

Please write clearly in block capitals.

Centre number

Candidate number

Surname _____

Forename(s) _____

Candidate signature _____

I declare this is my own work.

INTERNATIONAL A-LEVEL ECONOMICS

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

A

Friday 6 January 2023

07:00 GMT

Time allowed: 2 hours

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.

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

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 Firms **M** and **N** operate in two different market structures. **Table 1** shows some of the characteristics of these two market structures.

Table 1

Firm	Type of competition	Degree of product differentiation	Barriers to entry
M	Price	None	None
N	Non-price	Significant	High

Which one of the following combinations identifies the market structures in which firms **M** and **N** are most likely to operate?

[1 mark]

	Firm M	Firm N	
A	Monopolistic competition	Perfect competition	<input type="radio"/>
B	Oligopoly	Perfect competition	<input type="radio"/>
C	Perfect competition	Monopolistic competition	<input type="radio"/>
D	Perfect competition	Oligopoly	<input type="radio"/>



0 2

Which one of the following is most likely to cause the divorce of ownership from control in a firm?

[1 mark]

A A conflict of interest between the owners and the managers

B A small firm being taken over by a much larger one

C Additional staff being needed to make a new product

D Profit satisficing becoming the firm's main objective

0 3

Ang and Bao sell identical holidays. Ang sells the holiday for \$1500, but Bao advertises her holidays as being 'reduced from \$2000 to \$1500'.

Which one of the following biases is most likely to explain why Bao may sell more holidays than Ang?

[1 mark]

A Altruism

B Anchoring

C Inertia

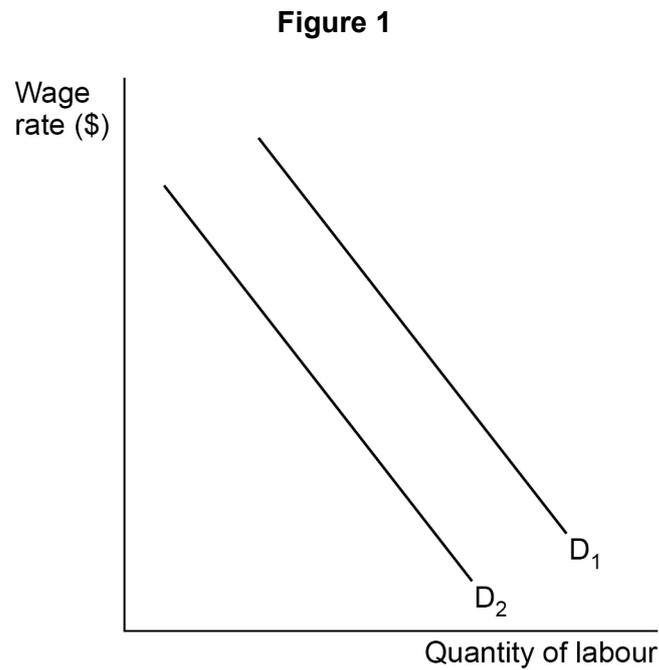
D Social norms

Turn over for the next question

Turn over ►

0 4

Figure 1 shows two demand curves for labour (D_1 and D_2) for a firm in a perfectly competitive labour market.



Which one of the following is the most likely reason for the firm's demand curve for labour shifting from D_1 to D_2 ?

[1 mark]

- A** A decrease in the price of a substitute good
- B** A reduced rate of indirect tax on the firm's product
- C** An increase in the supply of labour into the industry
- D** Rising money wage rates in the industry



0 5

Which one of the following reasons is most likely to cause firms **not** to produce where marginal cost equals price?

[1 mark]

- A** Consumers and producers have perfect information.
- B** Firms have a significant degree of market power.
- C** The goods being sold are all identical.
- D** There are no production externalities.

0 6

Table 2 shows the total revenue of a profit-maximising firm from different levels of sales.

Table 2

Sales (units)	Total revenue (\$)
4	4200
5	4400
6	4500
7	4200
8	3600

Which one of the following can be concluded from the information in **Table 2**?

[1 mark]

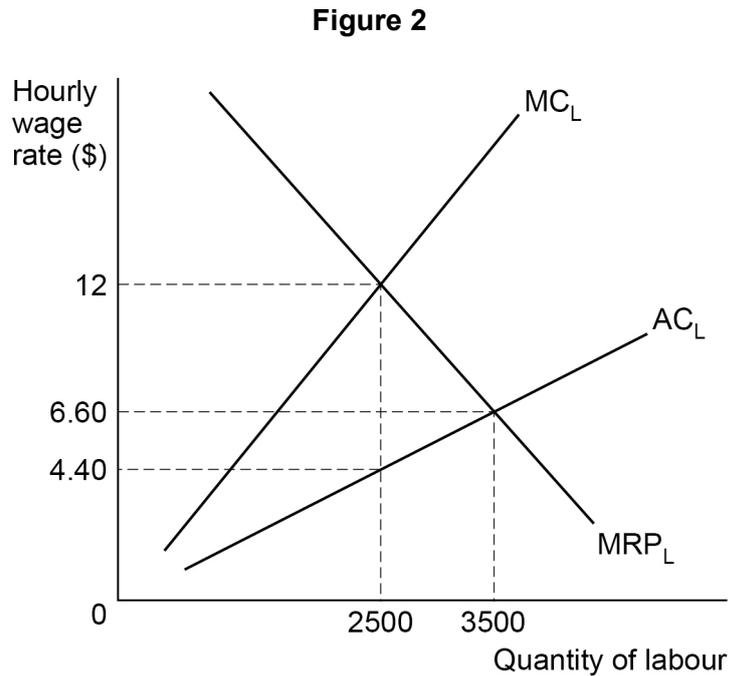
- A** Average revenue is negative when the firm sells 7 units.
- B** Demand is inelastic when the firm sells 7 or more units.
- C** Marginal revenue is positive at all levels of sales.
- D** Profits will be maximised when the firm sells 6 units.

Turn over ►



0 7

Figure 2 shows the marginal revenue product of labour (MRP_L), marginal cost of labour (MC_L), and average cost of labour (AC_L) curves in a monopsony labour market.



The employer agrees to recognise a trade union. As part of the agreement, the firm now has to pay the wage rate that would exist in a perfectly competitive labour market.

What is the most likely change in the firm's hourly labour costs after the change in wage rates?

[1 mark]

- A** \$5500
- B** \$6900
- C** \$12 100
- D** \$19 000



0 8**Table 3** shows the Gini coefficient for income in Country Q in 2020 and 2021.**Table 3**

Year	Gini coefficient
2020	0.36
2021	0.40

Which one of the following is a normative statement about the data in **Table 3**?**[1 mark]**

- A** An increase in the cost of living may have caused the change in the Gini coefficient of Country Q.
- B** Income inequality in Country Q can be reduced if the government increases spending on unemployment benefits.
- C** The best way to reduce income inequality in Country Q is to reform the country's regressive tax system.
- D** The Gini coefficient in Country Q has increased by approximately 4% between 2020 and 2021.

Turn over for the next question**Turn over ►**

0 9

Daria buys an annual pass that gives free, unlimited access to visit a cinema.

Table 4 shows the marginal utility that Daria gains from different quantities of cinema visits.

Table 4

Cinema visits	Marginal utility (in units)
1	14
2	10
3	6
4	3
5	-1

What is the total utility (in units) that Daria will receive if she behaves rationally?

[1 mark]

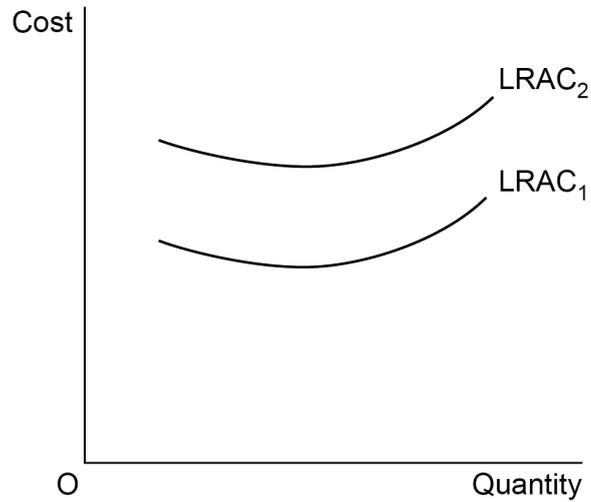
- A** 3
- B** 14
- C** 32
- D** 33



1 0

Figure 3 shows the long-run average cost curves ($LRAC_1$ and $LRAC_2$) for a firm.

Figure 3



Which one of the following is most likely to cause the shift from $LRAC_1$ to $LRAC_2$ shown in Figure 3?

[1 mark]

- A Diminishing marginal returns have set in
- B Increasing competition in the market
- C Rising costs of rent for the factory
- D There are decreasing returns to scale

10

Turn over for Section B

Turn over ►



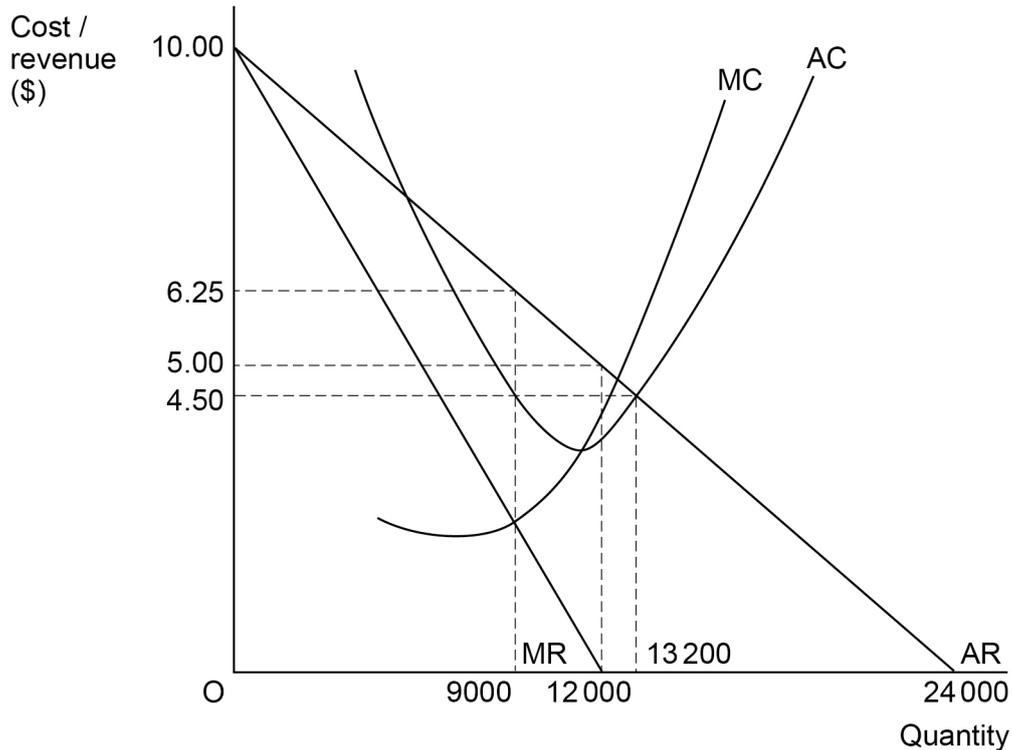
Section B

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

1 1

Lin runs a small firm that sells shoes. The firm competes with many other small firms selling similar products. **Figure 4** below shows the short-run costs and revenues at different levels of output for the firm.

Figure 4



1 1 . 1

Profit maximisation is one objective of a firm.

Identify **two** other objectives.

[2 marks]



1 1 . 2 Use **Figure 4** to calculate the maximum amount of profit Lin's firm can make.

You are advised to show your working.

[2 marks]

1 1 . 3 Use **Figure 4** to calculate the maximum amount of revenue Lin's firm can make.

You are advised to show your working.

[2 marks]

Question 11 continues on the next page

Turn over ►



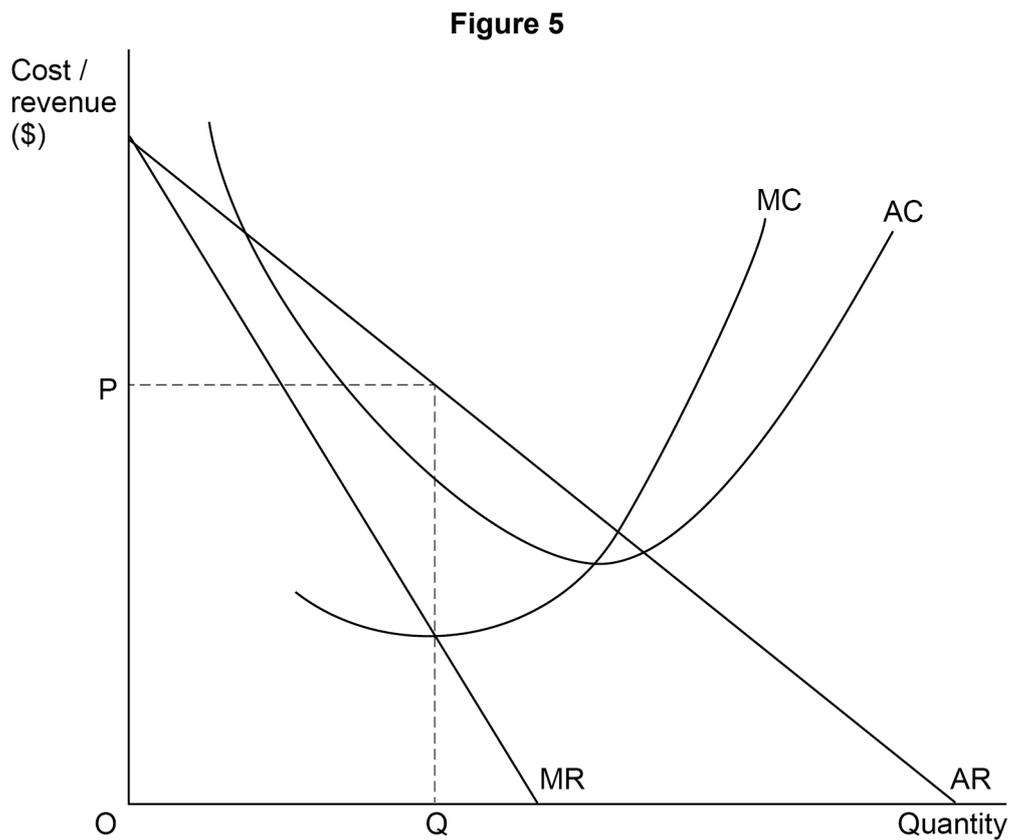
1 1 . 4 **Figure 5** shows the short-run equilibrium position for Lin's firm.

Add to **Figure 5** to show the long-run equilibrium position.

The finished diagram should show:

- the changes to the cost and/or revenue curves
- the new price and quantity.

[4 marks]



10



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2 8



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