



Rewarding Learning  
ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
2018

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# Economics

Assessment Unit AS 1  
*assessing*  
Markets and Market Failure



SEC11

[SEC11]  
MONDAY 14 MAY, MORNING

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## TIME

1 hour 30 minutes.

## INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.  
Answer **all** questions in section **A** and **B** and **one** question in section **C**.  
You are permitted to use a calculator in this paper.

## INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

## ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **5**, **6 (b)**, **(c)** and **(d)**, **7** and **8**. Quantitative skills will be assessed where appropriate.

## Section A

**Answer all questions (25 marks)**

- 1 The table below depicts the total level of utility (or satisfaction) a consumer receives from consuming various quantities of a healthy breakfast bar.

Quantity consumed	Total utility received (utils)
0	0
1	65
2	110
3	135

With reference to the consumption of **the second** breakfast bar, explain the meaning of the term marginal utility. [4]

- 2 Global steel prices fell from around \$400 per tonne in April 2015 to \$170 per tonne in April 2016. This rapid decline has been caused in no small part by a fall in demand for steel in oil-producing countries and government subsidies to steel producers in China.

With the aid of an appropriate diagram, explain the fall in steel prices between April 2015 and April 2016. [5]

- 3 Data published recently on the impact of income growth on the demand for luxury goods has suggested that an increase in average incomes in Estonia from €12,600 to €15,300 per year led to a 10% rise in the quantity of red meat demanded.

(a) Using the information above, calculate the income elasticity of demand for red meat. [3]

(b) Does the data support the view that red meat is a luxury good? Explain your answer. [3]

- 4 In 2015 median household disposable income in the UK was £25,600, up £1,500 from the previous year. Over the same period the number of households living below the poverty line (defined as 60% of median household disposable income) remained relatively unchanged.
- (a) Using the information above, calculate the poverty line for the UK in **2015**. [2]
- (b) Explain **one reason** why median income is generally accepted to be a more accurate indicator than mean income when calculating relative poverty rates. [2]
- 5 Research has shown that crop yields on farms located close to hobby and commercial bee-keeping are up to 35% higher than the national average.

With the aid of an appropriate diagram, explain why free markets are likely to lead to a less than optimal level of bee-keeping. [6]

## Section B: Data response

### Answer all questions (35 marks)

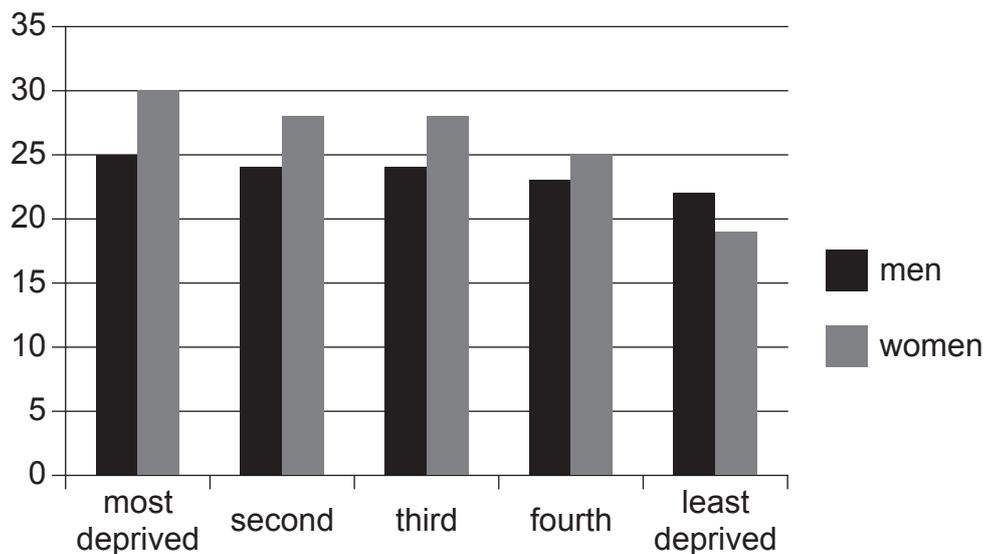
- 6 The following passage was written in April 2016. Read it carefully and answer the questions which follow.

#### Obesity: a growing problem!

A report published recently in *The Lancet* medical journal has claimed that the UK has one of the highest rates of obese and overweight people in the EU. This has caused concern that the NHS will be unable to cope with the increased health problems, such as diabetes, heart disease and cancer, which are associated with obesity. Indeed, research suggests that by 2020 obesity will cost the UK economy £6bn each year in lost output and health costs, and will lead to 70 000 premature deaths.

While obesity is a growing problem across the socioeconomic spectrum, there are some who believe it is directly correlated with poverty and deprivation, with a government health minister stating “not everyone who is obese is from a deprived background; but that is where the propensity lies”.

The chart below illustrates the relationship between obesity levels and deprivation (as measured by the index of social deprivation).



**Fig. 1: Percentage of people classified as obese per quintile group**

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The government is clearly worried about the cost to the economy of rising obesity levels and in his 2015 budget, Chancellor George Osborne laid out plans to introduce a tax on sugary drinks in an attempt to tackle the problem. The tax, which will equate to 18p per litre for sugary drinks containing more than 5g of sugar per 100 ml and 24p per litre for drinks with over 8g of sugar per 100 ml, is expected to raise around £500 million per year in additional tax revenue. This additional tax revenue has been earmarked for schools sports and breakfast clubs.

Supporters of the plan point to the experience of Mexico where a tax on sugary drinks led to a 12% drop in sales in the first year, with sales of bottled water increasing by 4% over the same period.

Kate Smith of the Institute of Fiscal Studies (IFS) stated, “Sugary drinks have wider costs to society that the consumer does not pay for, and one effective way to make up for this market failure is to impose a tax that internalises the external costs of consumption.”

Not everyone is in favour of the sugar tax, however, and not surprisingly the big soft drinks manufacturers have called on the Chancellor to reconsider the plan. The boss of Coca-Cola UK stated, “We don’t believe the sugar tax is the right thing to do... there is no evidence to suggest that it will reduce obesity, not least because only a very small proportion of an individual’s calorie intake comes from sugary drinks.” The eminent free market economist AJ McCann was even more scathing of the plan. He stated, “The demand for sugary drinks in the UK is relatively price inelastic and so this tax will do nothing but transfer more money from the pockets of hard-working citizens to government ministers who will then waste it on harebrained schemes designed to make themselves look good. Obesity has many separate causes and as a result there is a range of alternative policy measures that, if used together, would be more effective than taxation in changing consumer behaviour and reducing the obesity epidemic.”

- (a) Using the information in **Fig. 1**, compare the relationship between social deprivation and obesity in men with that of women. [5]
- (b) With the aid of an appropriate diagram, analyse the likely impact on community surplus of the imposition of a specific tax on sugary drinks. [6]
- (c) Analyse why free markets often lead to the over-consumption of goods such as sugary drinks. [9]
- (d) Critically examine the view that “there is a range of alternative policy measures that would be more effective than taxation in reducing obesity”. [15]

**Section C: Essay section**

**Answer one question (20 marks)**

- 7 In April 2016, the government introduced a National Living Wage of £7.20 per hour for workers over 25. This will be gradually increased to reach £9.00 per hour by 2020. Supporters of the scheme argue that it will reduce relative poverty and save the government millions of pounds each year. However, opponents argue that it might increase relative poverty as it is likely to lead to job losses.

Critically examine the government's decision to introduce a National Living Wage of £9.00 per hour by 2020. [20]

- 8 In his 2015 Budget, Chancellor George Osborne announced that from 2017 high-performing UK universities could increase the fees they charge students above the £9,000 limit that was set in 2012. Universities have welcomed the change and claim that this will allow them to invest in new facilities and attract the best staff.

Critically examine the view that UK universities should be free to set their own level of fees. [20]

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**THIS IS THE END OF THE QUESTION PAPER**

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