OXFORD
INTERNATIONAL AQA EXAMINATIONS

INTERNATIONAL A-LEVEL
ECONOMICS

Unit 3 The Economics of Business Behaviour and the Distribution of Income

Time allowed: 2 hours

For Examiner's Use	
Question	Mark
1–10	
11	
12	
13	
14	
15	
16	
TOTAL	

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. Pencil should only be used for drawing.
• Fill in the boxes at the top of this page.
• Answer **all** questions in **Sections A**, **B** and **C**.
• Answer **EITHER** Question 15 or Question 16 in **Section D**.
• 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).
• 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 90.
• You may use a bilingual dictionary for this exam.
• You may **not** use an English dictionary.

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 ⊗ ⊙ ⬱ ⌀

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. ⊗
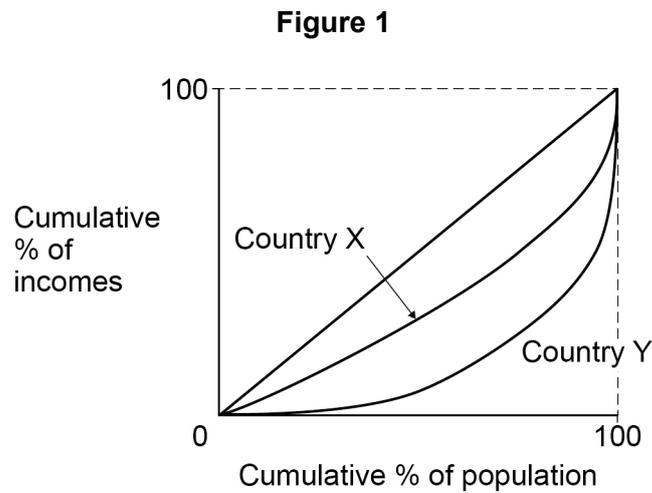
| 0 | 1 |

A firm that sells shoes merges with another firm that sells shoes.

This is an example of

[1 mark]

A conglomerate integration. ⬭

B horizontal integration. ⬭

C organic growth. ⬭

D vertical integration. ⬭

0 2 The Lorenz curves in **Figure 1** show the distribution of income in two countries, Country X and Country Y.

Figure 1

Which one of the following can be concluded from **Figure 1**?

[1 mark]

A Income inequality is greater in Country Y than in Country X. ⬭

B The average income is higher in Country X than in Country Y. ⬭

C The Gini coefficient is higher in Country X than in Country Y. ⬭

D Wealth is more evenly distributed in Country X than in Country Y. ⬭

0 3 A firm operates in a perfectly competitive market in which there are no externalities.

Which type of efficiency is the firm **least** likely to experience when the market is in equilibrium in the long run?

[1 mark]

A Allocative efficiency ⬭

B Dynamic efficiency ⬭

C Productive efficiency ⬭

D X-efficiency ⬭

Turn over ▶

| 0 | 4 | **Table 1** shows the average revenue earned by a firm for different levels of sales.

Table 1

Sales (units)	Average revenue ($)
4	23 000
5	20 000
6	17 000
7	14 000

At which level of sales will the firm maximise its total revenue?

[1 mark]

A 4 units

B 5 units

C 6 units

D 7 units

0 5 **Figure 2** shows the cost and revenue curves for a firm.

Figure 2
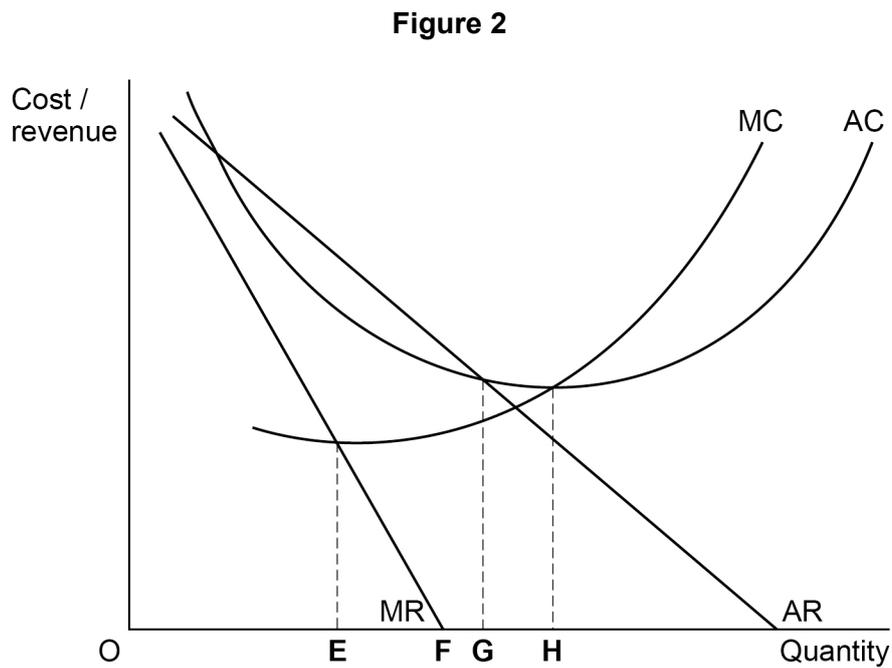
At which level of output will the firm make normal profits?

[1 mark]

A OE

B OF

C OG

D OH

0 6 Wage rates in a particular industry have increased by 10% over the last year.

Which one of the following is the most likely reason for this increase?

[1 mark]

A A fall in the marginal revenue product of the workers.

B A merger in the industry has increased monopsony power in the labour market.

C The introduction of a trade union into the industry.

D The minimum wage has risen from 15% below the equilibrium to 5% below the equilibrium.

Turn over ▶

0 7 **Figure 3** shows the long-run average cost (LRAC) curve for a firm.

Figure 3
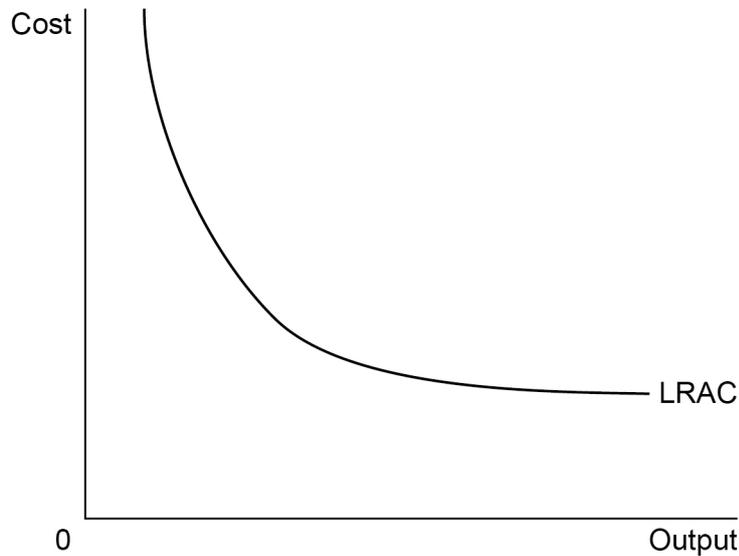
Which one of the following is the most likely reason for the shape of this curve?

[1 mark]

A Decreasing labour productivity over the firm's range of output. ▢

B The entry of new competitors into the market. ▢

C The firm is experiencing technical economies of scale. ▢

D There is a low minimum efficient scale of production. ▢

0 8 The wage elasticity of demand for labour in a particular industry is –0.2

Which one of the following is the most likely reason why this value is –0.2?

[1 mark]

A It is easy to substitute capital for labour. ▢

B Labour costs are a low proportion of total costs. ▢

C Price elasticity of demand for the final product is elastic. ▢

D Workers' contracts can be ended at short notice. ▢

0 9 **Figure 4** shows the original supply (S₁) and demand (D) curves in the market for electric vehicles.

A subsidy is given to producers to encourage the production of electric vehicles and this causes the supply curve to shift to S₂.

Figure 4
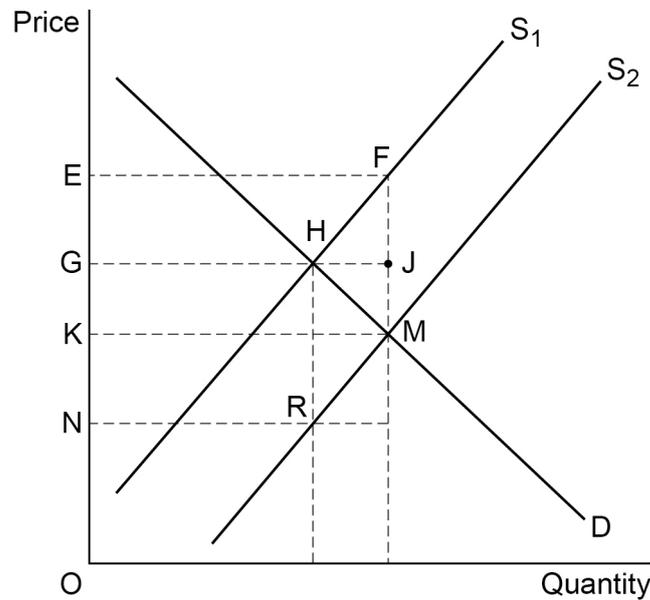
Which one of the following areas shows the change in consumer surplus following the introduction of the subsidy?

[1 mark]

A EFHG

B GHMK

C GJMK

D KMRN

Turn over for the next question

Turn over ▶

1 0 Some firms believe that patents should last for 25 years instead of 20 years.

Which one of the following would be the most likely effect if this change is introduced?

[1 mark]

A The amount that firms invest in research and development will increase. ⬭

B The barriers to entry into existing markets will fall. ⬭

C The marginal costs of firms that hold patents will increase. ⬭

D The profits that firms with patents can earn will fall. ⬭

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Section B

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

`1` `1` . `1`   Define 'decreasing returns to scale'.

[2 marks]

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Question 11 continues on the next page

Turn over ►

| 1 | 1 | . | 2 | **Table 2** shows the output of a firm when different numbers of workers are employed.

Table 2

Number of workers employed	Total product (output in units)	Marginal product (output in units)
1	130	
2		200
3	600	
4		180

Calculate the marginal product (output) of labour of the **third** worker.

You are advised to show your working.

[2 marks]

| 1 | 1 | . | 3 | Calculate the average product (output) of labour when **four** workers are employed.

You are advised to show your working.

[2 marks]

1 1 . 4 Explain, using a diagram, the law of diminishing returns.

[4 marks]

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Turn over for Section C

Turn over ▶

Section C

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 2 **Extract B** (lines 12–13) states: 'The way firms create or use new technologies and the degree of market concentration affect the profits that can be earned.'

1 2 . 1 Explain why the degree of market concentration affects a firm's ability to make high profits.

[4 marks]

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| 1 | 2 |.| 2 | To what extent do the data suggest that the degree of market concentration affects a firm's ability to make high profits in the global market for social media?

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

[4 marks]

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Turn over for the next question

Turn over ▶

1 3   **Extract B** (lines 21–22) states: 'technological change can reduce contestability in some markets.'

Explain how technological change may affect contestability in different markets.

[12 marks]

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12

1 4 **Extract C** (lines 1–3) states: 'Concerns have grown about the market dominance of tech sector firms in recent years and governments are trying to ensure that their high market shares do not cause consumers to suffer.'

Evaluate the case for and against increased government intervention to limit the monopoly power of large firms.

[25 marks]

IB/G/Jun22/EC03

Extra space

25

Section D

Answer **EITHER** Question 15 **OR** Question 16.

Shade the circle below to indicate which optional question you have answered.

Question | 1 | 5 | ⬭   Question | 1 | 6 | ⬭

CORRECT METHOD ⬤   WRONG METHODS ⊗ ◉ ⬳ ⬶

Either

1 5 Economists make assumptions to help them understand consumer behaviour. A key assumption has been that consumers will aim to maximise their own economic welfare.

Assess the view that consumers always aim to maximise their utility when making economic decisions.

[25 marks]

or

1 6 A recent report by the International Labour Organization (ILO) found that, during 2020, wage rates had fallen in many countries. The report also found that women and low-paid workers had been particularly badly affected.

Evaluate policies a government could use to reduce differences in wage rates.

[25 marks]

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Extra space

Turn over ►

END OF QUESTIONS

25

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ANSWER IN THE SPACES PROVIDED

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

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