

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Friday 24 May 2019 – Afternoon

GCSE (9–1) Economics

J205/01 Introduction to Economics

**Time allowed: 1 hour 30 minutes
plus your additional time allowance**

YOU MAY USE:
a scientific or graphical calculator

Please write clearly in black ink.

Centre number

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Candidate number

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First name(s) _____

Last name _____

READ INSTRUCTIONS OVERLEAF



INSTRUCTIONS

Use black ink.

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 response will be assessed in questions marked with an asterisk (*).

SECTION A

Answer ALL the questions in this section.

Write your answer for each question in the box provided.

1 Which of the following is a factor of production? [1]

- A A credit card**
- B A household's washing machine**
- C A one pound coin**
- D A piece of spare land**

Your answer

2 Which of these is classified as part of the output of the primary sector? [1]

- A Buildings**
- B Dishwashers**
- C Haircuts**
- D Oil**

Your answer

- 3 Supply means the amount producers are willing and able to provide to the market at a given**
- A level of consumer income**
 - B price**
 - C quantity demanded**
 - D request by the government**

Your answer **[1]**

- 4 What will usually lead to a shift in the demand curve to the right? [1]**
- A An increase in consumers' incomes**
 - B A technological improvement which reduces the costs of production**
 - C The government introduces a tax on the product**
 - D The supply curve shifts to the right**

Your answer

5 Which of the following will occur if there is a large increase in the demand for housing? [1]

- A A leftward shift in the demand curve for builders**
- B A leftward shift in the supply curve of builders**
- C A rightward shift in the demand curve for builders**
- D A rightward shift in the supply curve of builders**

Your answer

6 John is paid in twelve monthly instalments. Each month he earns £2000 in gross pay minus deductions for income tax of £500. What is his annual net pay? [1]

- A £1500**
- B £2500**
- C £18 000**
- D £24 000**

Your answer

7 An oligopoly differs from a competitive market because

- A a competitive market has larger firms than an oligopoly**
- B a competitive market has lower barriers to entry than an oligopoly**
- C firms in an oligopoly do not differentiate their products**
- D firms in an oligopoly only compete on price**

Your answer ☐ **[1]**

8 Which of the following is an example of an economy of scale? [1]

- A Bulk-buying of materials**
- B Increased raw material costs**
- C Sustainable production**
- D Unemployment**

Your answer ☐

9 A firm raises the price of its products from £10 to £11. Its sales fall from 100 to 90 units per day. Which of the following statements MUST be true? [1]

- A Its profits will decrease**
- B Its profits will increase**
- C Its revenue will decrease**
- D Its revenue will increase**

Your answer

☐

10 Goods A and B are substitutes. The supply of good A increases. What will happen in the market for good B? [1]

- A Demand will decrease**
- B Demand will increase**
- C Nothing**
- D The supply curve will shift to the right**

Your answer

☐

11 Which of the following is the MOST likely result of increased competition within a market? [1]

- A High barriers to entry**
- B High production costs**
- C Increased profits**
- D Lower prices**

Your answer

12

Units of output	Average costs of production (£)
10	3
20	2
30	1
40	2

The table shows a firm's output and its average costs of production. It can sell output at £3 per unit. What is the maximum possible profit? [1]

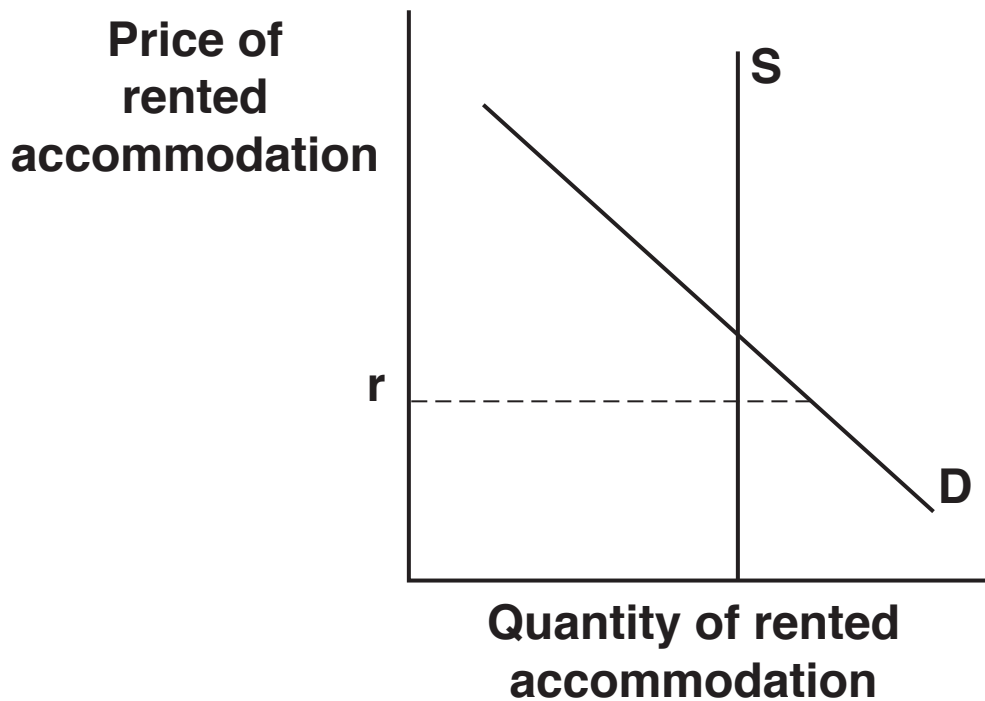
- A 0
- B £20
- C £40
- D £60

Your answer

- 13 An upward sloping supply curve is a straight line starting at the origin. This supply curve is**
- A price elastic**
 - B price elastic to begin with but becomes price inelastic at higher levels of output**
 - C price inelastic**
 - D unitary price elastic**

Your answer **[1]**

14



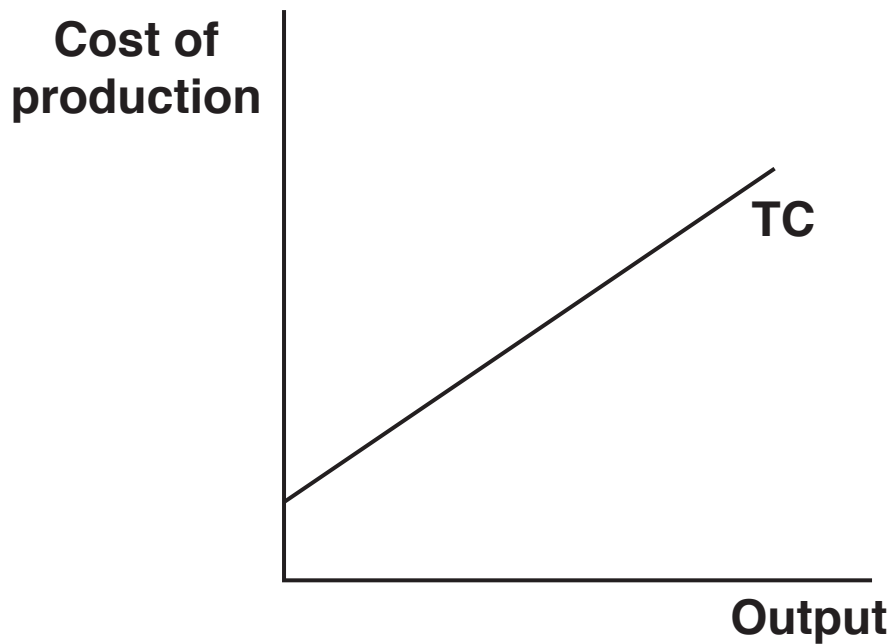
The diagram shows the market for rented accommodation. Which of the following statements about the diagram is correct? [1]

- A A price of r is above the market price of rented accommodation
- B As the price of rented accommodation increases supply will increase
- C If r is the current price of rented accommodation some people will not be able to rent any accommodation
- D The supply of rented accommodation is price elastic

Your answer

☐

15



The diagram shows the relationship between output and the total costs of production, TC. Which of these statements about the diagram **MUST** be true? [1]

- A Average costs rise when output rises
- B Profits increase with an increase in output
- C The firm still has costs to pay even if it produces nothing
- D Total revenue will be increasing

Your answer

☐

16 Which of the following is MOST likely to cause an increase in the price of oil? [1]

- A A decrease in the demand for oil**
- B A decrease in the oil industry's labour costs**
- C A fall in the price of coal**
- D Reduced competition between oil producers**

Your answer

☐

17 Which one of the following will lead to a shift in the supply curve to the left? [1]

- A A fall in demand for the good**
- B A fall in the price of the good**
- C A subsidy paid to producers**
- D A tax placed on the production of the good**

Your answer

☐

18 Which of the following is NOT a scarce resource? [1]

A Air

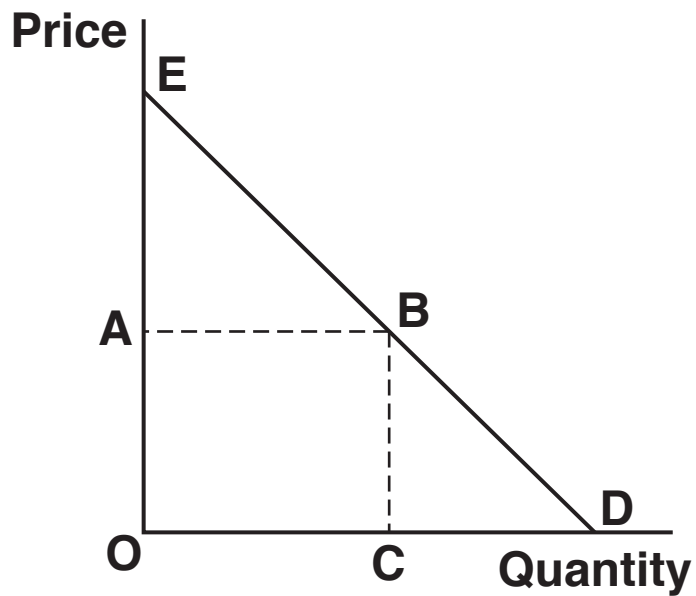
B Buildings

C Labour

D Machinery

Your answer

19



The diagram shows the demand curve for a good. Which area represents the total amount paid by consumers when the price is A? [1]

- A AEB
- B OABC
- C OABD
- D OEBC

Your answer

20 The price elasticity of demand for a good is unitary. What will happen if prices rise? [1]

- A Expenditure on the good will fall**
- B Expenditure on the good will rise**
- C The quantity demanded will fall**
- D The quantity demanded will rise**

Your answer

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SECTION B

Answer ALL the questions in this section.

21 EXTRACT 1: The Music Shop

Eileen and Jean own and run The Music Shop, selling CDs, DVDs, musical instruments, sheet music and other music-related goods.

They have recently discussed their plans for the future of the business. Jean wondered whether there was any point in accepting cash, as nearly all their consumers use credit cards or phone apps to pay for purchases. Eileen, however, believes that money is still important as a medium of exchange.

Eileen is not sure exactly what the effects of changes in consumer demand will be for their sales. She is concerned, however, that the supply of musical instruments is price inelastic.

They have recently received a letter from their bank notifying them of an increase in the interest rate, from 5% to 6%, on their £500 000 loan. Jean recognises that the products they sell are non-essential. She worries what effect higher interest rates will have on the business, but thinks that this will depend on what happens to the income of consumers and whether they use credit cards for purchases.

(a) State what is meant by money as ‘a medium of exchange’.

[2]

(b) Explain the role of consumers.

[2]

(c) Using a diagram, analyse the consequences of a fall in demand for the goods sold in The Music Shop. [6]

- (d) (i) Explain ONE way in which a rise in interest rates could affect The Music Shop.**

[2]

- (ii) Calculate the amount of interest which Eileen and Jean must pay each month to the bank when the rate of interest rises to 6%. Show your working.**

Answer: _____ [2]

- (iii)* Evaluate the importance of the financial sector for The Music Shop's consumers.**

Use the information given in EXTRACT 1 on page 18 and your own knowledge. [6]

[illegible]

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22 EXTRACT 2: Charity shop prices

Amyn and Sophia were discussing the difference between the price of a product and its worth. Sophia mentioned she had bought a new dress in a charity shop, but thought it was worth a lot more than she had paid. Amyn said that the price Sophia had paid was the result of market forces. He explained the effects of competition between charity shops on the prices of their products.

Sophia produced a table showing the demand by her friends for dresses from charity shops.

Price	Quantity
30	2
25	3
20	5
15	10
10	20

Both Amyn and Sophia realised that consumer demand was price elastic. They wondered, however, how important this was for Sophia's friends, especially as Sophia said that she was far more interested in the quality of the dress than the price.

(a) State what the difference is between price and worth.

[2]

(b) Explain how markets determine the price of a product.

[2]

[illegible]

(d) (i) Explain what Sophia means by ‘the demand by her friends’.

[2]

- (ii) Using the information in EXTRACT 2 repeated below, draw a demand curve showing the demand by Sophia's friends for dresses. [2]

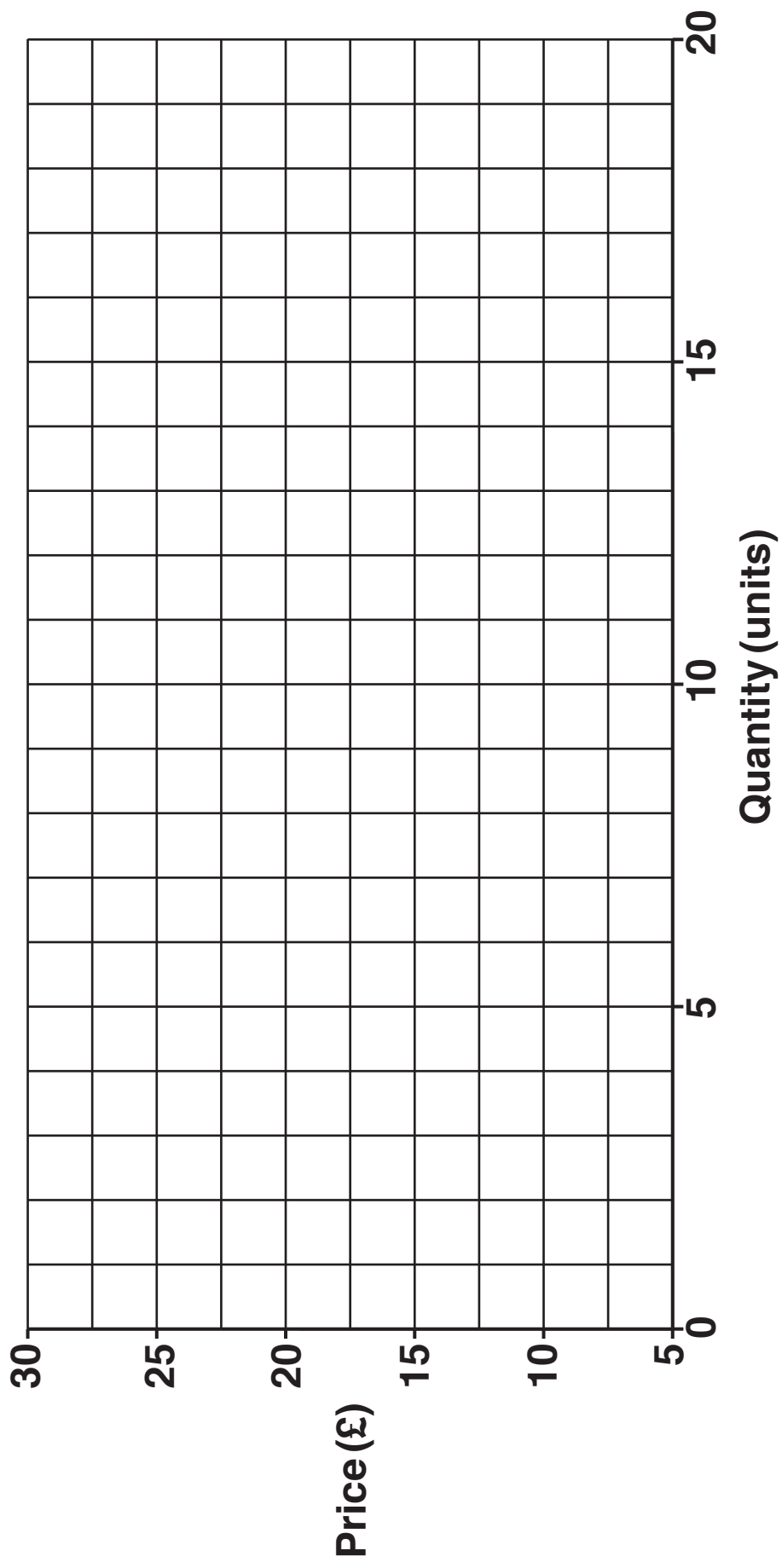
Copy of EXTRACT 2: Charity shop prices as found on page 26

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(iii)* Evaluate the importance of price elasticity of demand for Sophia's friends.

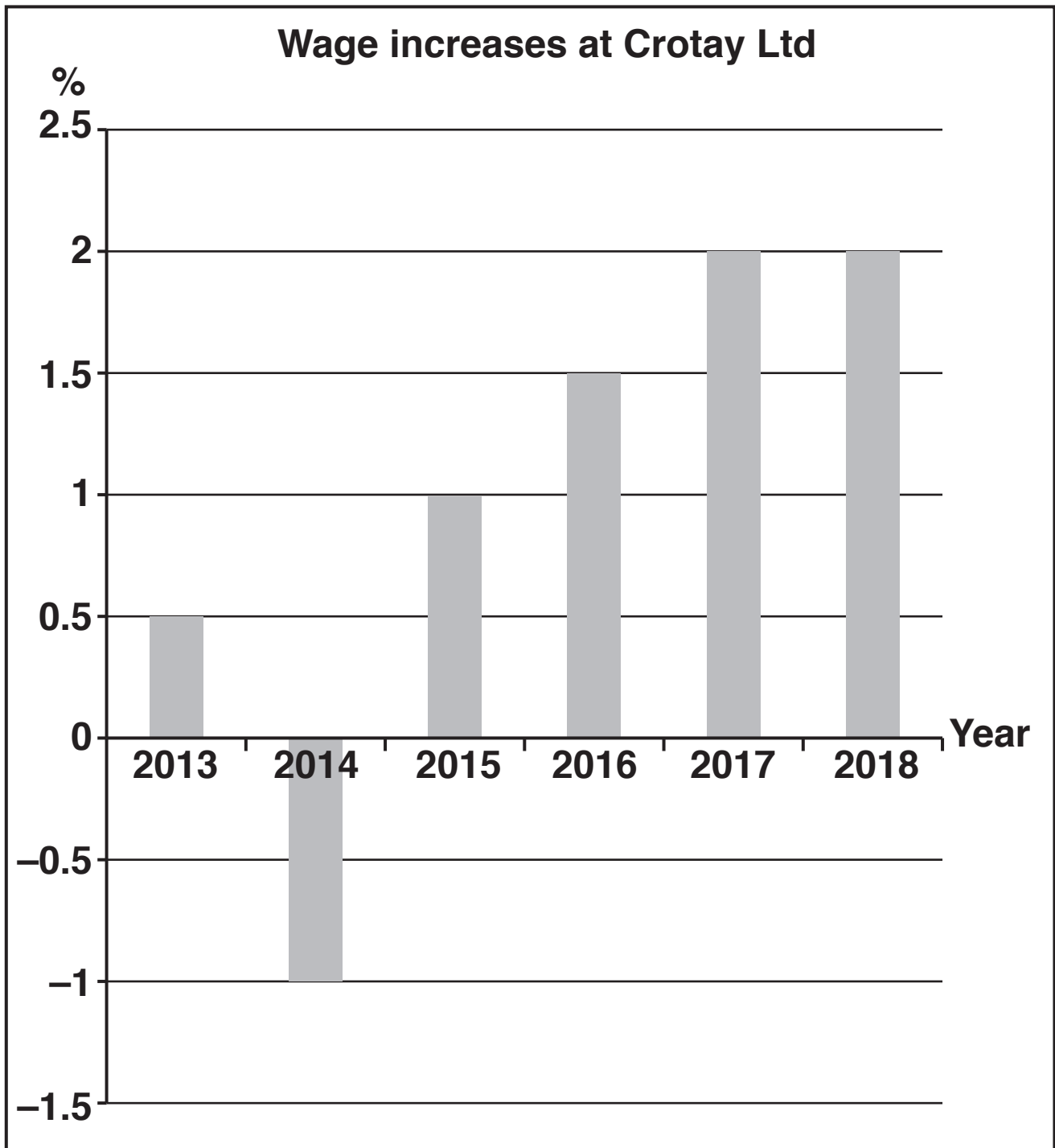
Use the information given in EXTRACT 2 and your own knowledge. [6]

[illegible]

23 EXTRACT 3: Wages and productivity

One problem for the UK's labour market has been that many workers find it difficult to move to new jobs, even when they are available. Eilidh and Toni of Crotay Ltd, manufacturers of specialist car tyres, have been discussing this, as they have regular problems with finding enough qualified workers.

As part of this discussion, they have been considering whether they can afford to increase the wages of their employees by more than 2% this year. The chart opposite shows the wage rises at Crotay Ltd over the last six years.



Eilidh has said that low wage increases in the UK economy are damaging Crotay's performance in the product market. Toni, however, feels they cannot afford to give higher pay rises, as Crotay's productivity levels are lower than their rivals, which is causing falling sales.

In 2016, UK productivity per hour worked was 15% lower than the world's top six industrial countries and 25% lower than in Germany.

(a) State what is meant by the 'labour market'.

[2]

(b) Explain ONE reason why workers may find it difficult to move between jobs.

[2]

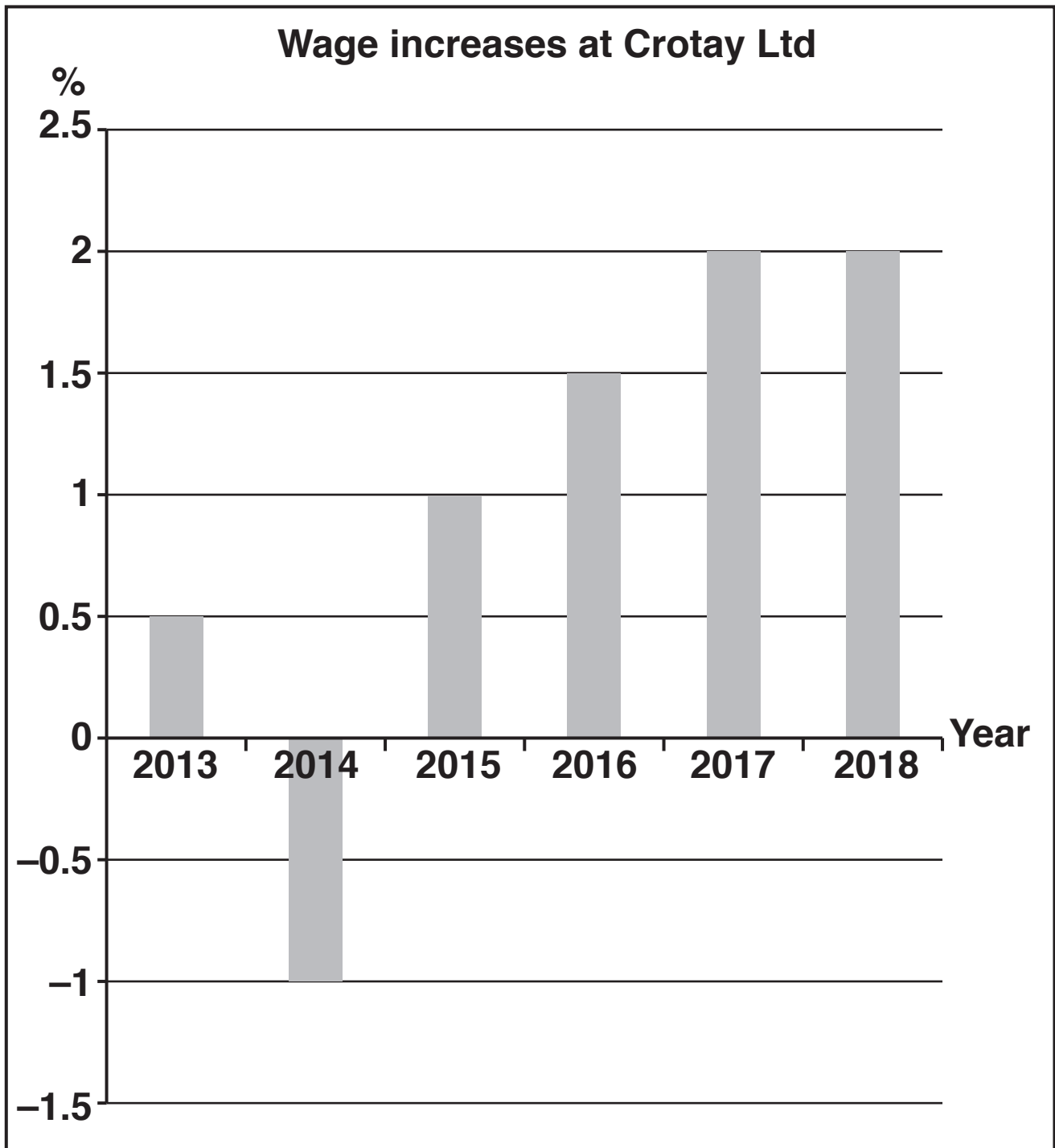
(c) Using a diagram, analyse the possible effect of low business profits on wages. [6]

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Copy of EXTRACT 3: Wages and productivity as found on pages 34–35

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In 2016, UK productivity per hour worked was 15% lower than the world's top six industrial countries and 25% lower than in Germany.

(d) (i) Explain what happened to wages at Crotay Ltd between 2013 and 2018.

[2]

(ii) Explain how low wage increases in the UK economy could damage Crotay Ltd's performance in the product market.

[2]

(iii)* Evaluate the importance of productivity for the UK economy.

Use the information given in EXTRACT 3 and your own knowledge. [6]

[illegible]

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).

[illegible]

[illegible]

