

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

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

The data above 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

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]

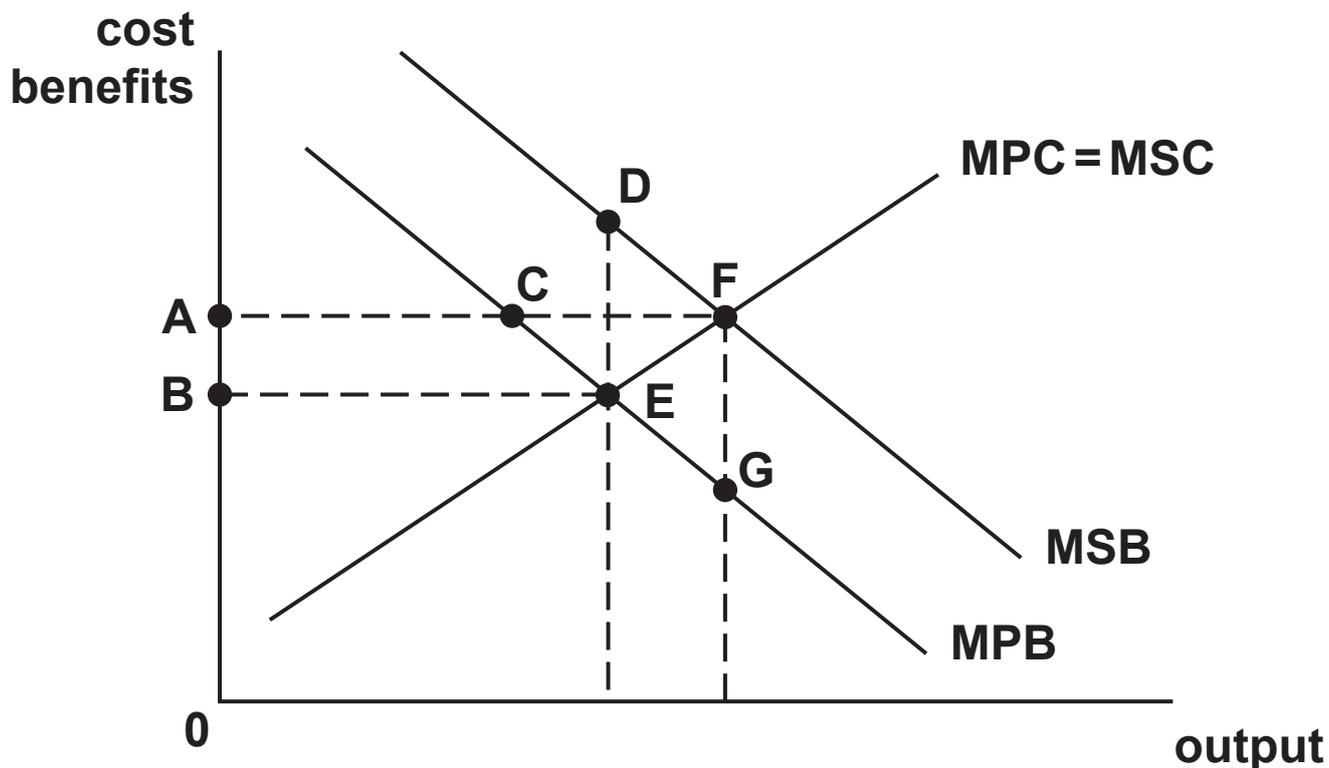
	Statement 1	Statement 2
A	Normative	Normative
B	Normative	Positive
C	Positive	Normative
D	Positive	Positive

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

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

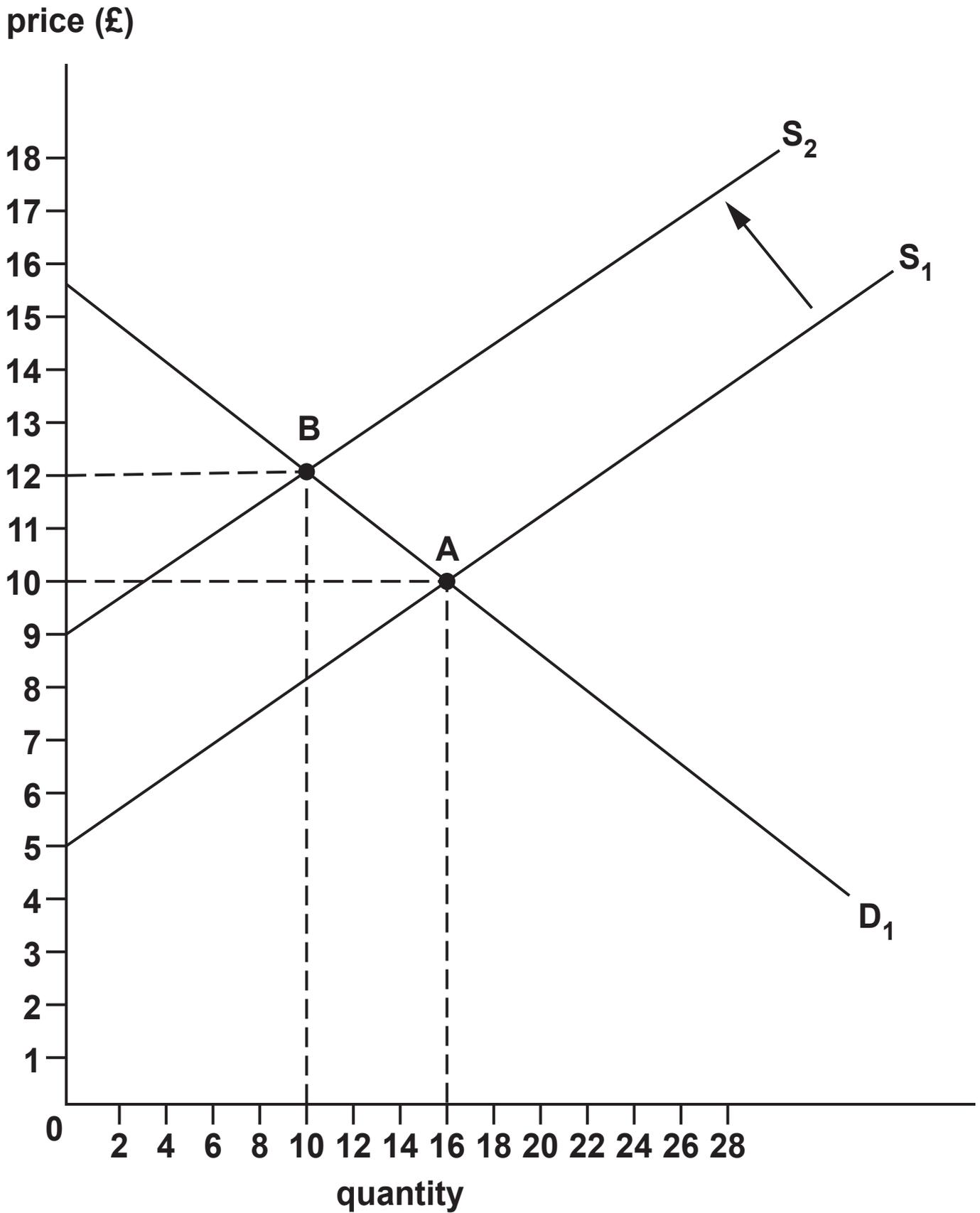
B Heckscher-Ohlin model

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 below? [1]



A -£31

B -£25

C £25

D £31

Your answer

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

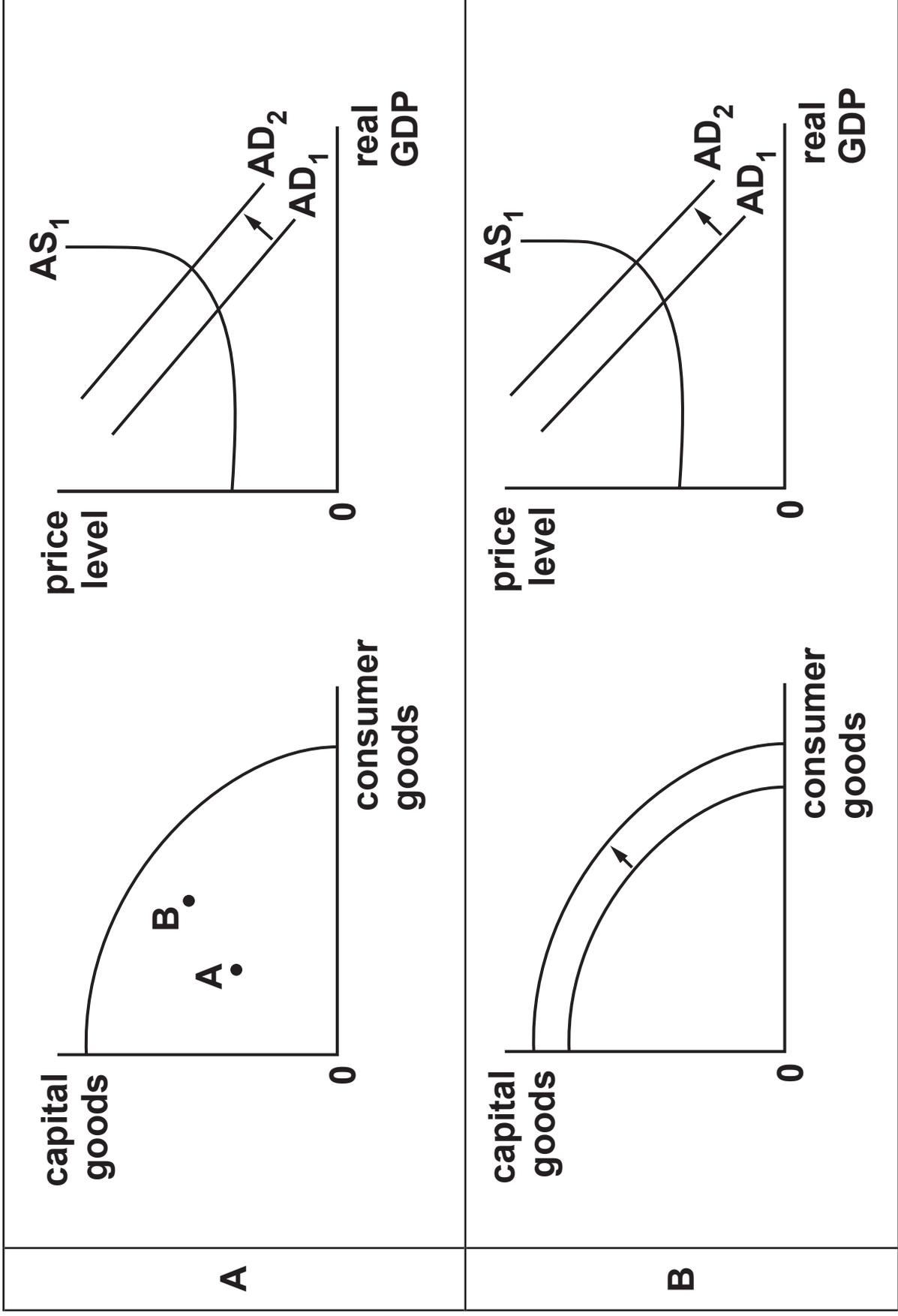
11 In which of the following cases are firms most likely to be productively and allocatively efficient? [1]

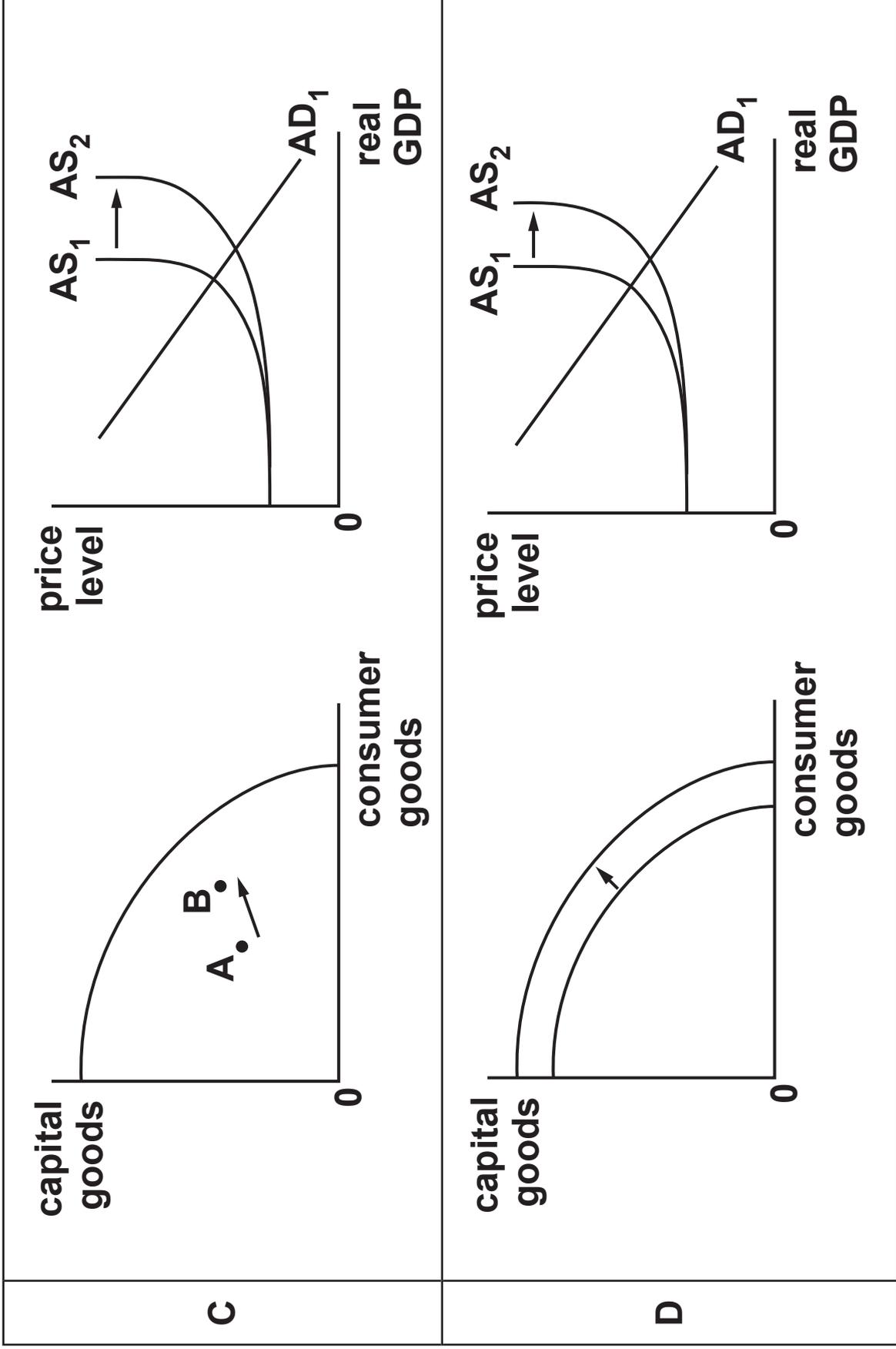
- A Monopolistically competitive market in the long run with firms making normal profit**
- B Natural monopoly**
- C Perfectly competitive market in the short run with firms making supernormal profit**
- D Perfectly contestable market**

Your answer

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





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**

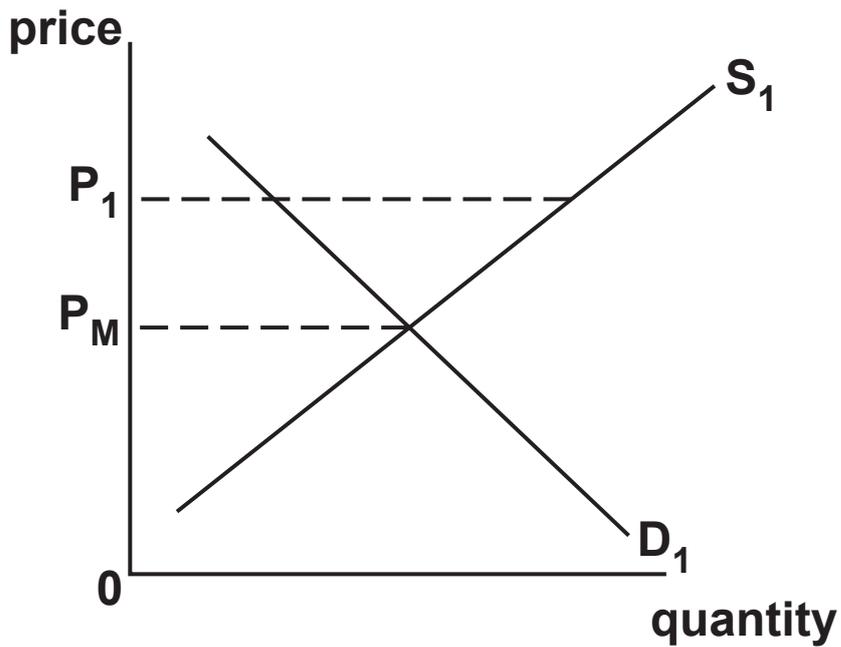
Your answer

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]



- 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 below shows key macroeconomic performance indicators for four countries.

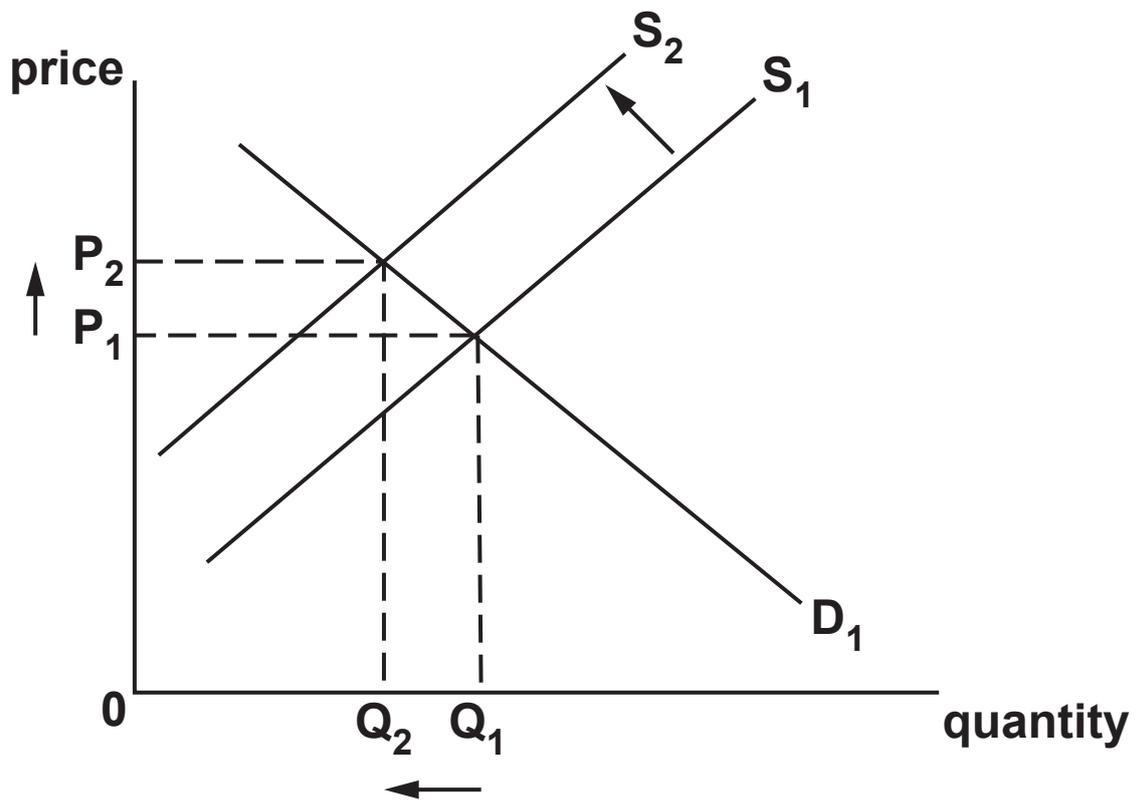
	2016 Inflation Rate (CPI)	2016 Unemployment Rate (ILO)	2015 GDP Growth Rate	2016 GDP Growth Rate
Ireland	0%	8.1%	26.3%	5.2%
Malta	0.6%	5.3%	7.4%	5%
Ukraine	13.9%	8.9%	-9.8%	2.3%
United Kingdom	0.6%	4.8%	2.2%	1.8%

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**

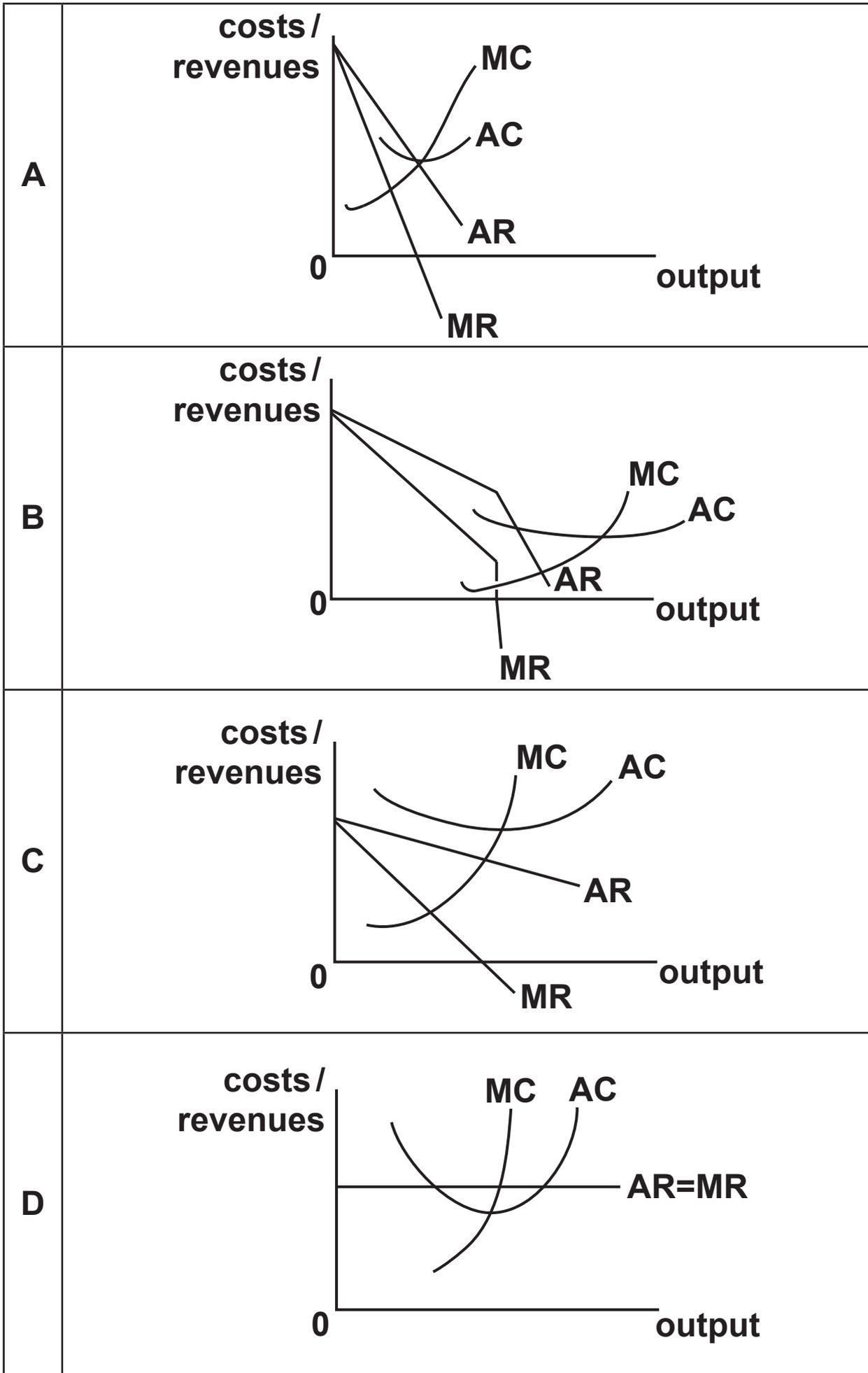
Your answer

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In each of the cases on page 25, firms are operating as profit maximisers. Which would cause the response on an industry level indicated in the diagram above? [1]

Your answer



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

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

[2]

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

[2]

END OF QUESTION PAPER

