Oxford Cambridge and RSA

Wednesday 15 May 2024 – Morning

A Level Economics

H460/01 Microeconomics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

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. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.

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 **20** pages.

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

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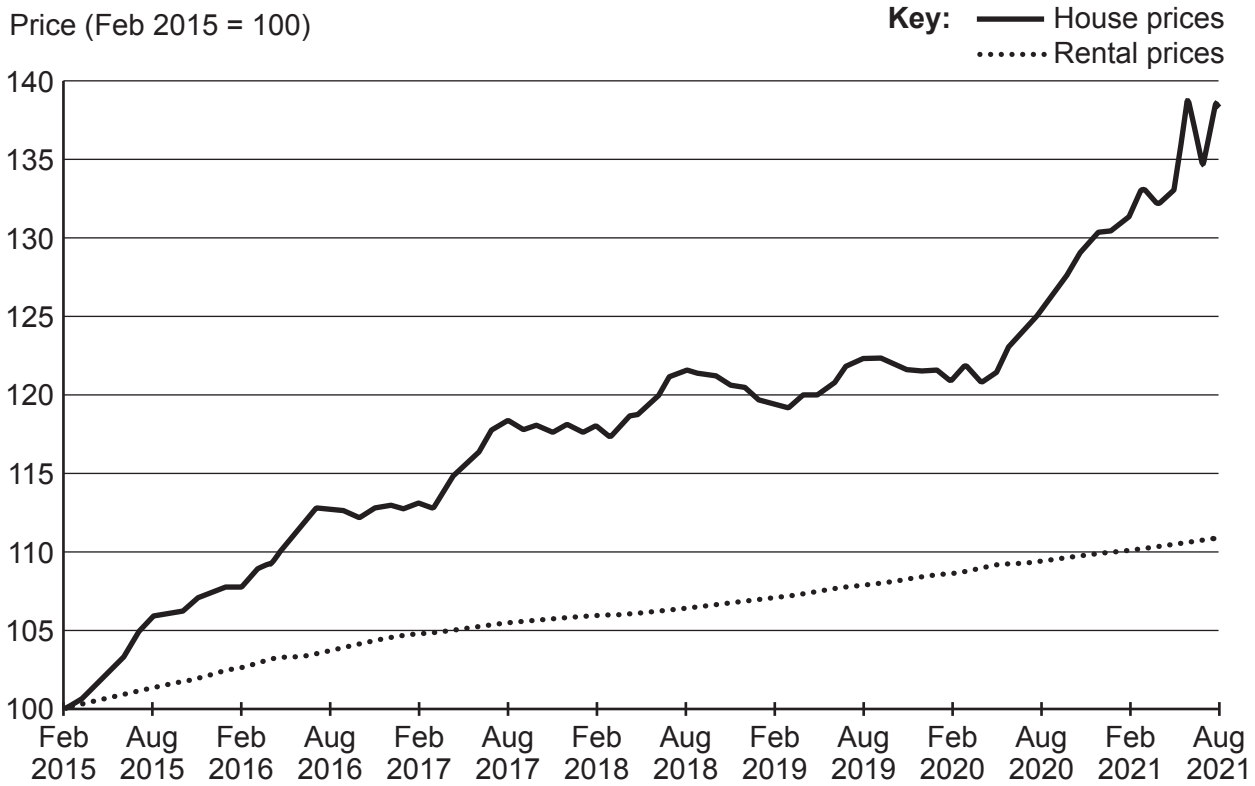
Section A

Read the stimulus material and answer **all** the parts of Question 1.

Is the UK housing market in crisis?

Between August 2020 and August 2021, average house prices in the UK rose from £239 000 to £280 825. 2021 was a record year for house sales in the UK. Very high demand continued, with many in the market saying that there is considerable shortage in supply. This prompted predictions that prices would continue to rise as they had since the start of 2020. (see Fig. 1).

Fig. 1
UK average house and rental price index



Partly due to competitive supply, trends in the market for houses also affected those wanting to rent properties. Record demand in 2021 for rental properties outside of London forced average rental prices up by 4.2%. At the same time, average rents in London fell by 7.8% in a year.

Converting empty shops into homes has been proposed as one way to increase the supply of housing and tackle the shortage of housing in the UK. A change to legislation in 2021 means that planning permission is no longer required to convert commercial buildings, such as shops, restaurants and gyms, into homes. However, critics highlight research which suggests that 89% of commercial buildings in the London Borough of Barnet could be lost due to the new legislation.

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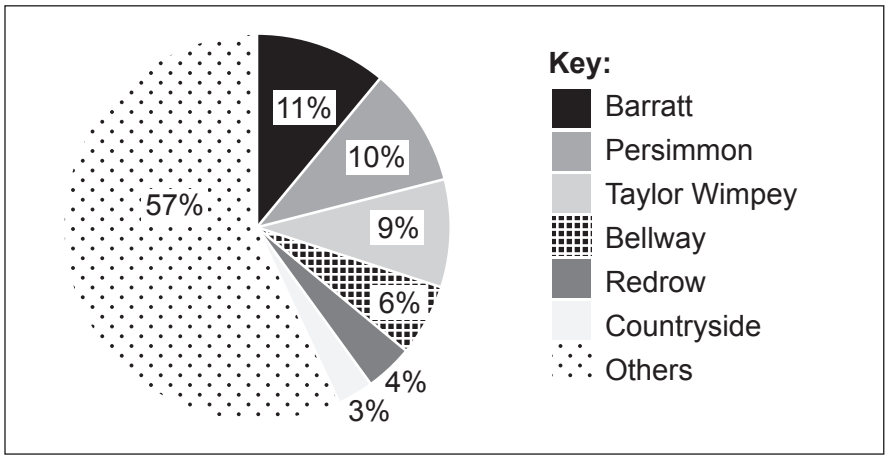
One private sector retailer taking advantage of changes in the law is John Lewis plc. During 2020 and 2021, John Lewis plc announced the permanent closure of 16 of its 50 UK department stores. In July 2021 it announced plans to convert some of its closed stores to create 100 000 new homes.

The City of London Corporation is the public sector organisation responsible for managing the historic centre of London, known as 'The Square Mile'. It is responding to housing shortages by planning to convert empty office space into 1500 homes.

Regulations mean that all new homes must be of a high quality and meet legal space standards and building regulations. However, concerns have been raised about many new developments. Some politicians have complained that while more homes are needed, the necessary infrastructure (such as roads, schools, and doctors) will not follow.

There are also worries about the concentration of power in the housebuilding industry (see Fig. 2). In 2019, four of the UK's largest housebuilders – Barratt, Countryside, Persimmon and Taylor Wimpey had a relatively large market share. Some economists and politicians suggested these companies were acting as a cartel, deliberately slowing down construction and controlling competition.

Fig. 2
Market share of UK housebuilders – 2019



According to the House of Lords' Economic Affairs Select Committee, "The UK's big developers [housebuilders] have become far too powerful with the result that profit margins can be as high as 30%." Instead of competing on quality and price, each housebuilder focuses on separate geographical locations giving potential house buyers little choice. As smaller housebuilding firms continue to go out of business, six of the largest housebuilders own more than one million sites ready for new building.

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(a) Explain what is meant by ‘competitive supply’.

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..... **[2]**

(b) Explain, using an appropriate diagram, the situation in the housing market described in **lines 1–3**.

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..... **[4]**

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(c) Refer to **Fig. 1**.

(i) Calculate the percentage change in average house prices between August 2020 and August 2021.

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..... **[2]**

(ii) Compare the trend in average house prices and rental prices between 2015 and 2021.

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..... **[2]**

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(d) "A change to legislation in 2021 means that planning permission is no longer required to convert commercial buildings…into homes." **Lines 9–11.**

Evaluate, using evidence from the stimulus material, the effectiveness of reducing regulation, such as planning permission, in order to increase the supply of housing and tackle the shortage of housing in the UK.

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(e)* Evaluate, using evidence from the stimulus material, the extent to which the UK housing market can be considered to be an oligopoly. **[12]**

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Section B

Answer Question **2 or** Question **3**.

2* There are more than 10 million dogs in the UK, with 34% of UK households owning a dog. In 2023, demand for the services of dog walkers increased in the UK. Dog walkers operate in a monopolistically competitive market, similar to that for hairdressing and painting and decorating.

Evaluate, using an appropriate diagram(s), whether monopolistic competition benefits consumers. **[25]**

OR

3* In March 2020 the Welsh Government introduced a minimum price for alcohol of £0.50 per unit. According to the minimum pricing formula in Wales, a 70 cl bottle of vodka priced at £9.75 in England would have to be sold at a minimum price of £13.12 in Wales.

Evaluate, using an appropriate diagram(s), the likely microeconomic effects of such minimum prices. **[25]**

Question No. .....

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Section C

Answer Question **4 or** Question **5**.

4* In May 2023, NHS waiting lists for routine hospital treatment rose to 7.42 m, the highest figure since records began in 2007.

Evaluate whether healthcare should be provided by the government. **[25]**

OR

5* In recent years, labour mobility has not changed significantly in the UK. Governments seek to increase the mobility of labour using a range of policies.

Evaluate the impact an increase in labour mobility is likely to have on labour markets. **[25]**

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END OF QUESTION PAPER

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EXTRA ANSWER SPACE

If you need extra space use these lined pages. You must write the question numbers clearly in the margin.

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