OCR
Oxford Cambridge and RSA

Friday 7 June 2024 – Morning

A Level Economics

H460/03 Themes in economics

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.

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 **28** 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 What is the reward to enterprise?

A Interest

B Profit

C Rent

D Wages

Your answer ☐ **[1]**

2 The marginal propensity to withdraw (mpw) in an economy is 0.6.
There is an injection of £150bn into the economy.

What is the final increase in GDP?

A £90 billion

B £100 billion

C £250 billion

D £375 billion

Your answer ☐ **[1]**

3 Which of these is a function of money?

A Divisibility

B Durability

C Limited supply

D Unit of account

Your answer ☐ **[1]**

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4 Which of these describes the process of crowding out?

A An increase in government spending leads to a fall in private sector investment

B The process by which government spending and tax revenue vary with the economic cycle

C The transfer of an organisation from public sector ownership and control to private sector ownership and control

D When monetary policy becomes ineffective as households prefer to save even though interest rates are very low

Your answer ☐ **[1]**

5 As a result of a 12% reduction in the price of Good A, the quantity demanded of Good B increased by 3%.

What is the relationship between the two goods?

A Strong complements

B Strong substitutes

C Weak complements

D Weak substitutes

Your answer ☐ **[1]**

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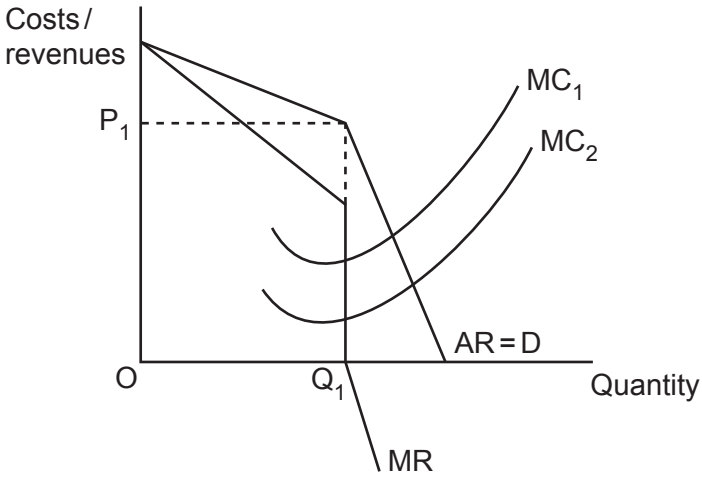
6 An oligopoly firm faces costs and revenues as shown below.

If marginal cost falls from MC_1 to MC_2 what is the effect on price, output and profit?



	Price	Output	Profit
A	Decrease	Increase	Increase
B	Decrease	Increase	Unchanged
C	Increase	Decrease	Unchanged
D	Unchanged	Unchanged	Increase

Your answer ☐ **[1]**

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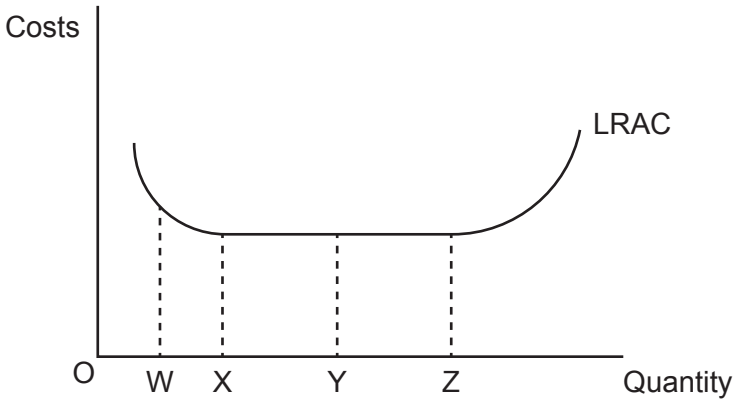
7 Which point on the diagram represents the Minimum Efficient Scale (MES)?



A W

B X

C Y

D Z

Your answer ☐ **[1]**

8 Which of these characteristics describes a market under monopolistic competition?

A High entry barriers, differentiated goods, many firms

B Low entry barriers, differentiated goods, normal profit in the long run

C Low entry barriers, few firms, normal profit in the long run

D Low entry barriers, many firms, supernormal profit in the long run

Your answer ☐ **[1]**

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9 The table shows the total utility from consuming units of a good.

Unit of Consumption	Total Utility
1	20
2	25
3	31
4	35
5	38
6	40
7	39

What unit of consumption does the consumer begin to experience diminishing marginal utility?

A 4

B 5

C 6

D 7

Your answer ☐ **[1]**

10 A UK firm imports oranges from Portugal. 200 kg of oranges costs the firm 300 euros. The exchange rate is £1 Sterling to 1.2 euros.

How much does 400 kg of oranges cost the firm in £ Sterling?

A £250

B £360

C £500

D £72

Your answer ☐ **[1]**

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11 The quantity of output at which a monopoly firm will maximise revenue is where:

A AC = AR

B AC = MC

C MC = MR

D MR = 0

Your answer ☐ **[1]**

12 A worker is paid £12 per hour to assemble bicycle parts in a factory.
The worker's productivity increases from 20 units per hour to 24 units per hour.

What is the change in the unit labour cost to the firm?

A Decreases by £0.10

B Decreases by £0.33

C Decreases by £0.50

D Increases by £0.83

Your answer ☐ **[1]**

13 In a free market for labour if the supply of labour becomes more inelastic which of these will fall?

A Economic rent

B Marginal revenue product

C Transfer earnings

D Wages

Your answer ☐ **[1]**

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14 The Fisher equation of exchange shows the relationship between: Money supply (M), Price level (P), Velocity of circulation (V) and National income (Y).

Which of these is the correct equation?

A MV = PY

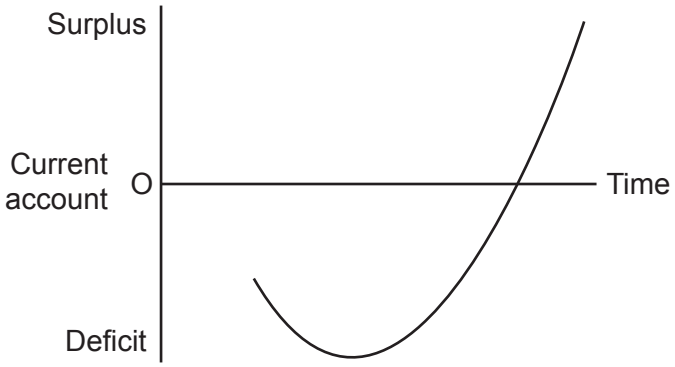
B MY = PV

C PM = YV

D PV = MY

Your answer ☐ **[1]**

15 What does the diagram suggest?



A A depreciation in the exchange rate will decrease the government's budget deficit

B A depreciation in the exchange rate will increase the government's budget deficit

C Demand for exports and imports is price elastic in the short run

D Demand for exports and imports is price inelastic in the short run

Your answer ☐ **[1]**

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16 Income tax is imposed in a country using the tax bands below.

Income ($)	**Tax Rate (%)**
0–15,000	10
15,001–50,000	10
Over 50,000	10

Which type of taxation is this?

A Indirect

B Progressive

C Proportional

D Regressive

Your answer ☐ **[1]**

17 In a society where there is a perfectly unequal distribution of income, one person has all of the income and every other person has zero income.

What would be the value of the Gini Coefficient?

A –1

B 0

C 1

D Infinity

Your answer ☐ **[1]**

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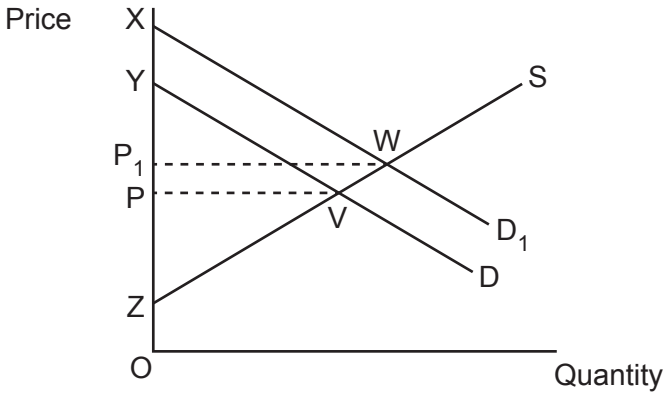
18 In the diagram the demand for the good shifts from D to D_1.



What area represents the change in the producer surplus?

A P V Z

B P V W P_1

C P_1 W X

D P_1 W Z

Your answer ☐ **[1]**

19 Which of these is a leakage from the circular flow of income?

A Exports

B Imports

C Investment

D Wage

Your answer ☐ **[1]**

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20 Moral hazard is a situation where:

A Buyers and sellers have different information which results in market failure

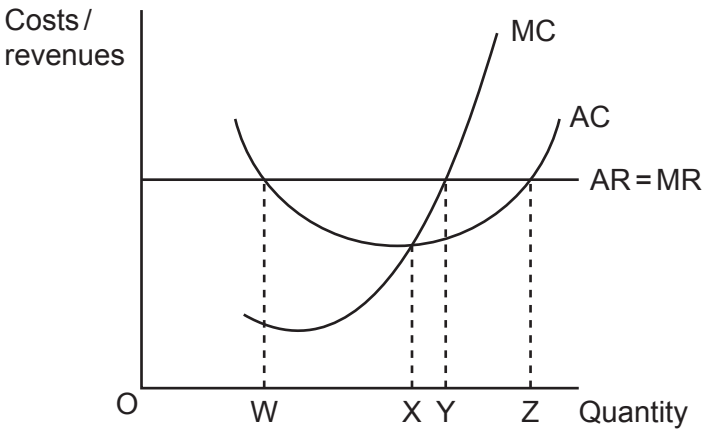
B Firms or households are more likely to take risks if they are insured against any negative impact of their actions

C Goods are under demanded by consumers and therefore underprovided by markets

D People are able to consume a good without paying for it

Your answer ☐ **[1]**

21 The diagram shows a firm in a perfectly competitive market making supernormal profit in the short run.



What is the allocatively efficient level of output?

A W

B X

C Y

D Z

Your answer ☐ **[1]**

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22 A firm wants to use third degree price discrimination.

Which of these factors would make it difficult for the firm to adopt this strategy successfully?

A All consumers have the same price elasticity of demand for the good

B Consumers from the lower price market are not able to sell to consumers from the higher price market

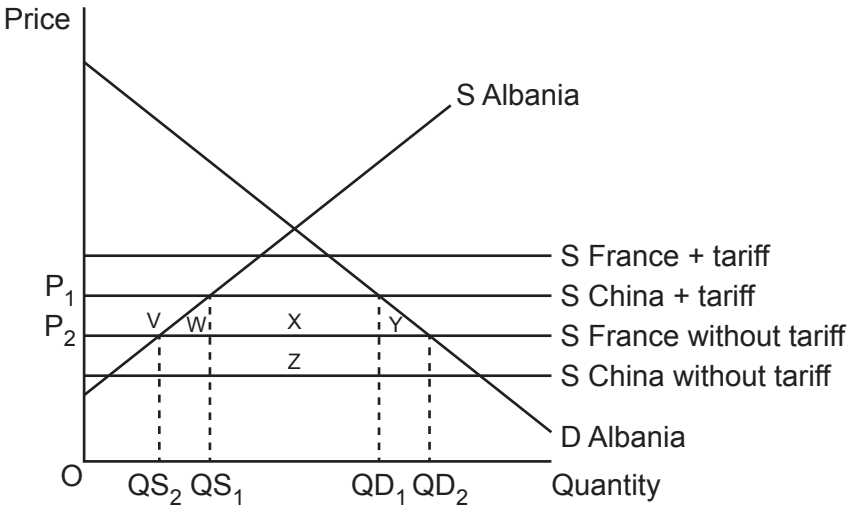
C The firm is able to segment the market

D The firm operates under imperfect competition

Your answer ☐ **[1]**

23 If Albania were to join the European Union (EU) then tariffs on goods from EU countries such as France would be removed, however tariffs on goods from China would remain.

In the diagram the price of the good would fall from P_1 to P_2 as Albanian consumers could access supply from France without a tariff.



What would be the net impact to the Albanian economy because of this change?

A V + W + X + Y

B V + X + Z

C W + X + Y

D W + Y – Z

Your answer ☐ **[1]**

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24 What is the least liquid asset?

A Central bank reserves

B Sight deposits

C Notes and coins

D Time deposits

Your answer ☐ **[1]**

25 A maximum price for rent is imposed in the London housing market.

What is the likely impact?

A A decrease in consumer surplus

B An excess demand for rental housing

C An increase in government tax revenue

D An increase in producer surplus

Your answer ☐ **[1]**

26 What is a characteristic of both a market operating under perfect competition and a contestable market?

A Freedom of entry and exit

B Homogenous goods

C Many firms

D Price discrimination

Your answer ☐ **[1]**

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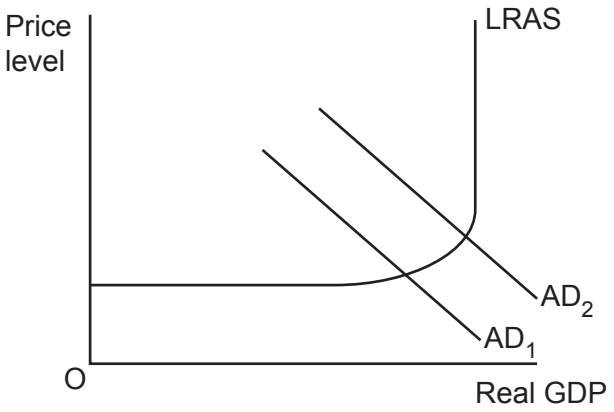
27 What is likely to have caused the shift in Aggregate Demand shown in the diagram?



A A decrease in consumer confidence

B A reduction in income tax rates

C An increase in corporation tax rates

D An increase in the price of oil

Your answer ☐ **[1]**

28 Which of these is measured as part of the Human Development Index (HDI)?

A Costs of environmental degradation

B GNI per capita

C Literacy rates

D Population with no access to health services

Your answer ☐ **[1]**

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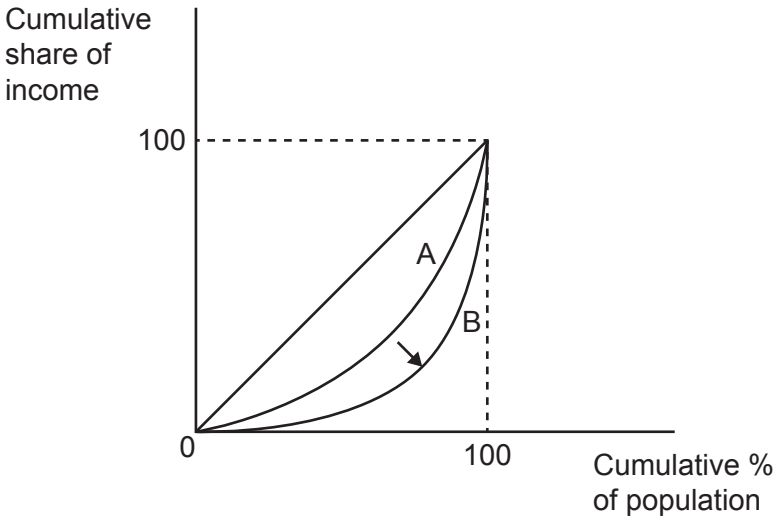
29 What could have caused the shift in a country's Lorenz curve shown in the diagram?



A An increase in access to healthcare that is free at the point of use

B An increase in the inheritance tax rate

C An increase in the market power and influence of large firms

D New legislation that protects workers from discrimination based on their race or gender

Your answer ☐ **[1]**

30 Where would Foreign Aid appear on the current account of the balance of payments?

A Primary income

B Secondary income

C Trade in goods

D Trade in services

Your answer ☐ **[1]**

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Section B

Read the extracts before answering the questions.

Extract 1
Global heating and the water market

In August 2022 temperatures in the UK hit 40 °C for the first time. This is part of a longer-term trend for higher temperatures: the ten hottest years since records began have occurred since 2002. The lack of rainfall across the country placed many regions in an official drought.

Water companies faced problems as reservoir levels fell and demand for water increased along with the temperature. The provision of water and sewage services in England and Wales was privatised in 1989 when ten newly created private sector firms took control of the market.

Each firm is a regional monopoly and consumers have no choice over their supplier. Water supply in Scotland and Northern Ireland remains a nationalised industry run by the government. Public sector expenditure on water supply can be seen in Fig. 1.1, this expenditure can be considered in relation to the size of GDP which was £1,101 billion in 2021/22.

Fig. 1.1
Public sector expenditure on water supply from 2009/10 to 2021/22 in £ million.

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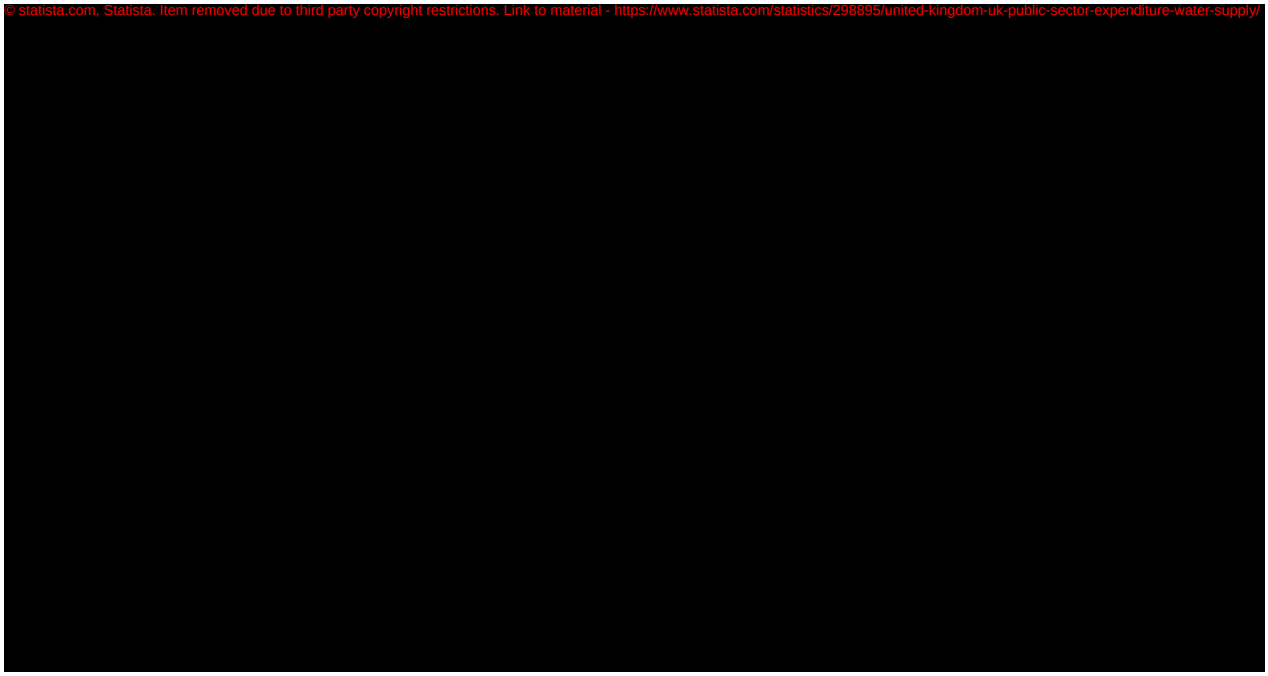

Private sector firms made profits of over £2.8 billion in 2020 and have been criticised for paying out over £16 billion in dividends in the past decade. The pay of some Chief Executives has been questioned with some earning close to £3m per year. The regulator of the industry, OFWAT, has no formal powers to control profits or dividends but does stress the importance of water companies making enough profit to fund large scale investment and maintain quality and environmental standards.

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A recent Environment Agency report highlighted problems with water companies dumping sewage into English rivers and seas. In 2021 Southern Water was fined £90m for dumping billions of litres of untreated sewage into the sea. The government's Water Minister called for greater investment by private sector firms to prevent leakages. It is estimated that water companies lost over 1 trillion litres of water in 2021. 20

As summers look set to heat up further, pressure will mount on the efficiency of water supply. Whether England and Wales should continue to be two of the few countries in the world with a privatised water industry may be called into question.

31 Using the data in **Fig. 1.1** and information in **Extract 1**, calculate public sector expenditure on water supply as a proportion of GDP in 2021/22.

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32 Explain why privatisation may increase long run aggregate supply (LRAS).

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33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether a natural monopoly such as water supply should be run by private sector firms. **[15]**

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Turn over for the next question

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Extract 2
The impacts on inflation

Heatwaves have been linked to a fall in productivity and drought causes output of agricultural goods to fall, driving up prices. Food and energy prices in the UK were also on the rise due to the instability in Europe. Tightening labour markets and disruption to supply chains caused by the pandemic have also contributed to inflation soaring above the 2% target in the UK in 2022.

The Monetary Policy Committee (MPC) has responded to rising inflation. It raised the official bank (base) rate from 0.75% in April 2022 to 2.25% by September 2022. The MPC was hoping that the increased interest rates would cause an appreciation in the value of Sterling as well as increasing the household savings ratio. There are close to 11 million mortgages in the UK totaling over £1.6 billion, over three quarters of mortgage holders are on a fixed rate and in recent years the number of new mortgages being taken out at fixed rates has been even higher as house buyers looked to lock in to historically low interest rates.

Some economists have argued that attempts to tighten demand at a time when economic growth is flat is not the best policy option.

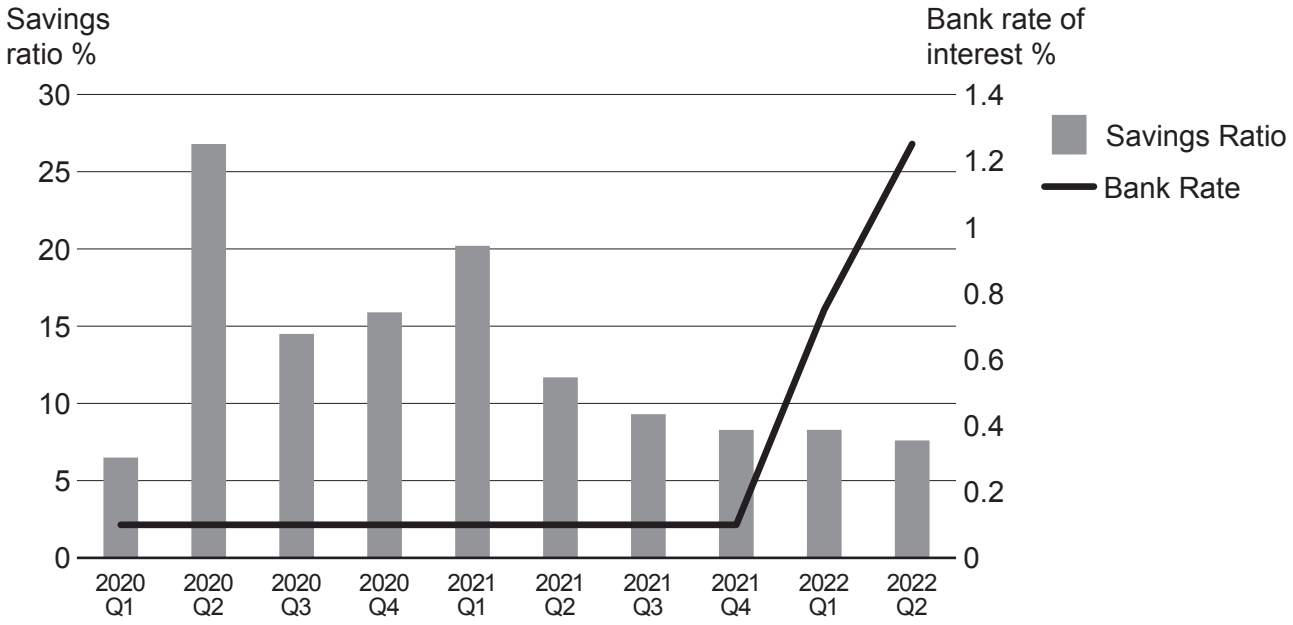
Fig. 2.1

The Consumer Price Index (CPI) of inflation for the UK (Base Year = 2015)

Date	Value
August 2018	106.5
August 2019	108.4
August 2020	108.6
August 2021	112.1
August 2022	123.1

Fig. 2.2

The Bank of England bank rate of interest and the household savings ratio in the UK 2020–2022



The household savings ratio is the proportion of disposable income that is not spent.

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34 Using the data in **Fig. 2.1**, compare the annual inflation rate in August 2022 to the annual inflation rate in August 2019.

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35 Using **Fig. 2.2**, identify what evidence there is that the rate of interest may not have been a large determinant of household saving in the UK between 2020 and 2022.

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Turn over for the next question

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36* Evaluate, using the information in **Extract 2**, whether increasing the interest rate was an effective way to combat rising inflation. **[15]**

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Extract 3
Firefighters' pay

The high temperatures and prolonged drought in the summer of 2022 led to a surge in the number of fires. The economic impact of these fires is difficult to capture. The distress of losing a home and possessions, and the impacts to wildlife are not captured by Gross Domestic Product (GDP). An issue with GDP is that it measures any positive impact from the aftermath of fires, such as rebuilding a house, but it fails to capture all of the negative impacts. Some economists argue that measures such as the Human Development Index, (HDI), are more useful than GDP.

Fig. 3.1
Change in UK Gross Domestic Product (GDP) and UK Human Development Index (HDI) score

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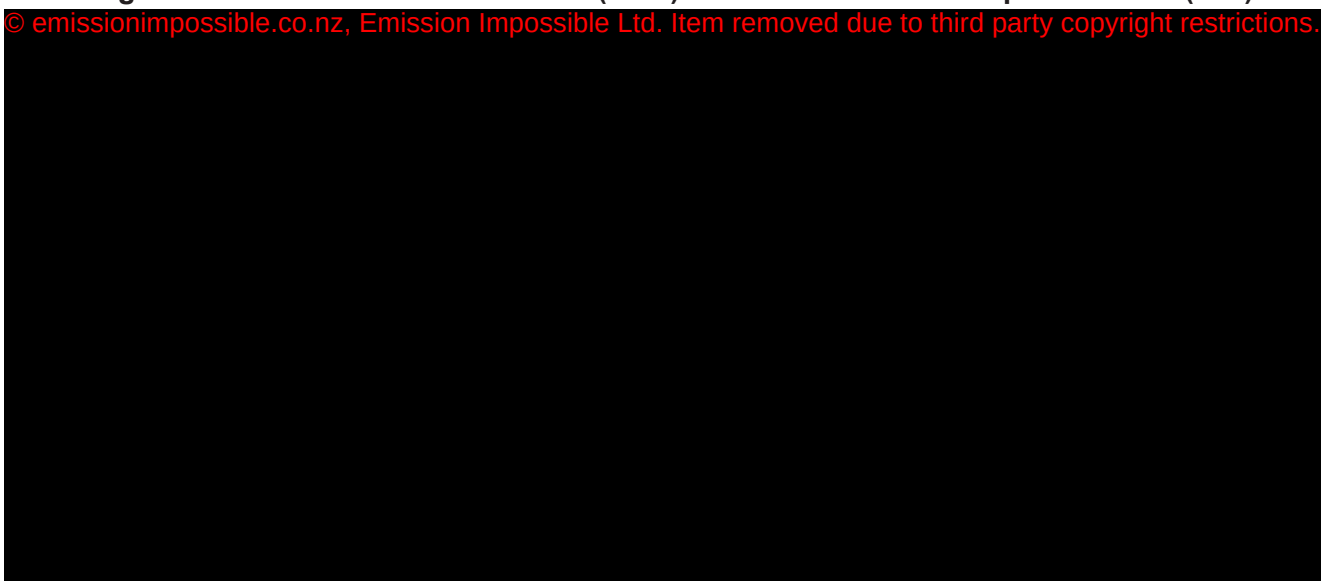

Firefighters are under increasing pressure and the job is becoming ever more dangerous. The Fire Brigades Union (FGU) which represents firefighters in the UK is considering strike action in response to government proposals to offer a 2% pay rise to firefighters, a rise well below the rate of inflation. The FGU has over 30,000 members, more than 80% of the workforce. The FGU face a monopsony employer; the government is the only buyer of labour for fire services.

To become a firefighter people must complete a 12-18 week training programme which includes medical, fitness and written tests. Once they begin work, firefighters must complete a further 18-24 months of on the job training. However there are no formal qualifications required to join the Fire Service. The number of firefighters in the UK has fallen around 20% from 2010 to 2021. In 2022, however, average wages for firefighters in the UK stand at £38,800 which is higher than average wages for police officers, paramedics and those in the Armed Forces. It is also higher than the UK median average pay.

37 Using **Fig. 3.1**, compare GDP and HDI growth between 2011 and 2021.

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38 Evaluate, using the information in **Extract 3**, whether firefighter pay is likely to increase.

..... **[8]**

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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