

Surname	Centre Number	Candidate Number
Other Names		2



**GCE AS/A LEVEL – NEW**

2520U10-1



**ECONOMICS – AS unit 1**  
**Introduction to Economic Principles**

MONDAY, 15 MAY 2017 – MORNING

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-15	15	
16	6	
17	12	
18	14	
19	8	
Total	55	

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## 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 in the spaces provided in this booklet. You may use continuation paper on page 19 if necessary, taking care to number the continuation correctly.

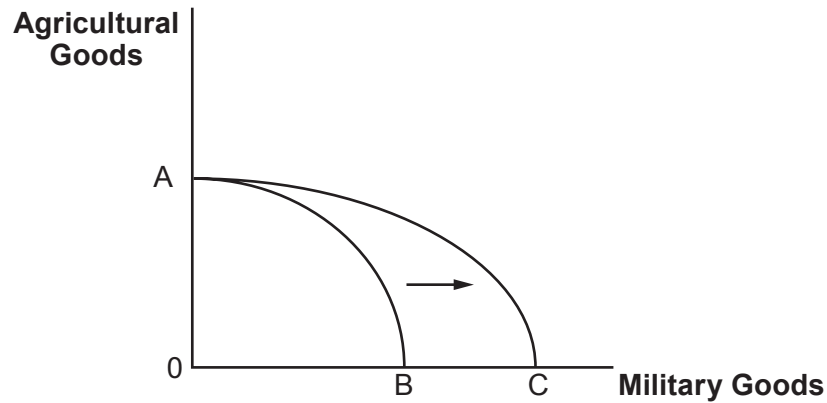
## INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

**SECTION A**

*Answer all the questions in the spaces provided.*

1. Production Possibility Frontier AB has changed to AC. This is most likely to have been caused by: [1]

**ANSWER**

*Tick one box only*

- A** War breaking out leading to a reallocation of resources towards military goods
- B** Destruction of factories during wartime
- C** An increase in productivity in the military goods industry
- D** A population increase
- E** A decrease in the number of agricultural goods produced

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2. Which of the following is a withdrawal from the circular flow of income of an economy?

[1]

**ANSWER***Tick one box only*

- A** Spending on imports
- B** Spending on exports
- C** Consumption
- D** Welfare payments to households
- E** Investment

☐☐☐☐☐

3. The largest component part of aggregate demand in the UK is:

[1]

**ANSWER***Tick one box only*

- A** Spending on imports
- B** Spending on exports
- C** Consumption
- D** Welfare payments to households
- E** Investment

☐☐☐☐☐

Questions 4 and 5 refer to Table 1 (below).

Year	2013		2014		2015	
	Price	Index	Price	Index	Price	Index
Chewing Gum	80p	100	88p	X	Y	115

**Table 1**

4. The correct figure for X is:

[1]

**ANSWER**  
*Tick one box only*

- A** 88  
**B** 100  
**C** 108  
**D** 110  
**E** 188

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5. The correct figure for Y is:

[1]

**ANSWER**  
*Tick one box only*

- A** £1.15  
**B** £1.03  
**C** 98p  
**D** 95p  
**E** 92p

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6. Which of the following is an example of investment in the economic sense?

[1]

**ANSWER***Tick one box only*

**A** A bank deposit account

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**B** Building a new factory

☐

**C** Buying a house

☐

**D** Buying gold and silver

☐

**E** Saving money

☐

7. An increase in the level of investment in an economy will **not** lead to:

[1]

**ANSWER***Tick one box only*

**A** An increase in aggregate demand

☐

**B** A shift outwards of the production possibility frontier

☐

**C** Improvements in productivity

☐

**D** A shift leftwards of aggregate supply

☐

**E** A fall in the costs of production

☐

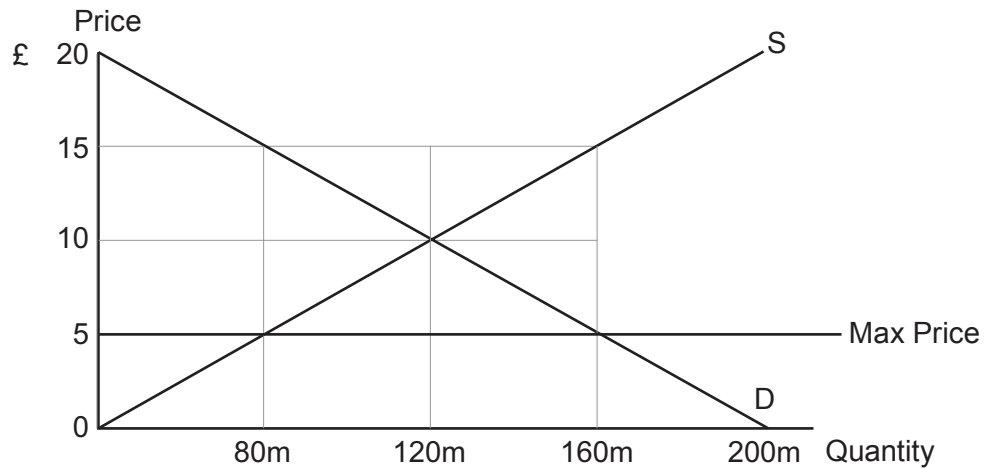
8. A professional rugby players' union negotiates a contract that dramatically increases all players' salaries. How would this influence the opportunity cost for a player who was considering giving up rugby to pursue a career in television and radio broadcasting? [1]

**ANSWER***Tick one box only*

- A** It would increase the opportunity cost of continuing to play rugby
- B** It would increase the opportunity cost of becoming a broadcaster
- C** It would decrease the opportunity cost of becoming a broadcaster
- D** It would not affect the opportunity cost of playing rugby or of broadcasting
- E** It cannot be determined from the given information

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Questions 9 and 10 refer to the maximum price diagram below.



9. Calculate **producer** surplus **before** the imposition of the maximum price at £5:

[1]

**ANSWER***Tick one box only*

A £2000m

☐

B £1200m

☐

C £1000m

☐

D £800m

☐

E £600m

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10. Calculate **consumer** surplus **after** the imposition of the maximum price at £5:

[1]

**ANSWER***Tick one box only*

A £2000m

☐

B £1200m

☐

C £1000m

☐

D £800m

☐

E £600m

☐

Questions 11 and 12 refer to the following extract:

During the summer, Iris sets up a lemonade stall on her street. On day one she sells 48 glasses of lemonade at a price of 40p each. That evening, her father tells her that if she wants to make more money she should increase her price to 50p. She takes his advice and on day two she sells 42 glasses.

11. Calculate price elasticity of demand (PED) for glasses of lemonade between day one and day two. [1]

**ANSWER**

*Tick one box only*

**A** -0.5

☐

**B** 2

☐

**C** -2

☐

**D** 0.5

☐

**E** -1.25

☐

12. What was the difference in revenue between day one and day two?

[1]

**ANSWER**

*Tick one box only*

**A** £21.00 increase

☐

**B** £19.20 increase

☐

**C** £7.20 increase

☐

**D** £3.40 increase

☐

**E** £1.80 increase

☐



13. Using the data below, which of the following countries has the largest GDP per person?

[1]

**ANSWER***Tick one box only*

Country	GDP	Population
A	\$50 bn	2.5 m
B	\$100 bn	10 m
C	\$500 bn	25 m
D	\$1 000 bn	40 m
E	\$1 500 bn	750 m

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14. Which of the following trade policies is unlikely to reduce the number of imports into a country?

[1]

**ANSWER***Tick one box only*

A Appreciation of the exchange rate

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B Increase the tariffs on imports

☐

C Impose an embargo on imports

☐

D Increase subsidies to domestic firms

☐

E Introduce import quotas

☐

15. "Once a public good is produced, anyone can enjoy it, even those who did not pay for its consumption." This statement describes which economic concept? [1]

**ANSWER***Tick one box only*

**A** An absence of private property rights

☐

**B** Free-rider problem

☐

**C** Government failure

☐

**D** Perfect factor substitutability

☐

**E** Asymmetric information

☐

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

**Average quantity of milk and alcohol (per week) purchased by income decile – 2013**



17. According to the Office for National Statistics, binge-drinking among young adults in Britain is falling. In 2005, the proportion of 16-24 year olds who were 'bingeing' at least once a week was 29%. That figure has now fallen to 18% in 2013.

It is thought that increasing numbers of young adults aged 16-24 are now teetotal and drink no alcohol whatsoever, whereas many are simply drinking less when they go out. Public health campaigners such as Drinkaware will argue that the figures demonstrate the success of sensible drinking campaigns. Labelling of bottles, TV commercials and posters around university campuses are all good examples of recent campaigns.

Nevertheless, alcohol still remains the biggest single cause of death in under-60s in the UK. Drinking too much can contribute to a number of serious health conditions, including cancer, liver disease and heart disease. It is estimated that alcohol misuse costs the NHS in Wales about £109m a year (source: BBC).

- (a) Using examples from the data, define the concept of private costs and external costs of alcohol consumption. [4]

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- Draw your diagram in the space below.*

18. The Personal Allowance is the amount of income you don't have to pay tax on. In an attempt to reduce income inequality within the UK, the Conservative Government raised the Personal Allowance to £10 600 per year in the tax year 2015/16. So far, however, they have decided not to increase the additional rate of income tax. **Extract 1** below shows the income tax rates in that year.

**Extract 1**

Tax Rate	Taxable income <u>above</u> your Personal Allowance
<b>Basic rate</b> 20%	£0 to £31 785 People with the standard Personal Allowance start paying this rate on income over £10 600.
<b>Higher rate</b> 40%	£31 786 to £150 000 People with the standard Personal Allowance start paying this rate on income over £42 385.
<b>Additional rate</b> 45%	Over £150 000

**Extract 2** below shows an annual wage slip for a newly qualified teacher in Wales during the tax year 2015/16.

**Extract 2**

Gross annual income	Taxable income	Income Tax paid	National Insurance Contribution	Net annual income
£22 244	£11 644	£2 329	£1 702	£18 213

- (a) (i) Calculate the % of the teacher's gross annual income paid in income tax. [1]

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- (ii) How much would a person earning £10 000 per year pay in income tax? [1]

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(b) Using the data, outline why income tax is generally considered to be progressive.

[4]

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- (c) Using a Laffer Curve diagram, discuss whether increasing the additional rate of income tax can successfully reduce income inequality in the UK. [8]

*Draw your diagram in the space below*

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- There was mixed reaction in Wales. Stephen Crabb, the Secretary of State for Wales, said the policy “delivers economic security for people in Wales who work hard and want to get on”. Some Welsh business owners, however, including Tracey Smolinski from networking company Introbiz said the National Living Wage could affect business growth. “It will be difficult for some firms to find the extra money which will leave less cash to reinvest back into the businesses”, she said.

- TUC analysis in 2014 showed that nearly 1 in 4 jobs (23.9%) in Wales paid less than £7.20 per hour.
- In some parts of Wales, half of jobs were paying less than £7.20 per hour in 2015. Dwyfor Meirionnydd topped the list of Living Wage black spots with 50.9% of the jobs based there paying less than £7.20 per hour. This was followed by Rhondda (38.9%), Clwyd South (38.8%) and Gower (37%).

Discuss how the introduction of the National Living Wage is likely to affect investment within the Welsh economy. [8]

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**END OF PAPER**

