Modified Enlarged 36pt

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Tuesday 4 June 2019 – Morning

A Level Economics

H460/03 Themes in economics

Time allowed: 2 hours
plus your additional time allowance

YOU MUST HAVE:
Resource Booklet

YOU MAY USE:
a scientific or graphical calculator

Please write clearly in black ink.

Centre number ☐☐☐☐☐

Candidate number ☐☐☐☐

First name(s) _____

Last name _____

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS

Use black ink. You may use an HB pencil for graphs and diagrams.

Read each question carefully before you start to write your answer.

Answer ALL the questions.

Write your answer to each question in the space provided. If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

INFORMATION

The total mark for this paper is 80.

The marks for each question are shown in brackets [ ].

Quality of extended responses will be assessed in questions marked with an asterisk (*).

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SECTION A

Answer ALL the questions in this section.

Write your answer for each question in the box provided.

1   The data opposite shows changes in macroeconomic variables in the period 2005–09 in the UK economy. In which year was the economy most at risk of being in a liquidity trap? [1]

A   2005

B   2007

C   2008

D   2009

Your answer ☐

Indicator	2005	2006	2007	2008	2009
Economic Growth Rate (%)	2.97	2.50	2.56	–0.63	–4.33
Inflation Rate (%)	2.05	2.33	2.32	3.61	2.17
Interest Rate (%)	4.50	5.00	5.50	2.00	0.50
Unemployment Rate (%)	4.75	5.35	5.26	5.61	7.54

2 Statement 1: Qatar is more economically developed than Norway because GDP per capita is $127 660 USD in Qatar and $69 249 USD in Norway.

Statement 2: The claimant count rate of unemployment is higher in Norway than in Qatar.

Which of the following correctly categorises these statements? [1]

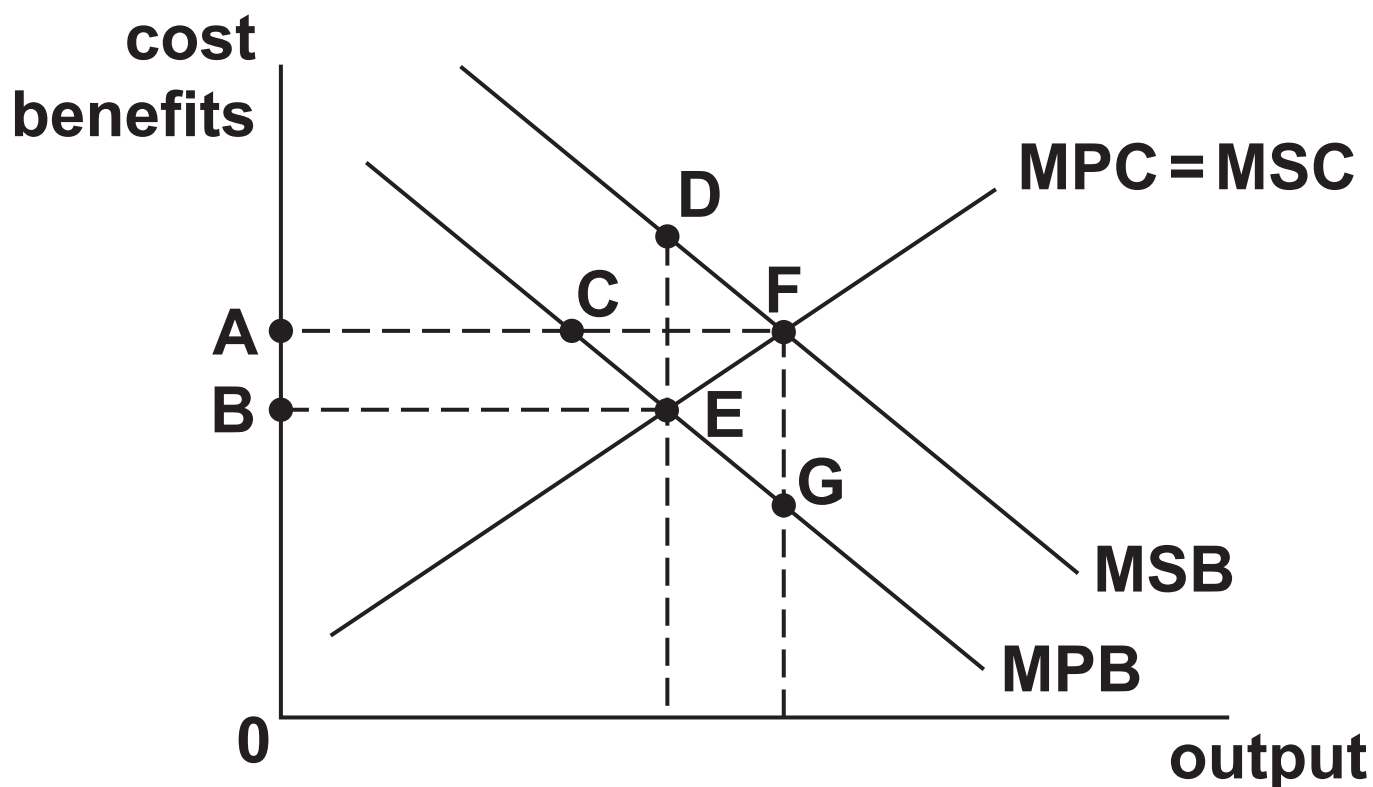|	Statement 1	Statement 2
A	Normative	Normative
B	Normative	Positive
C	Positive	Normative
D	Positive	Positive

Your answer [ ]

3 The theory of comparative advantage seeks to explain patterns of trade. Which of the following is a weakness of the theory of comparative advantage? [1]

A A developing country may lack the capital to have an absolute advantage in the production of any good or service over a developed country

B Countries will import goods from countries that can produce those goods at a lower opportunity cost

C Heckscher-Ohlin theory suggests countries should specialise in producing goods which intensively use factors of production they have large endowments of

D High transport costs mean countries are more likely to trade with neighbouring countries

Your answer ☐

4 Which area represents the size of the welfare loss if provision of the good in the diagram below is left to the free market? [1]

A ABEF

B CEF

C DEF

D EFG

Your answer ☐

8

5 **What is the reward for capital?** **[1]**

A   Interest

B   Profit

C   Rent

D   Wages

Your answer ☐

6 **What is the accelerator effect?** **[1]**

    A   An increase in aggregate demand causes a greater final change in real GDP

    B   As economic growth pushes the economy towards full capacity the rate of inflation increases rapidly

    C   Increases in expected demand will increase the level of investment in the economy

    D   Sacrificing the production of consumer goods for capital goods in the short run can increase the rate of economic growth in the long run

Your answer

7   **Which theory argues a high savings ratio is fundamental to achieving economic growth? [1]**

A   **Harrod-Domar model**

B   **Heckscher-Ohlin model**

C   **Marshall-Lerner condition**

D   **Prebisch-Singer hypothesis**

Your answer   ☐

8 **What is the change in producer surplus as a result of the market equilibrium moving from point A to point B in the diagram opposite?** **[1]**
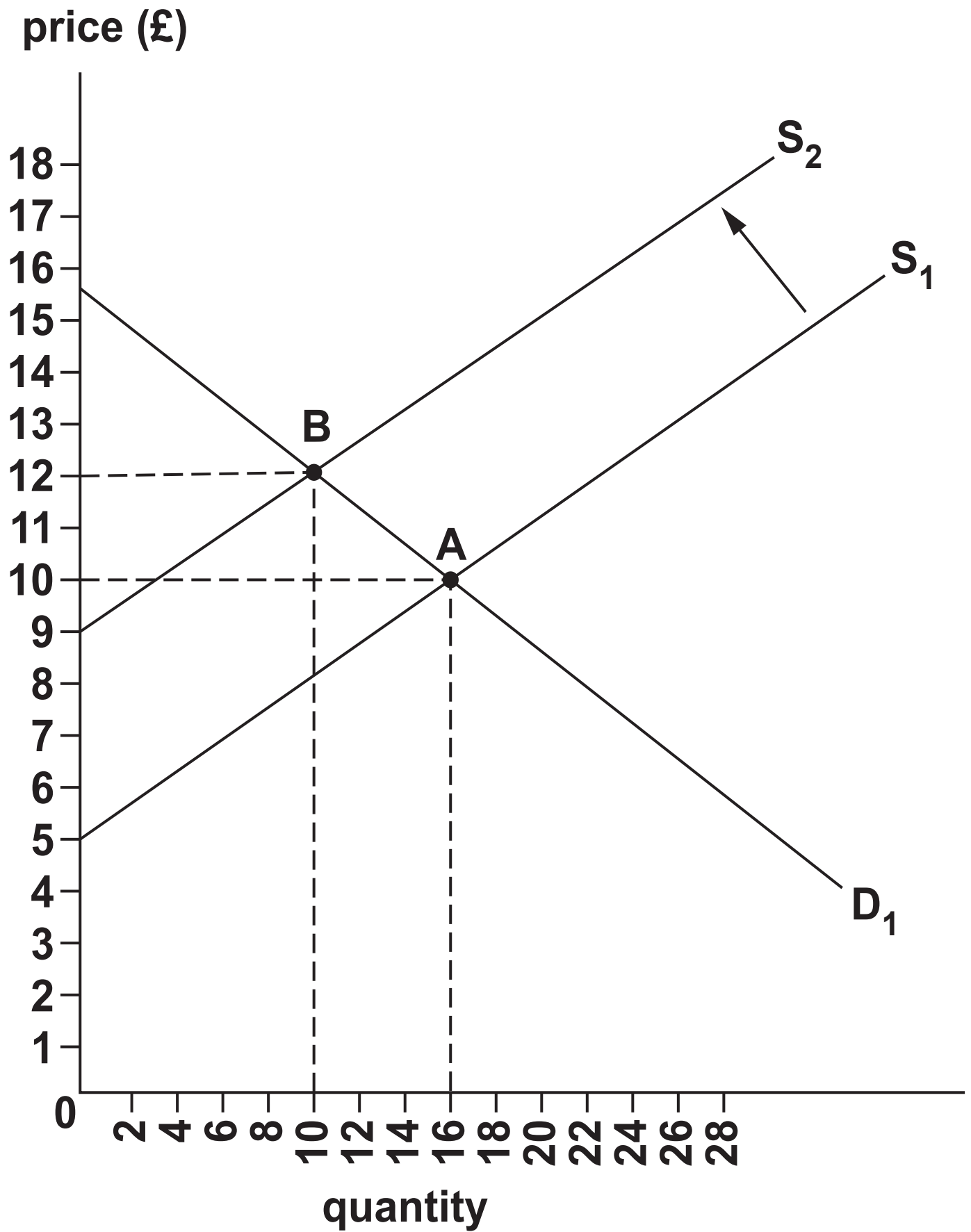
A   –£31

B   –£25

C   £25

D   £31

Your answer ☐

price (£)

18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0

2 4 6 8 10 12 14 16 18 20 22 24 26 28

quantity

S₂
S₁
B
A
D₁

13

9 Sweden is generally considered to have relatively high unit labour costs. What might be the reason for this? [1]

A High investment in physical capital

B High levels of employment protection laws

C Low costs of living

D Low tax rates

Your answer ☐

10 Which of the following assumptions is made in the quantity theory of money? [1]

A   Interest rate is fixed

B   Money supply is fixed

C   Price level is fixed

D   Velocity of money is fixed

Your answer ⬚

11 In which of the following cases are firms most likely to be productively and allocatively efficient? [1]

A   Monopolistically competitive market in the long run with firms making normal profit

B   Natural monopoly

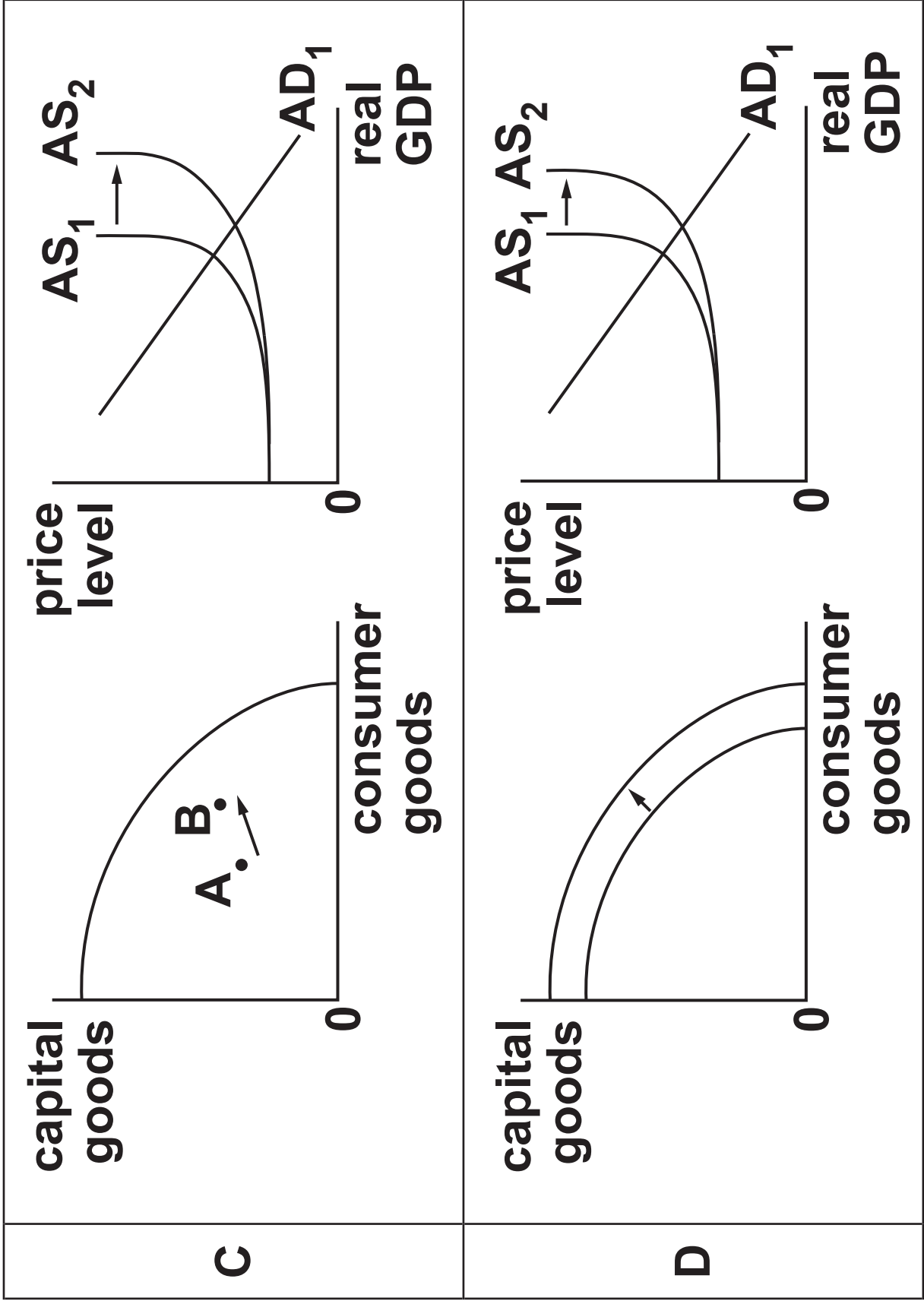C   Perfectly competitive market in the short run with firms making supernormal profit

D   Perfectly contestable market

Your answer ☐

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12 Which pair of diagrams below and opposite illustrates long run economic growth? [1]

A

capital goods

0 — consumer goods

price level

AS$_1$

AD$_2$

AD$_1$

0 — real GDP

B

capital goods

0 — consumer goods

price level

AS$_1$

AD$_2$

AD$_1$

0 — real GDP

C

capital goods

A. B.

consumer goods

price level

AS₁ AS₂

AD₁

real GDP

D

capital goods

consumer goods

price level

AS₁ AS₂

AD₁

real GDP

19

Your answer

13 Which of the following is a harm caused by a high rate of inflation? [1]

A   Imports become relatively more expensive

B   Investment decreases

C   Real wage flexibility occurs
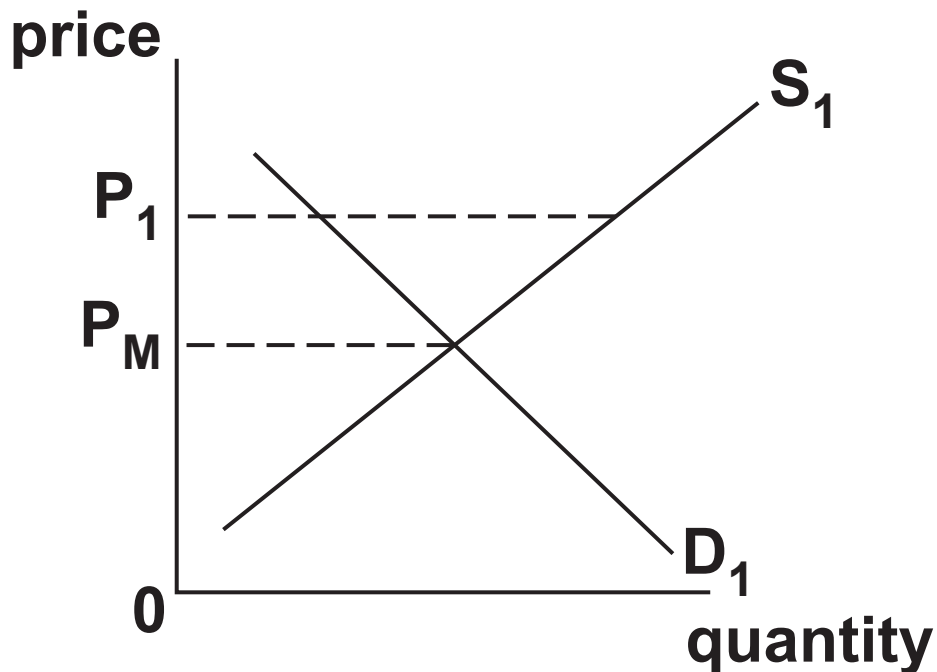
D   The real value of debt increases

Your answer ☐

14 Two firms, Y and Z, are competing in an oligopoly market. They are deciding whether to price their good at £10 or £5. Game theory can be used to analyse their behaviour. If collusion breaks down, which of the options below represents the profits firms will earn in the long run? [1]

		Firm Z	
		£10	£5
Firm Y	£10	Option A £150m, £150m	Option B £30m, £250m
	£5	Option C £250m, £30m	Option D £80m, £80m

Your answer ☐

15 The market equilibrium price is P_M.
   What could have caused the price to be
   at P_1? [1]

price

A   Maximum price

B   Minimum price

C   Subsidy

D   Tax

Your answer ☐

16 **Which of the following is an insight from the Austrian school of thought?** **[1]**

   A **Increasing public spending can promote economic recovery in times of recession**

   B **Prices are determined by subjective factors such as individual preference**

   C **The economy will rapidly converge to the natural rate of output**

   D **There is a trade-off between unemployment and inflation**

   Your answer ☐

17 **Which component of the balance of payments accounts for dividends from foreign stocks and shares? [1]**

    A   Capital account

    B   Credit account

    C   Current account

    D   Financial account

Your answer ☐

18 The demand for a good is expected to decrease from 52 000 to 46 000 when average incomes increase from £20 000 to £24 000. What is the income elasticity of demand for the good? [1]

A –1.73

B –0.78

C –0.58

D 1.73

Your answer ▢

19 When would the quantity of labour supplied increase more than proportionally to an increase in the wage rate? [1]

A It is easy to substitute labour for capital

B Labour costs take up a high proportion of total costs

C There is a high level of skill required in the job

D The job requires minimal training

Your answer [ ]

20 When will remittances make a significantly positive contribution to a country's GDP? [1]

    A   The financial account of the balance of payments is in surplus

    B   The level of emigration is high

    C   The level of immigration is high

    D   The rate of unemployment is low

Your answer ☐

21 In 2016 Argentina experienced negative economic growth, with output falling by 2.3% to $571.3bn. Population growth was 1% over the same period. Calculate the change in GDP per capita in Argentina between 2015 and 2016 if in 2015 Argentina had a population of 43.42 million people. [1]

A −$444

B −$440

C −$178

D $172

Your answer ☐

22 **Which condition will a sales volume maximising firm use to determine its level of output?** [1]

A   AC = AR

B   AR = AVC

C   MC = MR

D   MR = 0

Your answer ☐

23 **What can the government do to finance a budget deficit?** [1]

A   Devalue the exchange rate

B   Increase export subsidies

C   Issue government bonds

D   Reduce the money supply

Your answer ☐

24 The data opposite shows key macroeconomic performance indicators for four countries.

If an economist was judging the performance of these economies from the perspective of the UK government macroeconomic policy objectives, which would they decide performed best? [1]
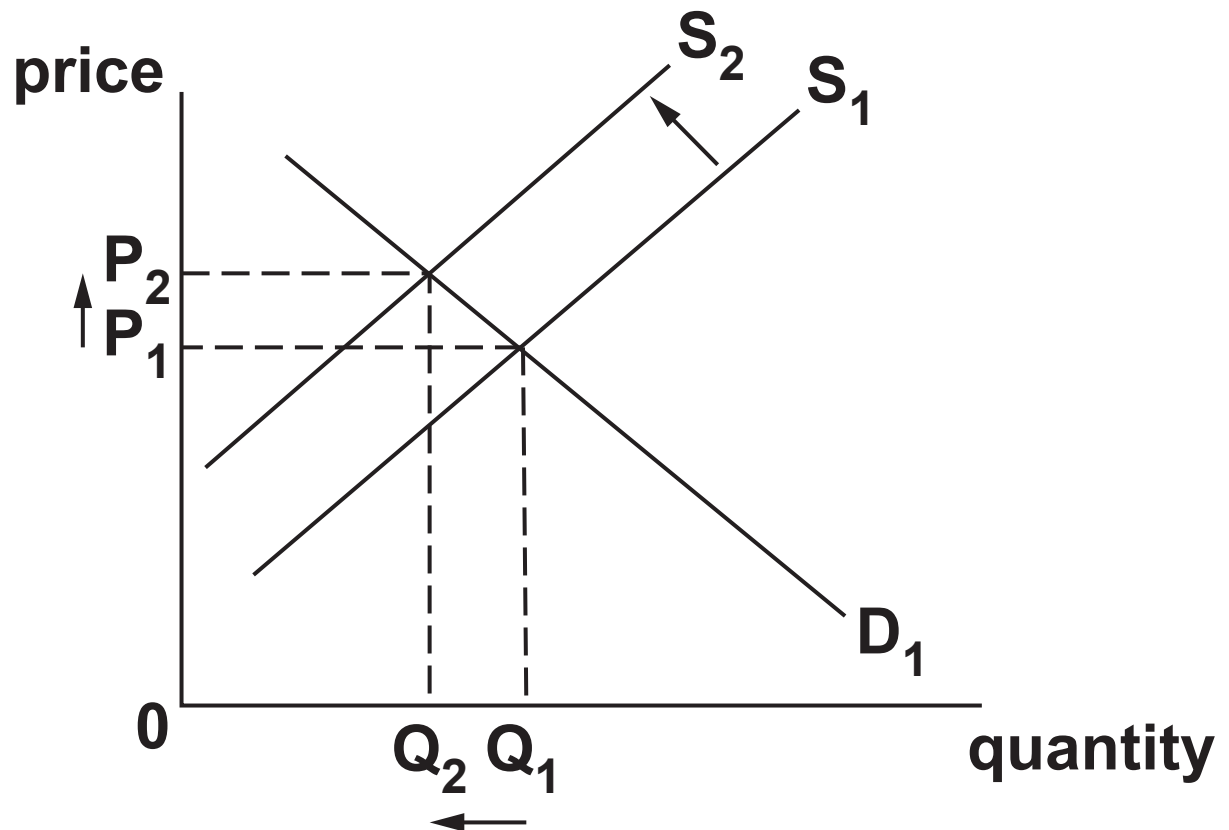
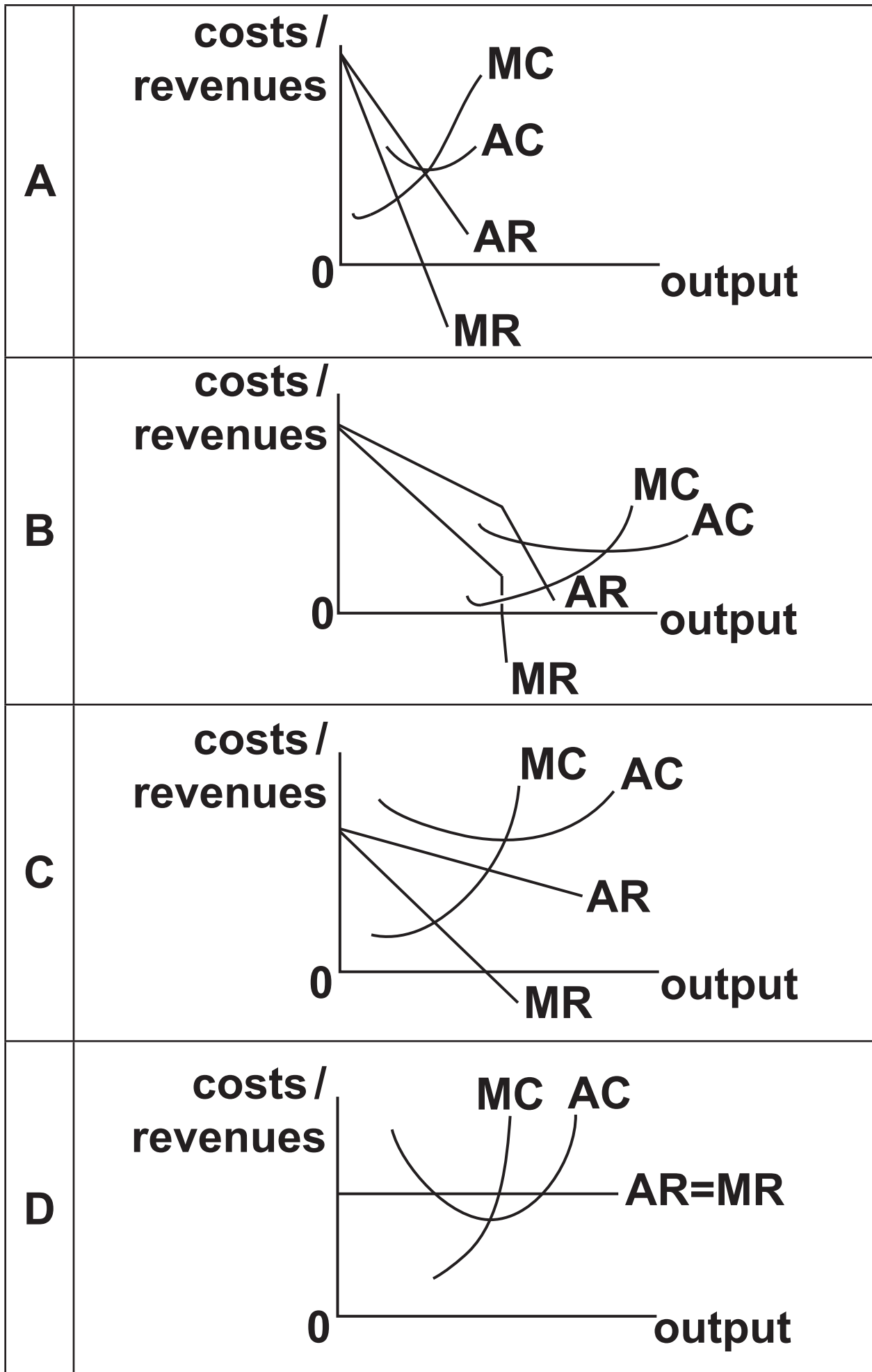A   Ireland

B   Malta

C   Ukraine

D   United Kingdom

Your answer ☐

	2016 Inflation Rate (CPI)	2016 Unemployment Rate (ILO)	2015 GDP Growth Rate	2016 GDP Growth Rate
Ireland	0%	8.1%	26.3%	5.2%
Malta	0.6%	5.3%	7.4%	5%
Ukraine	13.9%	8.9%	−9.8%	2.3%
United Kingdom	0.6%	4.8%	2.2%	1.8%

25

In each of the cases on page 33, firms are operating as profit maximisers. Which would cause the response on an industry level indicated in the diagram above? [1]

Your answer ☐

A	costs / revenues, MC, AC, AR, MR vs output
B	costs / revenues, MC, AC, AR, MR vs output
C	costs / revenues, MC, AC, AR, MR vs output
D	costs / revenues, MC, AC, AR=MR vs output

33

26 The table below illustrates the utility derived from consuming lettuce. What is the marginal utility of consuming the fourth lettuce? [1]

Quantity	Total Utility (Utils)
1	9
2	17
3	23
4	28
5	32
6	35
7	37

A   4

B   5

C   6

D   7

Your answer

27 **Why might the ILO (International Labour Organisation) unemployment rate overestimate the level of unemployment there is in an economy? [1]**

    A   **Sampling errors may exist in the data**

    B   **Some individuals may be claiming benefits but are not actually willing to work**

    C   **The economically inactive are included**

    D   **There may be underemployment where part-time workers cannot find full-time jobs**

Your answer ☐

28 In the 2017 UK General Election, the Conservative Party proposed a reform to social care that would involve individuals whose combined savings and property are valued at more than £100 000 paying for the cost of care they incur in their old age. The likely impact of this would be to reduce the amount of inheritance passed on to future generations. Which of the following would be affected by this in the long run? [1]

A Both income and wealth inequality

B Income inequality only

C Neither income or wealth inequality

D Wealth inequality only

Your answer ☐

29 **Which of the following explains price elasticity of demand along a straight line demand curve? [1]**

A Demand becomes more price elastic as the price increases

B Demand becomes more price inelastic as the price increases

C PED is constant as the price increases

D PED is unit elastic as the price increases

Your answer ⬜

30 **A small country engages in the international trade of seven goods. Using the information below, calculate the terms of trade. [1]**

Good	Price of good	Proportion of total export revenue
Exports		
A	£22	25%
B	£5	25%
C	£2	30%
D	50p	20%
Imports		
E	£7	10%
F	£2	70%
G	£1	20%

A   0.31

B   0.45

C   2.21

D   3.24

Your answer ☐

SECTION B

Read the extracts in the Resource Booklet and answer ALL questions which follow.

31 Using FIG. 1.1 and the information in EXTRACT 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market.

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_____ [2]

32 Some economists argued membership of the European Single Market caused a number of trade distortions, including in the beef market, where Irish firms had an artificial advantage over US firms as a result of being able to export to the UK tariff-free.

Explain, using an appropriate diagram and the information in EXTRACT 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free. [6]

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42

33 **Using FIG. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union.**

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_____ **[2]**

34 Using FIG. 2.1, explain what has happened to migration in the UK between 2000 and 2016.

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_____

_____ **[2]**

35 **Evaluate, using the information in EXTRACT 2, the impact on the UK labour market and wider economy of the UK ending the free movement of labour with EU countries. [15]**

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36 **Evaluate, using the information in EXTRACT 3, the extent to which the Paris Accord and tradable pollution permit schemes will be effective in solving environmental market failure. [15]**

54

37 **Evaluate, using appropriate diagrams, the impact of subsidising electric car production on the market for traditional diesel and petrol cars. [8]**

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END OF QUESTION PAPER

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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