.



It can be deduced from the diagram that

A a movement from X to Y results in an improvement in productive efficiency because the total output of grain increases from 100 to 115 tonnes. ⬭

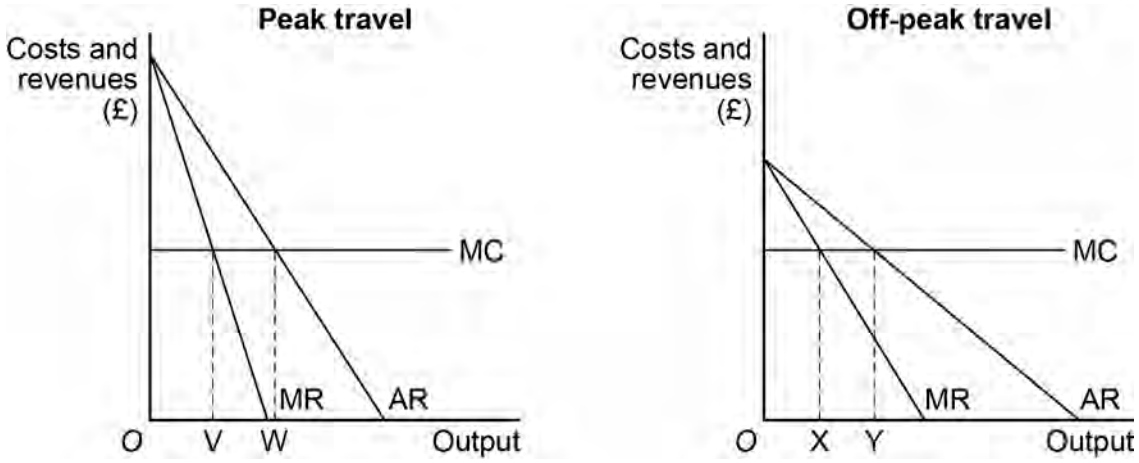
B at point X, the opportunity cost of producing 20 more tonnes of wheat is 40 tonnes of barley. ⬭

C a movement from point Y to point Z does not involve an opportunity cost because all resources are fully employed. ⬭

D the maximum amount of grain that the farm can produce in one year is 80 tonnes of wheat and 100 tonnes of barley. ⬭

[1 mark]

3 0 The diagrams below show the peak and off-peak travel markets for a price-discriminating train operating company. The firm is a monopolist and the costs in both markets are the same.



To maximise profits, how much should be supplied in each market?

	Peak travel	Off-peak travel	
A	OV	OX	⬭
B	OV	OY	⬭
C	OW	OX	⬭
D	OW	OY	⬭

[1 mark]

QUESTION 30 IS THE LAST QUESTION IN SECTION A

Turn to page 18 for Section B

Turn over for the next section

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Section B

Answer **all** questions in this section

Refer to source booklet for Extracts A, B, C and D.

Total for this Investigation: 50 marks

Brazil: The Hot 'BRIC'

INVESTIGATION

Scenario

You are an economist reporting to a UK car manufacturer who is considering investing in Brazil. The company has requested that you provide answers to three key questions.

Referring to the source booklet, study Extracts **A**, **B**, **and C** and then use these and your own economic knowledge to help you answer questions 31 and 32. There is also an additional news report, **Extract D**, which is to be used with the other extracts to help answer question 33.

3 1 How does Brazil compare with the UK in relation to human capital and macroeconomic stability? You must use the data in **Extract C** to support your assessment.

[10 marks]

Extra space

If your client decides that they want to invest in Brazil, they will have to persuade the government that it will benefit the Brazilian economy and its people.

3 2 Explain how Brazil is likely to benefit from inward investment by a UK car manufacturer.

[15 marks]

Extra space

3 3 Taking into account the news report, **Extract D** and the original evidence, do you recommend that the company should invest in Brazil? Justify your recommendation.

[25 marks]

Extra space

END OF QUESTIONS

Acknowledgement of copyright holders and publishers

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Copyright © 2014 AQA and its licensors. All rights reserved.