Oxford Cambridge and RSA

Monday 13 May 2024 – Afternoon

GCSE (9–1) Economics

J205/01 Introduction to Economics

Time allowed: 1 hour 30 minutes

You can use:
- a scientific or graphical calculator
- an HB pencil

Please write clearly in black ink. **Do not write in the barcodes.**

Centre number | | | | | | Candidate number | | | | |

First name(s) _____

Last name _____

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. You can use extra paper if you need to, but you must clearly show your candidate number, the centre number and the question numbers.
- Answer **all** the questions.

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 (*).
- This document has **24** pages.

ADVICE
- Read each question carefully before you start your answer.

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SECTION A

Write your answer to **each** question in the box provided.

1 Money is widely accepted as a means of buying and selling products.

In this situation, money is acting as a

A factor of production

B medium of exchange

C source of income

D type of credit

Your answer ☐ **[1]**

2 What is meant by the labour market?

A The demand for labour by firms and the supply of labour by households

B The free movement of labour between different jobs

C The interaction between employers and workers about pay and conditions

D The working population excluding those individuals retired or still in education

Your answer ☐ **[1]**

3 Kai had an idea to set up a printing business.
They rented a shop, employed staff and bought some printing equipment.

As a producer, what is Kai **not** responsible for?

A Adding efficiency to the firm

B Deciding how much VAT to pay

C Making economic choices about production

D Making use of scarce resources

Your answer ☐ **[1]**

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4 The table shows the total costs of a firm.

Output	Total cost (£)
1	24
2	36
3	48
4	56

If output increases from 1 to 4, what is the change in the firm's average cost?

A + £32

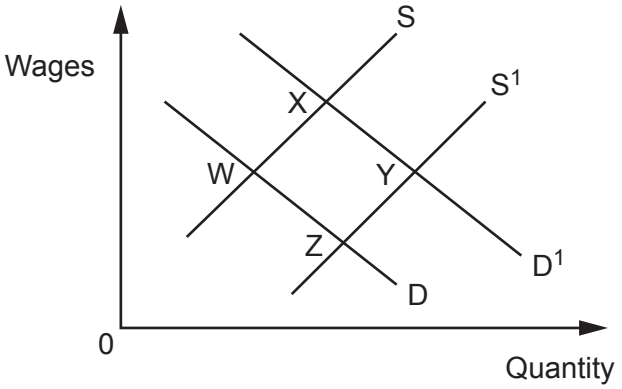
B + £14

C – £14

D – £10

Your answer ☐ **[1]**

5 The diagram shows changes in the supply and demand for labour.



The original equilibrium is at W.

Where is equilibrium after an increase in the productivity of labour?

A W

B X

C Y

D Z

Your answer ☐ **[1]**

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6 A beekeeper has been invited to sell the honey produced by their bees at a charity event in the local village hall.

This charity event is an example of a

A market

B monopoly

C primary sector activity

D producer

Your answer ☐ **[1]**

7 A sports venue has a seating capacity of 90 000 people.

What is the price elasticity of supply of seats at this venue?

A Greater than 1

B Perfectly elastic

C Perfectly inelastic

D Unitary elastic

Your answer ☐ **[1]**

8 Sam has started a new job. The table shows their monthly pay statement.

Item	**£**
Wage	2500
Bonus	500
Income tax	345
National Insurance	250
Pension contributions	225

What is Sam's monthly net pay?

A £1680

B £2180

C £2405

D £2655

Your answer ☐ **[1]**

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9 The Bank of England has announced a large increase in the rate of interest.

What is the **most** likely effect on consumers?

A Additional spending

B Decreased borrowing

C Increased demand for labour

D Increased investment

Your answer ☐ **[1]**

10 Which of these statements is **not** true?

A Any firm may become an oligopoly

B Governments produce services which the private sector will not

C Households make decisions based on opportunity cost

D Individuals cannot be producers of goods and services

Your answer ☐ **[1]**

11 Shops **usually** hold a 'cut price' sale of goods because the original price was

A above the equilibrium price

B at the equilibrium price

C below the equilibrium price

D causing excess demand

Your answer ☐ **[1]**

12 Farmers have started to produce more organic vegetables.
They have found that many people are willing to pay a high price for organic vegetables.

This increased production of organic vegetables is a result of which role of price?

A Rationing

B Signalling

C Specialisation

D Substitution

Your answer ☐ **[1]**

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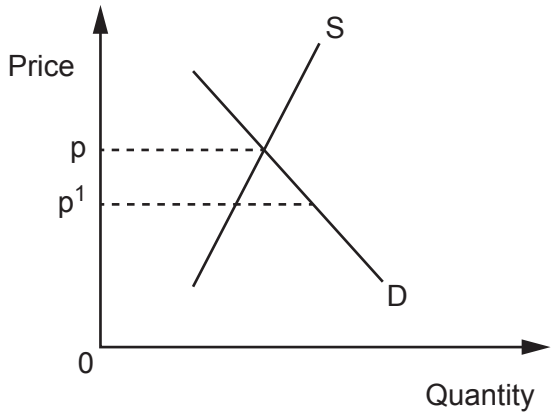
13 The diagram shows the market for houses in Plumgarth in 2023.



If the price of houses decreases from p to p^1 which of these statements is correct?

A Buyers will find it easier to purchase a house

B Buyers will find it more difficult to save money to purchase a house

C Sellers will be less willing to put their house on the market

D Sellers will not be able to sell their house

Your answer ☐ **[1]**

14 Apples and plums are substitute goods.

The demand curve for plums will shift to the right if there is

A a fall in the price of apples

B a fall in the price of plums

C a rise in the price of apples

D a rise in the price of plums

Your answer ☐ **[1]**

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15 The government has decided to rebuild the main road near Carwod, as the present road is too dangerous. The new road will be nearer to the village of Carwod.

This is an example of which type of sustainability?

A Economic

B Environmental

C Renewable

D Social

Your answer ☐ **[1]**

16 The town of Barrow-in-Furness specialises in the manufacturing industry.

This is an example of

A a bigger market

B efficient use of resources

C improved standards of living

D time saving

Your answer ☐ **[1]**

17 If the price of olive oil increases consumers are likely to demand less.

This shows

A an efficient working of the market as consumers respond to price signals

B equilibrium price and quantity will not be restored after a price change

C opportunity cost as the supplier increases price to the consumer

D the transmission of preferences from consumers to producers

Your answer ☐ **[1]**

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18 Price competition typically leads to firms in the market reducing their prices.

What is **most** likely to happen to a firm which does not reduce its price? It will

A continue to be successful if its demand is price elastic

B employ more economies of scale to gain customers

C improve its efficiency to find ways to reduce costs

D lose customers and may go eventually go out of business

Your answer ☐ **[1]**

19 Charlie has increased the production of their business by 10%.
Gabi has increased the productivity of their business by 10%.
The prices of their products have not changed.

What is the **most** likely outcome?

A Charlie has decreased the costs of production more than Gabi

B Charlie has increased the economies of scale more than Gabi

C Gabi has decreased the average revenue of their business compared to Charlie's

D Gabi has increased the competitiveness of their business compared to Charlie's

Your answer ☐ **[1]**

20 A large firm wants to expand its output.
It needs to borrow £100 000 for 10 years.

Which financial institution is the firm **most** likely to go to for this loan?

A A commercial bank

B An insurance company

C The central bank

D The local building society

Your answer ☐ **[1]**

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Section B starts on the next page

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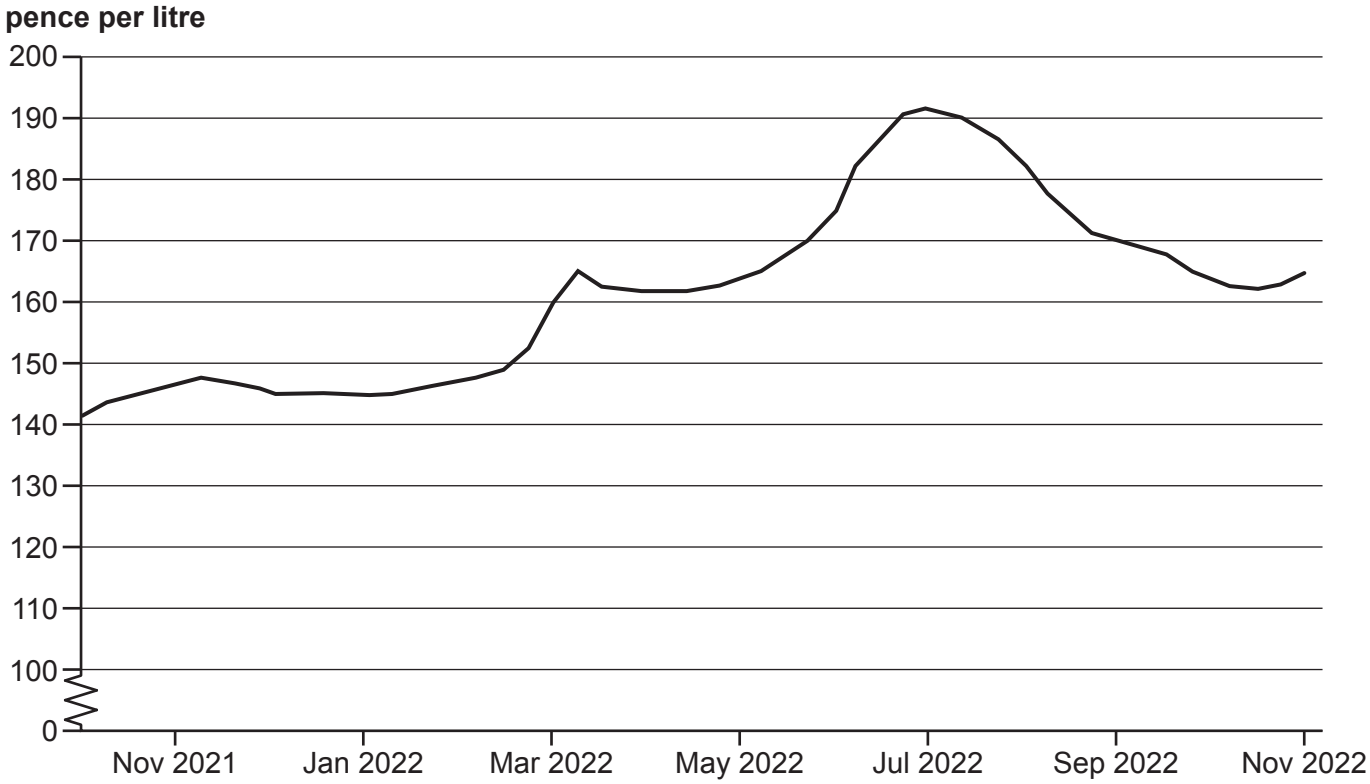
SECTION B

21 Extract 1
The oil market

Oil is a scarce resource. An important use of oil is to produce petrol. Over a 12-month period between 2021 and 2022 the price of petrol fluctuated significantly. One of the reasons for this was the decrease in the supply of oil to the world market.

Petrol prices



Many of the largest producers of oil are members of the Organisation of Petroleum Exporting Countries [OPEC]. This is a form of oligopoly which leads to a different outcome for prices than would be expected in a competitive market. The effectiveness of this oligopoly partly depends on the price elasticity of supply of oil.

Currently, the price elasticity of demand of petrol is price inelastic. However, with the increased use of electric vehicles it is expected to become more price elastic.

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(a) Explain what is meant by a decrease in supply.

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(b) Explain how an oligopoly, such as OPEC, differs from a competitive market.

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Turn over for the next question

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(c) Using a diagram, analyse how the market forces of demand and supply can affect the price that consumers pay for petrol.

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(d)

(i) Explain the trend in the price of petrol between January 2022 and July 2022.

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(ii) Explain how the price fluctuations of petrol in **Extract 1** show that oil is a scarce resource.

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Turn over for the next question

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(iii)* Evaluate the importance of price elasticity of demand for petrol for consumers.

Use the information given in **Extract 1** and your own knowledge.

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22 Extract 2
A garden business

Amir and Nina run a business which designs and builds gardens. Nina is responsible for the design work, and Amir organises the building work. This is an example of division of labour. They have recently been asked by the Hesthwaite Trust, a local charity, to redesign and build five gardens. The Trust will pay a fixed price of £8000 for each garden. Nina has calculated the total design and plant costs to be £11 400. In addition, she has estimated the costs of the building work for each garden.

	Cost of building work (£)
Gardens 1 and 4	2000 each
Gardens 2 and 3	4500 each
Garden 5	11 750

Amir and Nina realise how important it is that they earn a profit on the work, especially as they operate in the product market. They expect that if people visiting the gardens like their work this will change their demand. This would mean they could compete more effectively with their rivals.

(a) Explain what is meant by division of labour.

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(b) Calculate the profit or loss Amir and Nina would make if they accepted the work to redesign and build all five gardens.

Show your working.

Answer = £ ..... **[2]**

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(c) Analyse the advantages for Amir and Nina of their business making a profit.

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(d)

(i) Explain why Amir and Nina's business is part of the product market.

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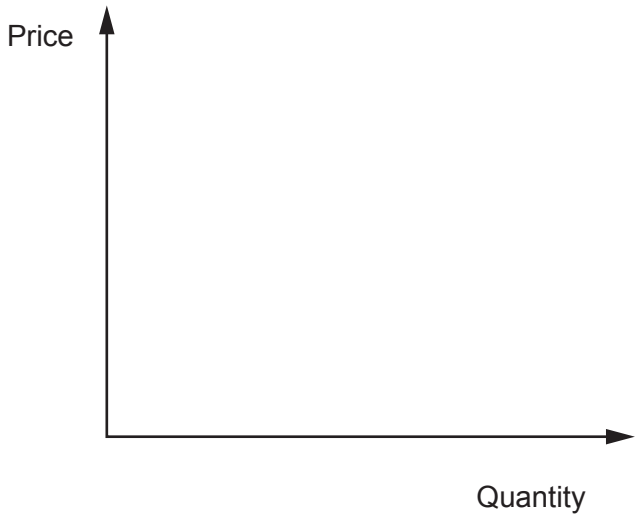
(ii) "They expect that if people visiting the gardens like their work this will change their demand."

Draw and label a diagram showing this change in demand for Amir and Nina's business.



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(iii)* Evaluate why it would be important for Amir and Nina to compete more effectively with their rivals.

Use the information given in **Extract 2** and your own knowledge.

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23 Extract 3
The Celandine Hotel

The Celandine Hotel won the 'Business Enterprise of 2022 Award' for the county of Cummorland. Although there are many hotels in Cummorland, The Celandine has increased its number of customers. This has been achieved by hosting a wide range of events including conferences, lunches for local businesses, murder mystery evenings, and weddings. This has helped to change the demand for its services from being price elastic to price inelastic.

Ben and Eve, the owners, are concerned by recent increases in the rate of interest. Five years ago they borrowed £500 000 to help them buy the hotel. At that time, they were paying 3% interest which was £1250 a month. The bank has told them from the start of next month they need to pay 7.5% interest.

Eve has suggested that they could save money on wages if she gave up her teaching job. She could then manage the business finances and run some of the hotel's events. Ben wondered whether a better option would be to specialise in weddings and conferences in the future.

(a) Explain, using an example, what is meant by enterprise.

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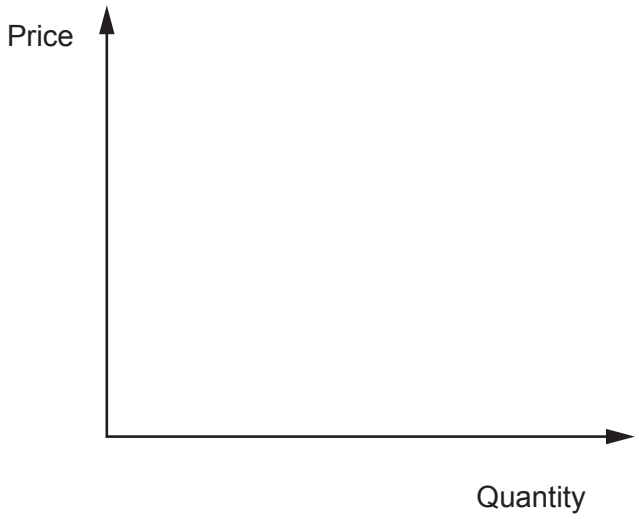
(b) Draw and label a diagram showing the original price elastic demand curve and the new price inelastic demand curve for The Celandine Hotel.



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(c) Using a diagram, analyse the consequences for Ben and Eve of an upwards movement **along** their supply curve.

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(d)

(i) Calculate how much interest per month Ben and Eve will be paying after the interest rate increases.

Show your working.

Answer = £ ..... **[2]**

(ii) Explain what the opportunity cost will be if Eve decides to, “manage the business finances and run some of the hotel’s events.”

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(iii)* Evaluate the benefits of increased specialisation for The Celandine Hotel.

Use the information given in **Extract 3** and your own knowledge.

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END OF QUESTION PAPER

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