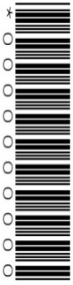


## A Level Economics

H460/03 Themes in economics

### Practice Paper – Set 1

Time allowed: 2 hours



You may use:

- a calculator

First name										
Last name										
Centre number						Candidate number				

#### INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- 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.
- Do **not** write in the barcodes.

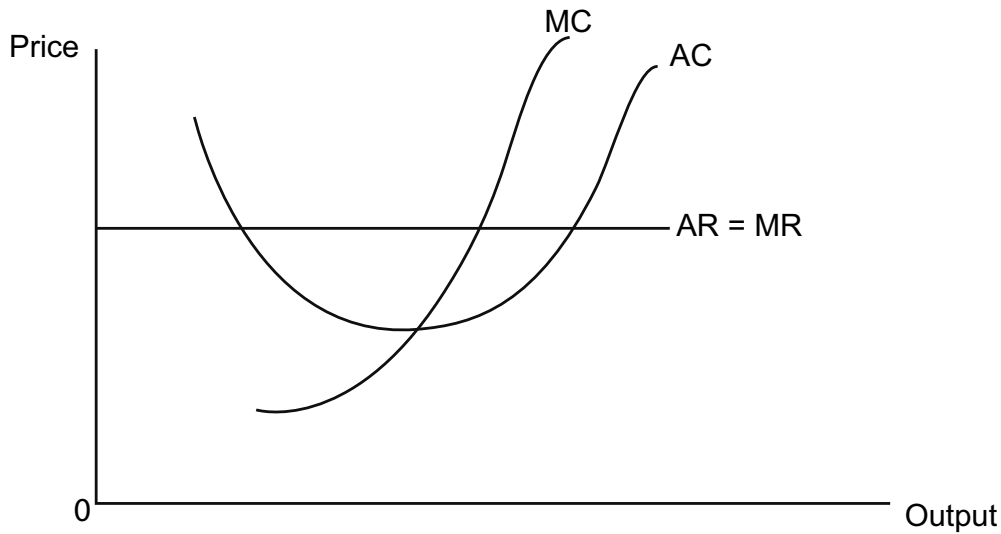
#### INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [ ].
- This document consists of **30** pages.

## SECTION A

Answer **all** the questions in this section.

1



Which of the following options is represented by the diagram?

- A Monopolistic competition in the long run
- B Monopolistic competition in the short run
- C Perfect competition in the long run
- D Perfect competition in the short run

Your answer

[1]

2 Which of the following is a feature of a planned economy?

- A Decisions are made by individuals and firms engaging in maximising behaviour
- B The government owns and allocates all resources
- C The market forces of demand and supply dictate the country's workings of the economy
- D The price mechanism plays a central role in allocating resources

Your answer

[1]

3 The following table provides data on the Brazilian economy in 2015.

<b>GDP</b>	\$2346 billion (USD)
<b>Labour Force</b>	107.3 million
<b>Population</b>	203.6 million
<b>Unemployment</b>	8.6 million
<b>Working Age Population</b>	126.1million

What is GDP per capita?

- A \$11,523
- B \$18,604
- C \$21,864
- D \$23,769

Your answer

[1]

4 Which of the following is a positive statement?

- A Economic growth is a more important macroeconomic objective than redistributing income.
- B Increasing the minimum wage resulted in increased unemployment.
- C It is unfair that multinationals can conduct their operations in a way which allows them to minimise their tax bills.
- D The UK should leave the European Union.

Your answer

[1]

- 5 During the 2016 US Presidential Campaign, one candidate proposed a reform to America's income tax system:

*Current:* Tiered system of seven tax rates, the lowest being a 10% rate on taxable income between \$0 - \$9,275, the highest being a 39.6% rate on taxable income exceeding \$415,000.

*Proposal:* 10% on all taxable income.

This proposal represents a change in the tax system from:

- A Progressive to Proportional
- B Progressive to Regressive
- C Regressive to Progressive
- D Regressive to Proportional

Your answer

[1]

- 6 In 2014-15 the UK government collected £652bn in tax receipts. Government expenditure was £748bn.

What does this represent?

- A A budget deficit
- B A budget surplus
- C A current account deficit
- D A current account surplus

Your answer

[1]

- 7 Which of the following identifies the stages of economic integration in the correct order, from least integrated to most closely integrated?

- A Customs union – monetary union – free trade area – economic union
- B Free trade area – customs union – monetary union – economic union
- C Free trade area – monetary union – customs union – economic union
- D Monetary union – customs union – free trade area – economic union

Your answer

[1]

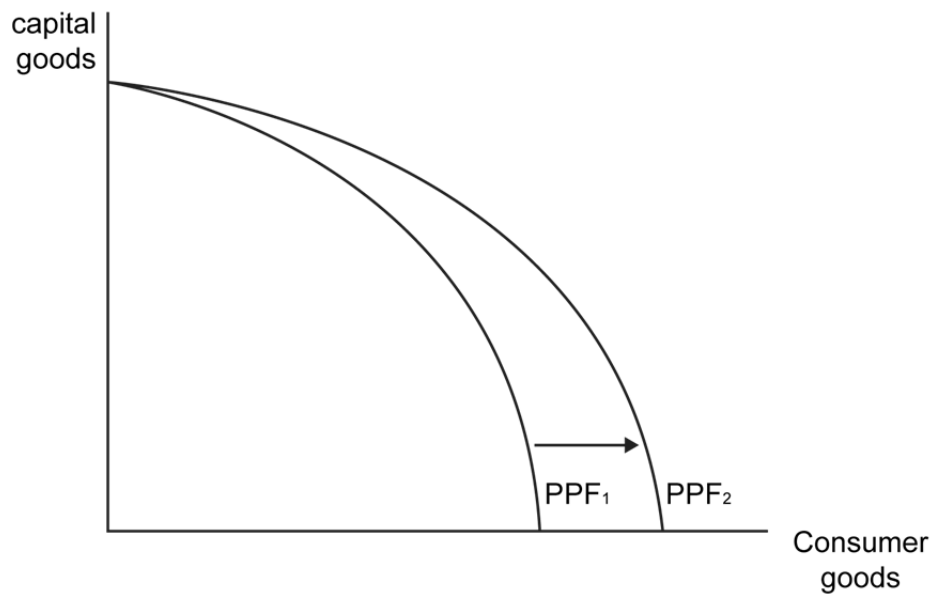
8 Which of the following represents a disadvantage of a central bank acting as the lender of last resort?

- A Contagion
- B High inflation
- C Liquidity crisis
- D Moral hazard

Your answer

[1]

9



What would cause a shift in the production possibility frontier from PPF<sub>1</sub> to PPF<sub>2</sub>?

- A An increase in the opportunity cost of producing capital goods
- B An increase in the opportunity cost of producing consumer goods
- C A rise in the production of capital goods
- D A rise in the production of consumer goods

Your answer

[1]

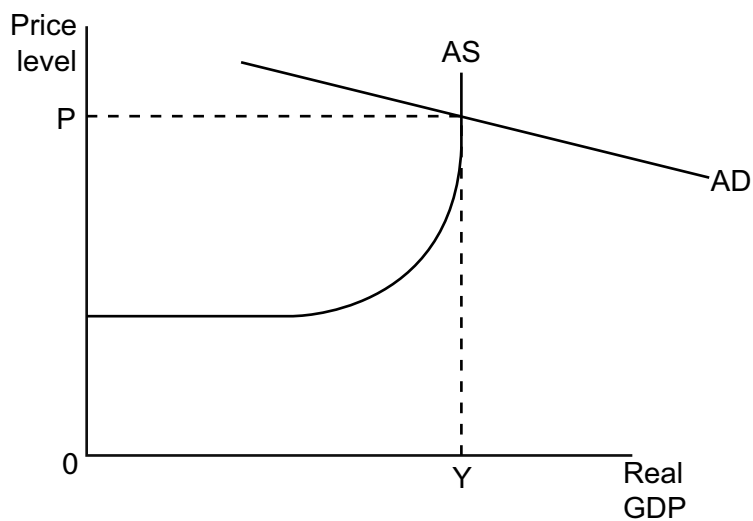
10 Which of the following types of demand best describes the relationship between cereal and cereal bars?

- A Competitive demand
- B Composite demand
- C Derived demand
- D Joint demand

Your answer

[1]

11



If the macro economy is operating at output Y in the diagram, which of the following policies is likely to be the most effective method of achieving economic growth?

- A Increasing direct taxes
- B Increasing indirect taxes
- C Increasing state pensions
- D Increasing subsidies for research and development

Your answer

[1]

- 12 The demand for good X is expected to rise by 3% and the demand for good Y is expected to rise by 8% when incomes increase by 4%. Which of the following correctly identifies the nature of these goods?

	<b>Good X</b>	<b>Good Y</b>
<b>A</b>	Inferior	Normal
<b>B</b>	Inferior	Superior
<b>C</b>	Normal	Superior
<b>D</b>	Superior	Normal

Your answer

[1]

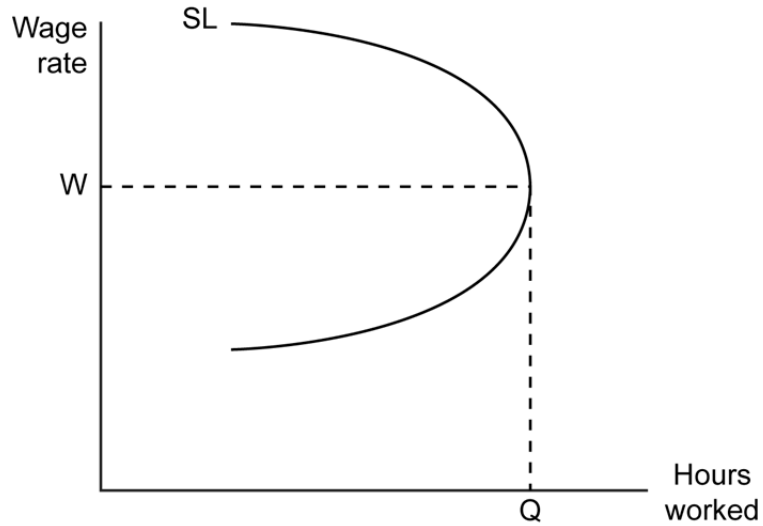
- 13 How do the characteristics of an oligopoly market differ from a monopoly market?

- A Firms are short run profit maximisers
- B Supernormal profits are possible in the long run
- C There are a few dominant firms
- D There are high barriers to entry and exit

Your answer

[1]

14



What does the diagram above illustrate?

- A Individuals on high wages do not experience a substitution effect
- B Individuals on low wages do not experience a substitution effect
- C The substitution effect outweighs the income effect at high wages
- D The substitution effect outweighs the income effect at low wages

Your answer

[1]

15 Which of the following describes the situation facing an individual living in relative poverty?

- A Living on less than 60% of median household income
- B Long term unemployed
- C Receiving less than \$1.25 a day
- D Unable to afford food, water, shelter and clothing

Your answer

[1]



16 Which of the following represents a leakage from the circular flow of income?

- A Exports
- B Government spending
- C Investment
- D Savings

Your answer

[1]

17 When is a firm dynamically efficient?

- A Investment in R&D is enabling long run average costs to be reduced in the future.
- B Price is equalling marginal cost.
- C Production is taking place at the minimum efficient scale.
- D Production is taking place on the lowest attainable average cost curve.

Your answer

[1]

18 Which of the following is an example of the principal agent problem?

- A Economic agents are motivated by short term objectives that result in them making bad long term choices.
- B Government intervention can result in government failure because of imperfect information.
- C Owners tend to be profit maximisers but this objective is not shared by managers.
- D Those involved in the market transaction do not care about the impact on third parties.

Your answer

[1]

**19** Since April 2013 the Financial Conduct Authority has been responsible for regulating financial institutions in the UK. Which of the following describes one outcome financial regulation is designed to achieve?

- A** All individuals have access to cheap finance.
- B** Banks have a sufficient capital adequacy ratio.
- C** The profits of financial institutions are limited to an acceptable level.
- D** There are not significant differences in the interest rates being charged on borrowing by different banks.

Your answer

[1]

**20** What does the Marshall-Lerner condition state?

- A** An exchange rate depreciation will only improve the balance of trade if the sum of the elasticities of demand for exports and imports is greater than one.
- B** An exchange rate depreciation will only improve the balance of trade if the sum of the elasticities of demand for exports and imports is less than one.
- C** Countries have a comparative advantage in the production of goods which intensively use the factors of production they have plentiful supply of.
- D** Countries have an absolute advantage in the production of goods which intensively use the factors of production they have plentiful supply of.

Your answer

[1]

**21** The large open nature of beaches means it is possible for many people to be on the beach at the same time. The thousands of miles of coastline around the world also means it is largely impossible to stop people enjoying this for free. However, this has not stopped the rise of fee charging beaches in recent years, often attached to hotels.

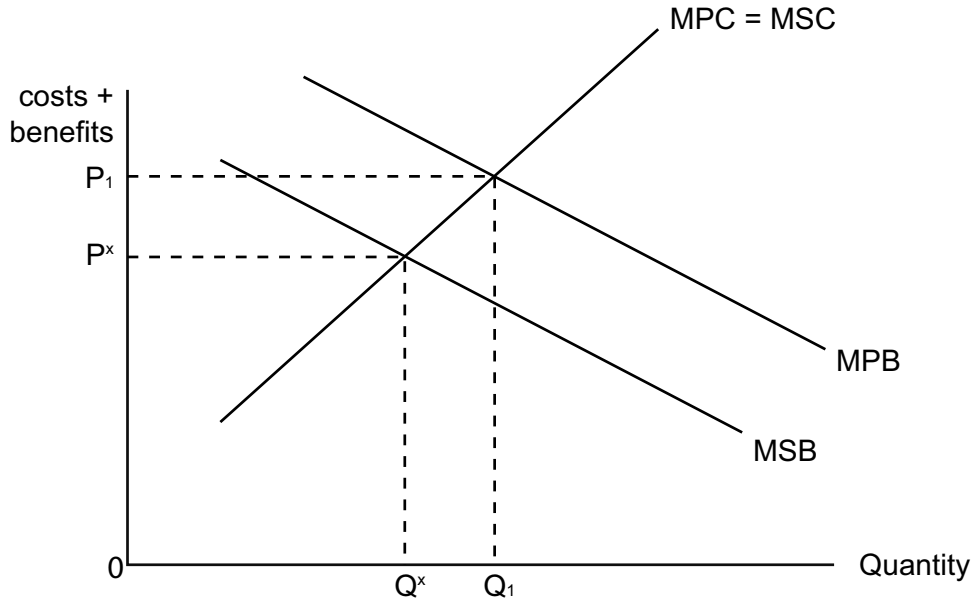
Based on this information, which of the following best describes the nature of beaches?

- A** A public good which is non-excludable
- B** A public good which is non-rival
- C** A quasi-public good which is semi-excludable
- D** A quasi-public good which is semi-rival

Your answer

[1]

22



Which of the following is represented in the diagram above?

- A Negative externalities of consumption
- B Negative externalities of production
- C Positive externalities of consumption
- D Positive externalities of production

Your answer

[1]

23 Which of the options below is most likely to represent the annual interest rates charged on the different forms of borrowing?

	Credit Card	Mortgage	Pay Day Loan
<b>A</b>	2.4%	18.8%	90%
<b>B</b>	18.8%	2.4%	90%
<b>C</b>	18.8%	90%	2.4%
<b>D</b>	90%	2.4%	18.8%

Your answer

[1]

- 24** Which of the following exchange rates measures the value of a currency against a basket of other currencies?
- A** Bilateral
  - B** Effective
  - C** Nominal
  - D** Real

Your answer

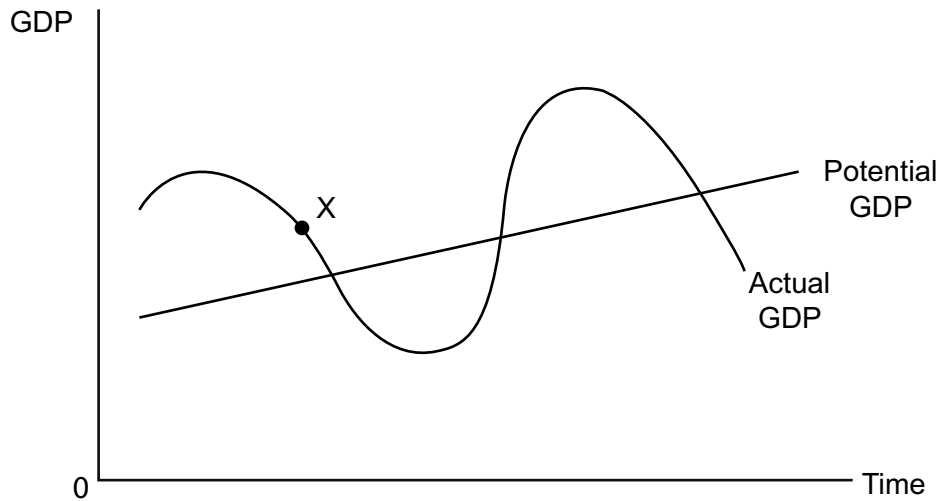
[1]

- 25** An economy experiences a period of inflation but no change in real national income. The government does not change tax rates or tax allowances. In these circumstances, which type of tax is least likely to produce an increase in tax revenue?
- A** A specific tax on alcohol
  - B** Corporation tax
  - C** Income tax
  - D** Value added tax

Your answer

[1]

26



Which of the following options identifies what is happening at point X?

	Output Gap	Stage of Economic Cycle
<b>A</b>	Negative	Recession
<b>B</b>	Negative	Slowdown
<b>C</b>	Positive	Recession
<b>D</b>	Positive	Slowdown

Your answer

[1]

27 The Consumer Price Index of a country in the years 2011-2015 is detailed below.

Year	2011	2012	2013	2014	2015
Price Index	93	98	100	107	109

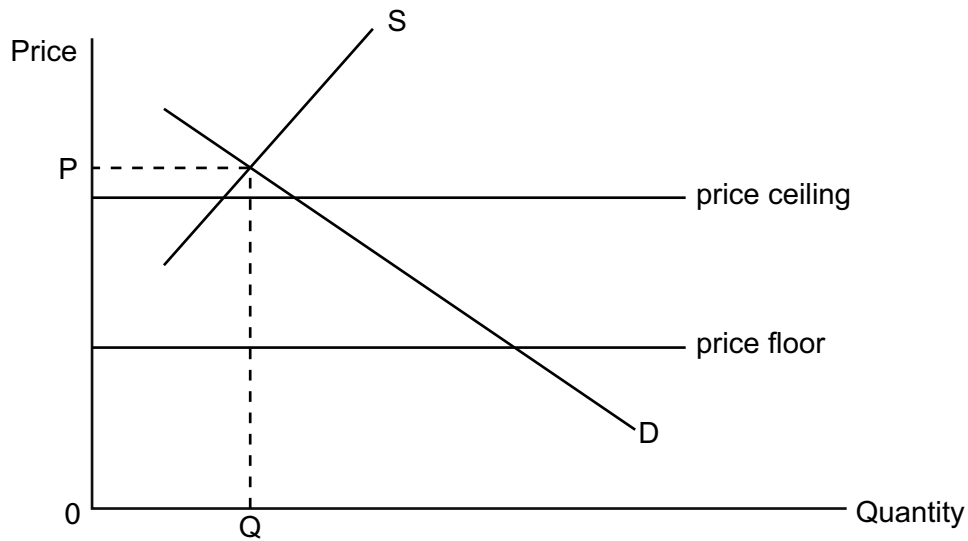
The country's gross domestic product was £4,500 million in 2014 and increased by 4% in 2015. What is the country's real GDP in 2015 valued in 2014 prices?

- A £4,294 million
- B £4,590 million
- C £4,594 million
- D £4,680 million

Your answer

[1]

- 28 The diagram below illustrates an agricultural market in which the government is operating a buffer stock scheme.



What will the government need to do in order to reduce the price?

- A Purchase stock in order to decrease supply and increase the price.
- B Purchase stock in order to increase demand and increase the price.
- C Release stock in order to decrease demand and decrease the price.
- D Release stock in order to increase supply and decrease the price.

Your answer

[1]

- 29 550 units of Good X are demanded at a price of £25. 400 units of good Y are demanded at a price of £30. When the price of Good X increases to £35, demand for good Y falls by 15%. What is the cross elasticity of demand?

- A - 0.38
- B - 0.52
- C - 0.90
- D - 2.67

Your answer

[1]

- 30** Suppose there are two countries, A and B, producing trainers and laptop computers. The table below illustrates the production possibilities if each country dedicated 50% of its resources to the production of each good.

	<b>Trainers</b>	<b>Laptop Computers</b>
<b>Country A</b>	10,000	7,000
<b>Country B</b>	7,500	6,000

Which of the following statements is correct?

- A** Country A has a comparative advantage in the production of both goods.
- B** Country A has a comparative advantage in the production of laptop computers.
- C** Country B has a comparative advantage in the production of laptop computers.
- D** Country B has an absolute advantage in the production of trainers.

Your answer

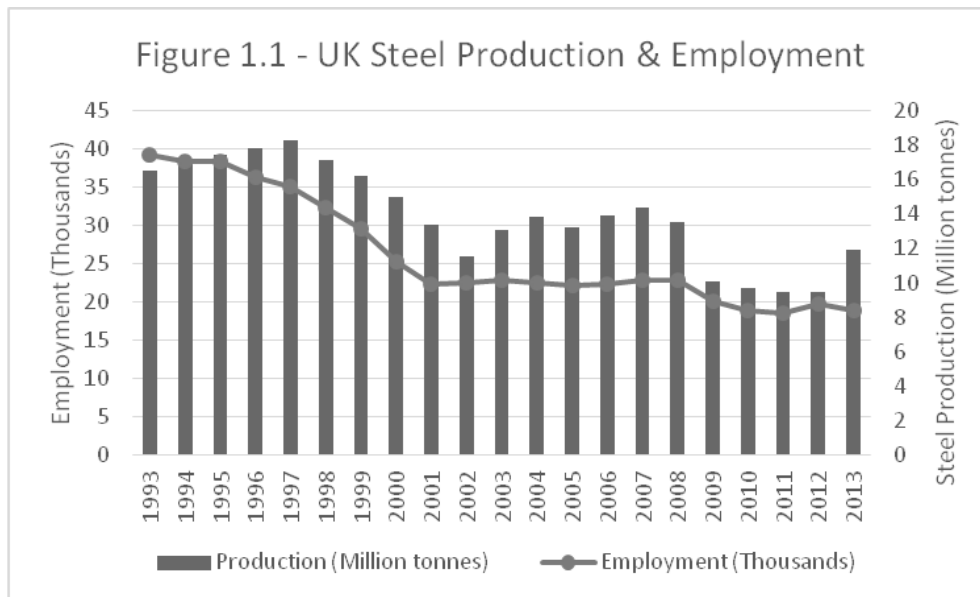
[1]

## SECTION B

Read the following extracts and answer **all** questions which follow.

### Extract 1 – Problems in the UK steel industry

In recent years the steel industry in the UK has been in rapid decline. Whilst globalisation and a number of other structural changes such as the impact of the global financial crisis account for the shrinking of the industry over the past twenty years, the fact that production fell by almost a third between 2014 and 2015 demonstrates there are a number of significant short term pressures, including the strength of the pound, the relatively high electricity prices and the extra cost of climate change policies.



Given the role steel plays as a crucial input in the production process in so many industries, it is understandable why increased competition in the steel market is of interest to the government. Steel is used widely in the construction of roads, other infrastructure and a wide range of home appliances, including ovens and sinks, all of which have been affected by movements in the price of steel.

Perhaps the biggest threat facing the UK steel industry is the competition it faces from China. China has the capacity to produce 1.1 billion tonnes a year. This not only dwarfs UK production but indeed Europe's as a whole – steel production in the entire European Union stands at 170 million tonnes. Some economists critical of China's actions point to the problems caused by the huge excess capacity that the country is believed to have; estimated to be more than 300 million tonnes. In the face of falling domestic demand Chinese firms are now selling overseas at a loss in order to maintain their production levels. Whilst EU steel imports into the UK cost on average 897 euros a tonne in 2014, Chinese steel imports were just 583 euros a tonne. It is argued that selling at unfairly low prices in this way has destabilised the global steel market, with UK firms finding it impossible to compete.

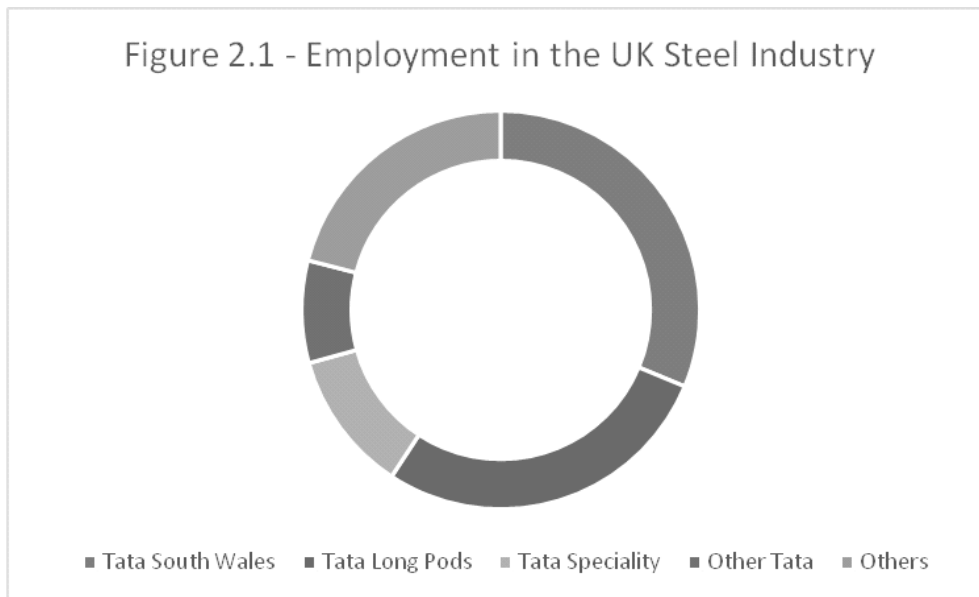
Such actions have reignited the debate surrounding the benefits of protectionism. Whilst some EU anti-dumping measures have already been implemented in the steel industry, it is argued that further tariffs might be necessary to protect British jobs. However, the Chinese government says this goes against the terms of the agreement it reached when it joined the World Trade



Organisation in 2001. Indeed, this is just one of many trade disputes which have occurred between China and the EU in recent years.

Industry experts warn that the plight of British steel manufacturers cannot only be blamed on China. The increasingly tough air pollution standards imposed on British firms put them at a competitive disadvantage compared to Chinese firms who are not required to meet these standards. Moreover, the appreciation of the pound, particularly against the Euro, has rendered British steel uncompetitive in European markets. This suggests a broader range of policies may be required to ensure the survival of the industry in the UK, including: lower business rates, a relaxation of carbon emissions targets for heavy manufacturers and a commitment that British steel is used in major construction projects.

### Extract 2 – Tata Steel as a dominant employer

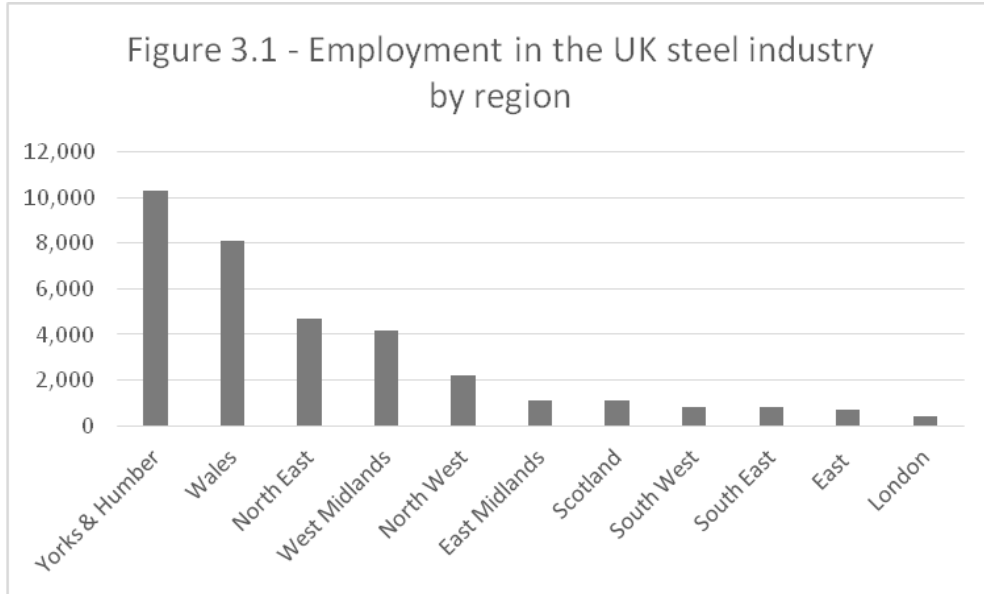


In January 2016, Tata Steel announced a further 1,050 job losses, including 750 at Port Talbot, the UK's biggest steelworks, on top of the already significant cut backs made in recent years. This is particularly troublesome given the increasingly dominant role Tata Steel plays in the UK steel industry. As other manufacturers have either shut down or relocated, Tata Steel is now responsible for employing 17,000 of the approximately 20,000 workers employed in the steel industry, suggesting the prospects of finding similar employment for those being made redundant is remote.

This dominant position also indicates Tata Steel may in fact be acting as a monopsonist employer. Trade unions, unhappy about enforced reforms to pensions and engaged in negotiations surrounding wages and working conditions, argue that the company is abusing its market power at great cost to its workers. Tata's response to this accusation is that it is external competitive market pressures in the steel industry driving its behaviour in the labour market, rather than any deliberate action to exploit workers.

**Extract 3 - Moving the UK labour market forward**

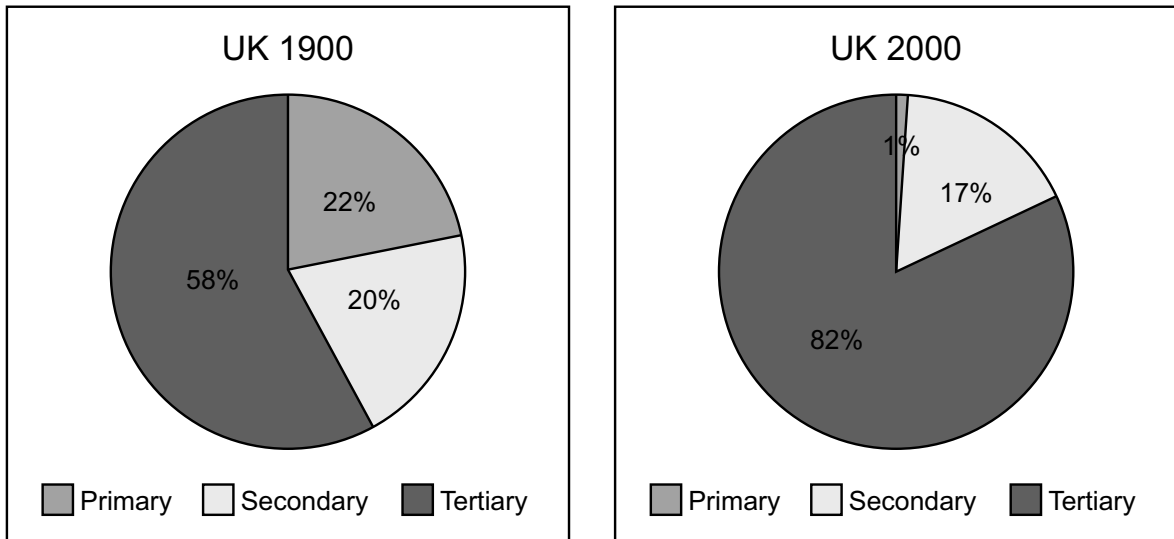
Job losses in the steel industry present particular concern to the government because of the uneven way in which employment is distributed across the country, as illustrated in Fig. 3.1.



The decline in the steel industry therefore has the potential to be very harmful on the local economies of regions where steel production takes place, with a lack of geographical mobility likely to create regional unemployment.

Changes in the steel industry in some ways mirror the wider changes which have taken place in employment across the UK economy over the last century as a result of deindustrialisation.

Fig 3.2 – Employment in the UK by sector



This loss in manufacturing employment and the increasing demand for skilled workers has caused a number of skills shortages to develop in the economy. Economists point to this, along with the regional unemployment that has developed as a result of the shutting down of manufacturing firms in the north of England, as evidence of the UK labour market being inflexible.

In an increasingly globalised world in which consumer demand, technology and patterns of comparative advantage are constantly changing, having a flexible labour market is crucial in enabling UK firms to be internationally competitive. This has caused the government to consider a number of policies designed to create a labour market in which skilled workers are able to quickly adjust to the changing demand of employers, firms have flexibility over wages and flexible working hours and contracts are commonplace.

Some policies to achieve this are more controversial than others, with a topical cause for debate being the existence of zero hours contracts. Approximately 1.4 million individuals in the UK are currently employed on such contracts, which require workers to work as and when they are needed with variable hours. Whilst this has certainly enabled firms to more easily alter the size of its workforce in responses to changes in demand, it is criticised by some as being extremely unfair to workers because of the uncertainty it creates. On the other hand, this could be seen as a good example of the type of relaxing of employment protection required to keep the UK economy competitive in the twenty first century.

In addition, there are a number of other policy options available to the government to improve the flexibility of the UK labour market:

- Implement a points based immigration system
- Raise the school leaving age
- Provide more apprenticeships
- Reduce marginal tax rates

**31** Identify **two** factors which could explain falling profitability in the UK steel industry.

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..... [2]

**32** Using the data from Fig. 1.1, compare what has happened to output and employment in the steel industry between 1993 and 2013.

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..... [2]

33 Using an appropriate diagram, explain the impact on the market for ovens of the changes which have occurred in the steel industry.

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..... [4]

34 Evaluate, using an appropriate diagram, the extent to which protectionist policies would benefit the UK steel industry and the wider macroeconomy.

[15]

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35 Identify and explain **one** piece of evidence in Extract 2 of Tata Steel acting as a monopsony employer.

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