Please write clearly in block capitals.

Centre number ☐☐☐☐☐   Candidate number ☐☐☐☐

Surname _____

Forename(s) _____

Candidate signature _____
I declare this is my own work.

INTERNATIONAL AS
ECONOMICS
UNIT 1: THE OPERATION OF MARKETS, MARKET FAILURE AND THE ROLE OF GOVERNMENT

Thursday 6 January 2022   7.00am GMT   Time allowed: 1 hour 45 minutes

Materials
For this paper you must have:
* the source booklet, provided as an insert (enclosed)
* a calculator, which you are expected to use where appropriate.

Instructions
* Use black ink or black ball-point pen.
* Fill in the boxes at the top of this page.
* Answer **all** questions.
* You must answer the questions in the spaces provided. Do **not** write outside the box around each page or on blank pages.
* Do **not** write in the source booklet.
* If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
* All working must be shown.
* Do all rough work in this book. Cross through any work you do not want to be marked.

Information
* The marks for questions are shown in brackets.
* The maximum mark for this paper is 80.
* You may use a bilingual dictionary for this exam.
* You may **not** use an English dictionary.

For Examiner's Use	
Question	Mark
1–15	
16	
17	
18	
19	
20	
21	
TOTAL	

Section A

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

Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD   ●   WRONG METHODS   ⊗ ◉ ⊜ ⵁ

If you want to change your answer you must cross out your original answer as shown.   ⊠

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.   ⨂

| 0 | 1 | Which one of the following statements describes a role of the price mechanism in a free market economy?

[1 mark]

A Distribute resources fairly   ⬭
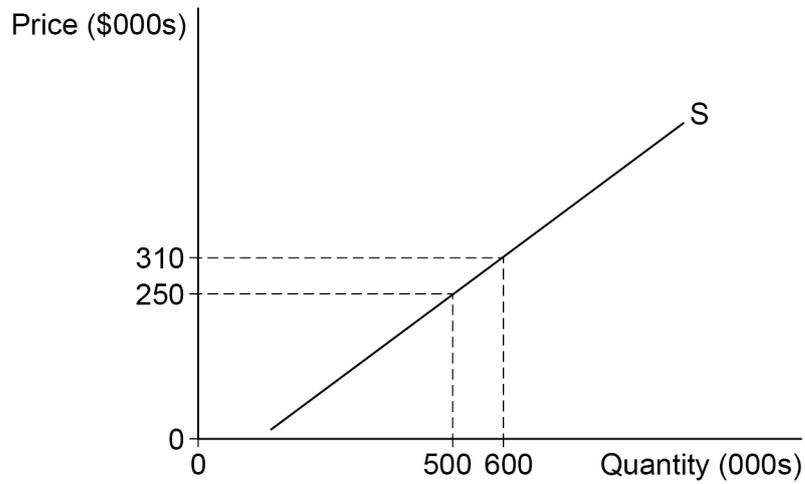
B Ensure firms make abnormal profits   ⬭

C Raise government revenue   ⬭

D Signal to firms to change their production   ⬭

0 2 **Figure 1** shows the supply curve (S) for houses in a city.

Figure 1

Price ($000s)

If the price of houses rises from $250 000 to $310 000, the value of price elasticity of supply is:

[1 mark]

A 0 ⬯

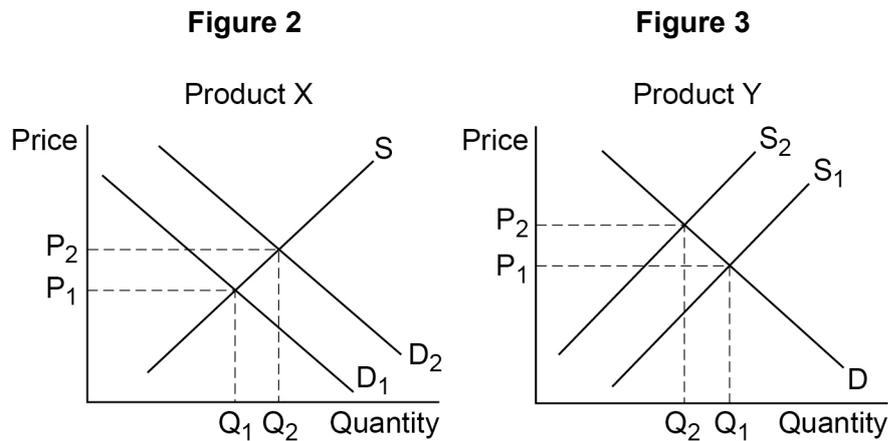**B** Less than 1 ⬯

C 1 ⬯

D More than 1 ⬯

Turn over for the next question

Turn over ▶

0 3 **Figures 2** and **3** below show a change in the demand (D) for Product X and the resulting change in the supply (S) of Product Y.

Figure 2	**Figure 3**
Product X	Product Y

Which one of the following relationships is illustrated by the diagrams?

[1 mark]

A Composite demand

B Derived demand

C Joint demand

D Joint supply

0 4 A government official makes a number of announcements on inequality. Which one of the following is a normative statement?
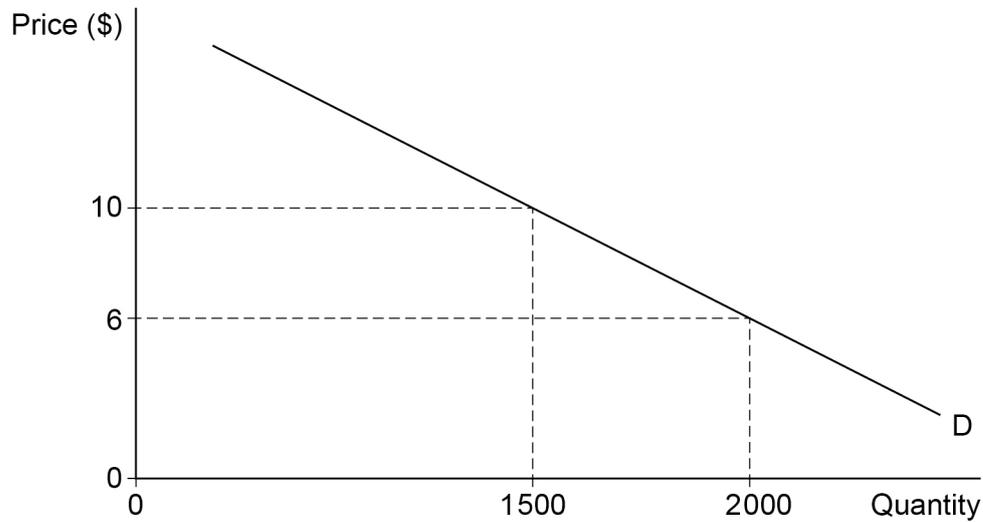
[1 mark]

A Inequality must be a priority for the government to solve

B Rising inequality means the poor are getting poorer

C The minimum wage will rise to twice the level of unemployment benefit

D The top rate of income tax is 50%

0 5 **Figure 4** shows the effect of a change in price on the quantity demanded (D) of a good.

Figure 4

What is the change in revenue when the price falls from $10 to $6?

[1 mark]

A A fall of $3 000

B A fall of $15 000

C A rise of $3 000

D A rise of $15 000

Turn over for the next question

Turn over ▶

0 6 **Table 1** shows the costs of production for a cafe.

Table 1

Output (meals)	Total fixed cost (£)	Variable cost per unit (£)
10	3000	5
20	3000	5
30	3000	4
40	3000	3
50	3000	6
100	3000	7

At which level of output is the firm operating at its lowest average cost?

[1 mark]

A 10

B 40

C 50

D 100

0 7 Good Y has been classed by the government as being harmful to health when consumed. If the government decides to ban the sale of Good Y, which one of the following effects is most likely to be an unintended consequence of the ban?

[1 mark]

A A fall in the consumption of Good Y

B A loss of tax revenue from the sale of Good Y

C High costs of enforcing the ban

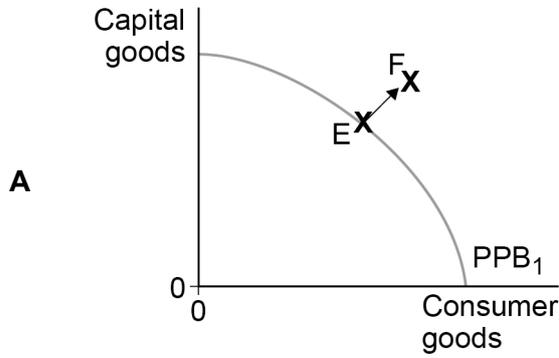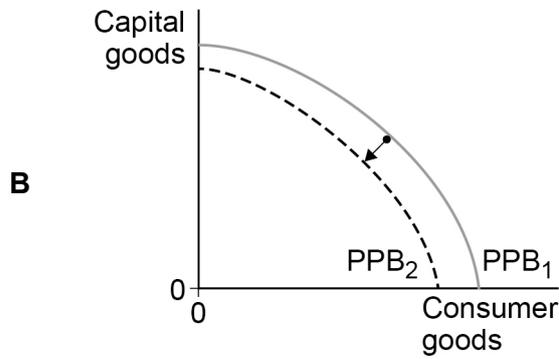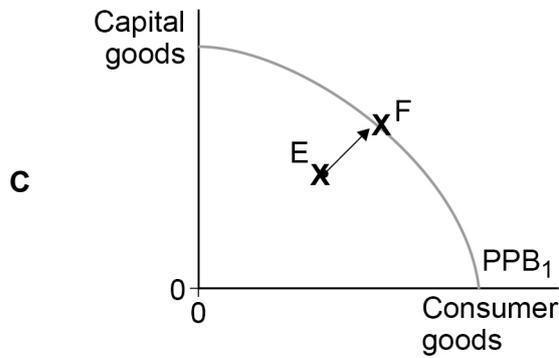**D** The production of new, more harmful substitute goods

0 8 The four production possibility boundary (PPB) diagrams below all show changes to an economy.

Which one of the PPB diagrams shows the most likely impact of a natural disaster on an economy?

[1 mark]

A

B

C

D
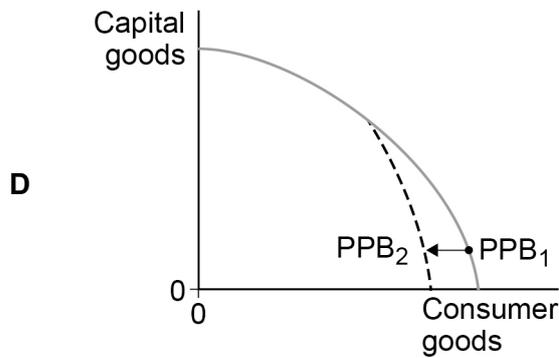
Turn over ▶

0 9 Which one of the following occurs when there are economies of scale?

[1 mark]

A Total costs change in direct proportion to output ⬭

B Total costs fall at a faster rate than output ⬭

C Total costs increase at a faster rate than output ⬭

D Total costs increase at a slower rate than output ⬭

1 0 Which one of the following characteristics is always present in a market that is a pure monopoly?

[1 mark]

A Other firms in the market are all small ⬭

B The concentration ratio is 100% ⬭

C The monopoly eventually experiences diseconomies of scale ⬭

D There are no barriers to entry and exit ⬭

1 1 **Figure 5** shows the market for a good. P_1 and Q_1 represent the socially optimal price for the good and the socially optimal level of output.

Figure 5
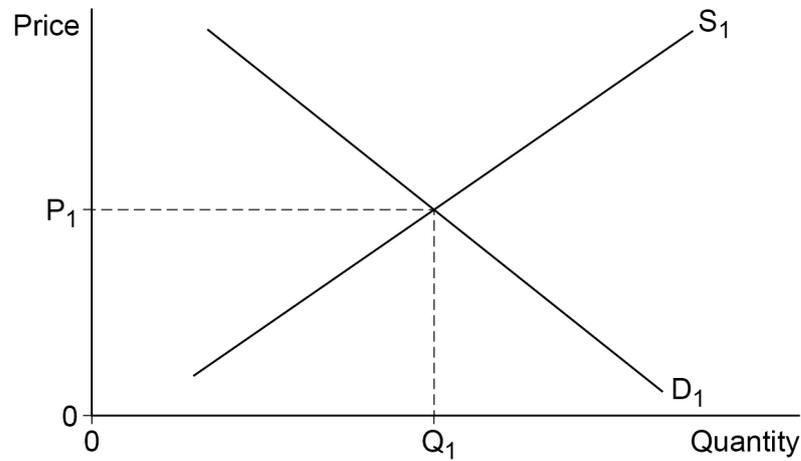
The good creates negative production externalities. In comparison to the socially optimal level of output, what can be concluded about the price and quantity of the good in the free market?

[1 mark]

A Price is above P_1 and quantity is above Q_1 ⬭

B Price is above P_1 and quantity is below Q_1 ⬭

C Price is below P_1 and quantity is above Q_1 ⬭

D Price is below P_1 and quantity is below Q_1 ⬭

Turn over for the next question

Turn over ▶

1 2 **Table 2** shows the costs and benefits of a proposed new housing project being planned by a private sector developer. The developer calculates the costs and benefits of the project as follows:

Table 2

Total private benefits	€300m
Total third-party benefits	€75m
Total private costs	€200m
Total social costs	€400m

Which one of the following statements is false?

[1 mark]

A The housing project has both positive and negative externalities ☐

B The housing project should be rejected by the town's planning authorities ☐

C The housing project will make the developer a loss ☐

D The positive externalities are lower than the negative externalities ☐

1 3 The winner of a competition can choose one of the following prizes:

- A baseball cap
- A cinema ticket
- A pizza meal voucher
- A t-shirt

The winner chooses the baseball cap. Her second choice is the t-shirt and her third choice is the cinema ticket. What is the opportunity cost of choosing the baseball cap?

[1 mark]

A The t-shirt ⬭

B The t-shirt and cinema ticket ⬭

C The t-shirt, cinema ticket and pizza meal voucher ⬭

D There is no opportunity cost ⬭

1 4 **Figure 6** shows the supply curve for a good. Which one of the following explains the upward slope of the supply curve?

Figure 6
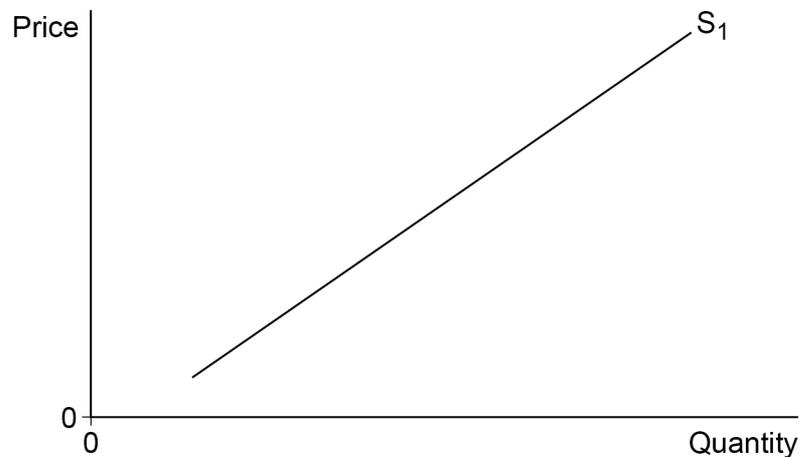
[1 mark]

A A higher price provides an incentive for firms to sell more ⬭

B A lower price encourages consumers to buy more ⬭

C As price rises, the total cost of production will fall ⬭

D Price and quantity supplied change in opposite directions ⬭

Turn over ▶

1 5 Which one of the following is most likely to prevent a mobile phone network operator already in the market from earning abnormal profit?

[1 mark]

A High levels of brand loyalty ⬭

B Low barriers to entry into the mobile phone market ⬭

C Low growth of consumer demand for mobile phones ⬭

D Regulation allowing only a certain number of licensed firms ⬭

15

Section B

Look at the source booklet and answer **all** questions in the spaces provided.

Do **not** write in the source booklet.

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1 6 . 1 Define 'public good' (**Extract C**, line 3).

[3 marks]

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1 6 . 2 Define 'cross elasticity of demand' (**Extract B**, line 16).

[3 marks]

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6

Turn over for the next question

Turn over ▶

1 7 **Extract A** shows the changes in global airline passengers over time and the contribution of the aviation industry to global transport emissions.

You are advised to show your working for the calculations below.

1 7 . 1 Calculate the percentage change in global airline passengers between 1995 and 2010.

Give your answer to **two** decimal places.

[3 marks]

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1 7 . 2 In 2014, global CO_2 emissions from aviation were 600 million tonnes.

Calculate the global CO_2 emissions produced by trucks in 2014.

Give your answer to **two** decimal places.

[3 marks]

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1 8   **Extract C** (lines 1–2) states: 'Worldwide carbon dioxide (CO_2) emissions from commercial flights are rising up to 70% faster than predicted.'

1 8 . 1   Explain why the demand for airline travel might affect global CO_2 emissions.

[6 marks]

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Question 18 continues on the next page

Turn over ▶

1 8 . 2 To what extent do the data suggest that demand for airline travel affects global CO_2 emissions?

Use the data in **Extract A** to help support your answer.

[6 marks]

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1 9 **Extract B** (lines 4–5) states: 'The BRIC (Brazil, Russia, India and China) countries contain 40% of the world's population and account for around one-fifth of global GDP.'

With the help of a diagram, explain why rising incomes in countries such as Brazil, Russia, India and China are likely to increase the revenue of airlines.

[9 marks]

Extra space

Turn over ▶

Do not write outside the box

9

2 0 **Extract C** (line 12) states: 'Critics argue that governments should remove the subsidies given to many airlines.'

Analyse the likely effects on the market for flights of the removal of government subsidies to airlines.

[12 marks]

Extra space

Turn over for the next question

12

Turn over ▶

2 **1**   **Extract C** (lines 17–18) states: 'taxes on the use of fuel and carbon emissions have been suggested as the most effective way to address the negative social impacts of air travel.'

Use the extracts and your knowledge of economics to assess whether indirect taxation is the most effective way to deal with the environmental effects of emissions from air travel.

[20 marks]

Turn over ►

END OF QUESTIONS

20

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Question number	**Additional page, if required.** **Write the question numbers in the left-hand margin.**

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