

A



Surname _____

Other Names _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

I declare this is my own work.

AS

ECONOMICS

Paper 1 The Operation of Markets and Market Failure

7135/1

Time allowed: 1 hour 30 minutes

At the top of the page, write your surname and other names, your centre number, your candidate number and add your signature.

[Turn over]



J U N 2 2 7 1 3 5 1 0 1

For this paper you must have:

- the Insert
- a calculator.

INSTRUCTIONS

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Answer ALL questions in SECTION A.
- Answer EITHER Context 1 OR Context 2 in SECTION B.
- You will need to refer to the Insert provided to answer SECTION B.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- 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 maximum mark for this paper is 70.**
- **The marks for questions are shown in brackets.**
- **No deductions will be made for wrong answers.**

DO NOT TURN OVER UNTIL TOLD TO DO SO



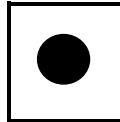
SECTION A

Answer ALL questions in this section.

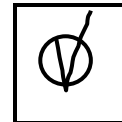
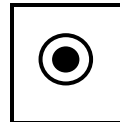
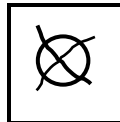
Only ONE answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

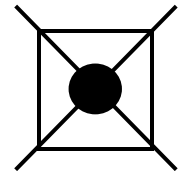
CORRECT METHOD



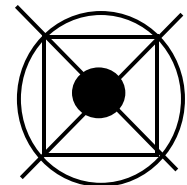
WRONG METHODS



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
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Choice is central to the economic problem because

A incomes are unequally distributed.

B most resources are scarce.

C people's wants are greater than their needs.

D people's wants are limited.

[1 mark]

[Turn over]



0	2
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A fast food restaurant is willing to supply 3000 burgers a week at a market price of £5 a burger. The price elasticity of supply of burgers is 2. If the market price falls to £4 a burger, the number of burgers that the restaurant will be willing to supply will be

A 1800

B 2700

C 3300

D 4200

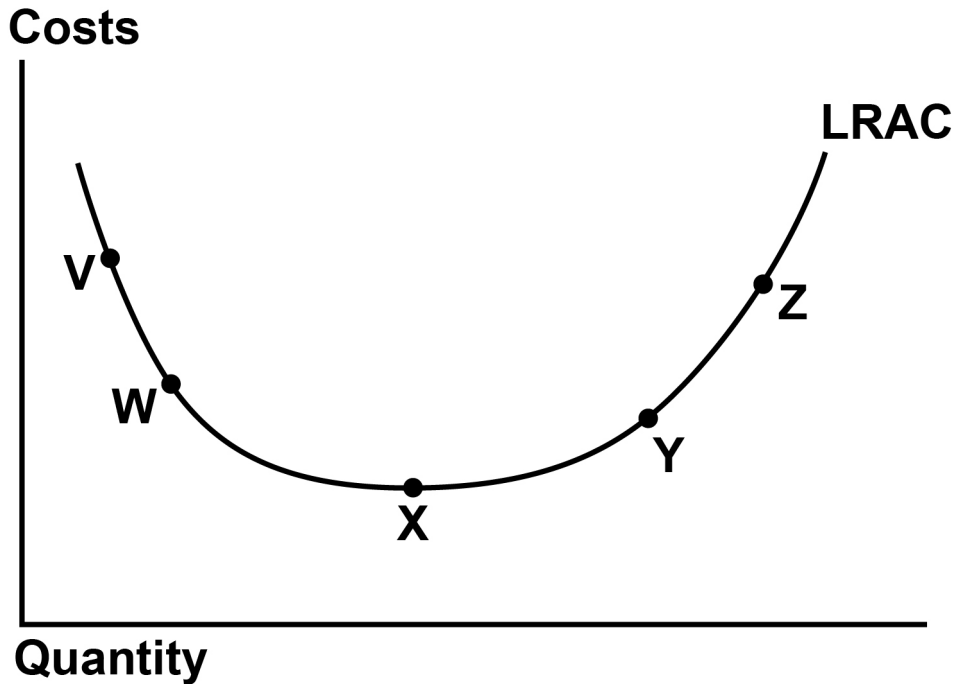
[1 mark]

0	3
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FIGURE 1, on the opposite page, shows the long-run average cost curve (LRAC) for a firm.



FIGURE 1



Which one of the following movements along the curve shows a reduction in diseconomies of scale?

- A V to W
- B X to W
- C X to Y
- D Z to Y

[1 mark]

[Turn over]



0	4
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A government decides to increase its subsidy to rail services to encourage more people to travel by rail. The subsidy is most likely to be successful if rail travel has a

A demand that is elastic with respect to price.

B demand that is inelastic with respect to price.

C high positive income elasticity of demand.

D negative cross elasticity of demand with respect to car travel.

[1 mark]



0	5
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A public good always has the characteristic that

A consumption by one person does not reduce availability to others.

B it is provided free of charge by the government to all citizens.

C its consumption gives rise to positive externalities for others.

D the supply is funded from a government's tax revenue.

[1 mark]

[Turn over]



0	6
---	---

Which one of the following best describes the market conditions for a firm in a perfectly competitive market?

A Limited consumer information and no product differentiation

B Low entry barriers and some product differentiation

C No entry barriers and low price-setting power

D No price-setting power and unlimited consumer information

[1 mark]



0	7
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Weekly sales of doughnuts are 20 000 and the market price is £1.20 per doughnut. The government introduces a new indirect tax of 15p per doughnut. Sales fall to 16 000 a week and the price rises to £1.30 per doughnut.

The share of the total weekly tax that is borne by doughnut producers is

A £800

B £1000

C £1600

D £2400

[1 mark]

[Turn over]



0	8
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An economist puts forward a hypothesis, collects evidence to test it, and then accepts, modifies, or rejects the hypothesis.

This is an example of

A a positive policy statement.

B economic methodology.

C how value judgements influence economic decisions.

D normative economics.

[1 mark]



09

A government plans to plant a new forest to provide a recreation facility and help combat climate change.

Estimates of the costs and benefits are shown in TABLE 1.

TABLE 1

	PRIVATE COSTS	SOCIAL COSTS	PRIVATE BENEFITS	SOCIAL BENEFITS
£ MILLION	13	9	14	16

From the figures in TABLE 1, it can be concluded that the forest project will have

- A negative production externalities of £9 million.
- B positive consumption externalities of £16 million.
- C positive production externalities of £4 million.
- D total externalities of £25 million.

[1 mark]

[Turn over]



1	0
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The demand for cocoa is derived from the demand for chocolate. When the demand for chocolate falls, the most likely result is a

A movement along the demand curve for cocoa.

B movement along the supply curve for cocoa.

C shift left of the supply curve for cocoa.

D shift right of the demand curve for cocoa.

[1 mark]



1 1

TABLE 2 shows the total output of a small firm and the numbers of workers employed in each of four months.

TABLE 2

MONTH	WORKERS	TOTAL OUTPUT
January	12	2400
February	11	2300
March	14	2700
April	13	2500

Which one of the following is a true statement about production and labour productivity during this period?

- A Both production and labour productivity rose between February and March**
- B Both production and labour productivity were higher in April than January**
- C Labour productivity rose but production fell between January and February**
- D March had both the highest production and the highest labour productivity**

[1 mark]

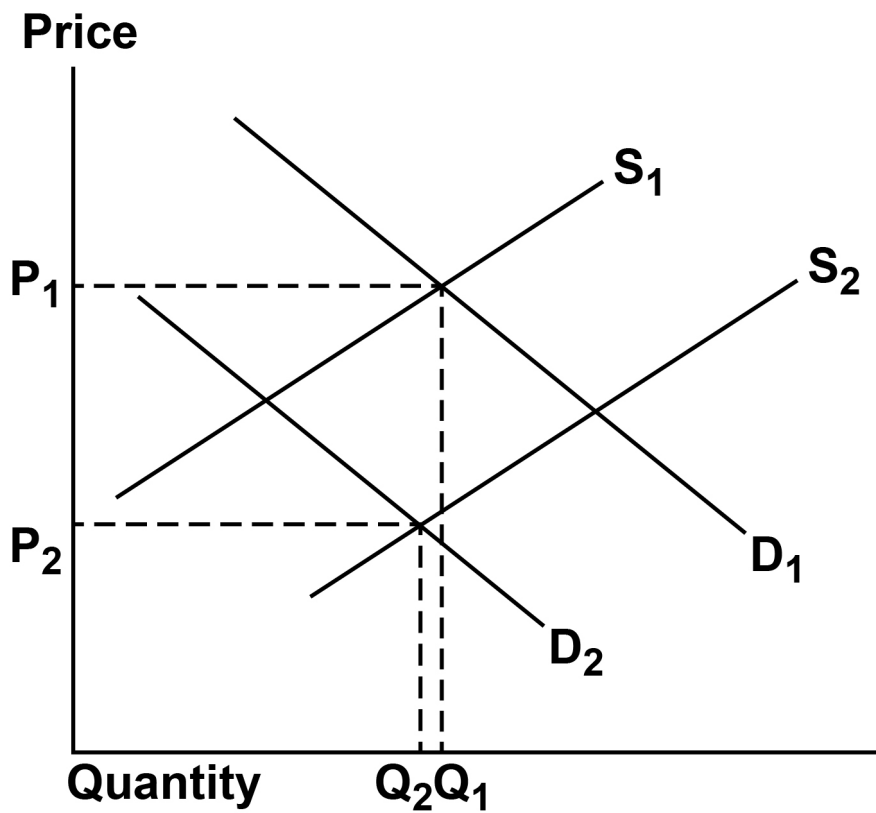
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1 2

FIGURE 2 shows supply and demand in the market for beef. D_1 shows the initial demand and S_1 the initial supply curve.

FIGURE 2



Which one of the following combinations of events would be most likely to cause demand to shift from D_1 to D_2 and supply from S_1 to S_2 ?

A A fall in the price of chicken and an increase in the price of animal feed

B A fall in workers' wages and a shift in preferences towards vegetarian food

C Higher disposable incomes and a fall in farm productivity

D Higher rents for farmland and health warnings about eating red meat

[1 mark]

[Turn over]



1	3
---	---

A firm normally has some fixed and variable costs in the short run. However, in the long run

A all costs become fixed.

B fixed costs become variable.

C fixed costs become very small.

D variable costs become fixed.

[1 mark]



1	4
---	---

The price mechanism allocates resources by

- A allowing prices to rise and ration demand when there is a surplus in the production of a good.**
- B preventing firms with monopoly power from exploiting consumers and charging a price above the competitive price.**
- C setting prices to ensure that the opportunity cost of producing a good is less than its social cost.**
- D setting relative prices to determine the quantity of factors of production used in producing each good.**

[1 mark]

[Turn over]



1	5
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A firm manufactures and sells fresh fruit drinks. The firm sells 200 bottles of fruit drink each week; its weekly total costs are £540, which includes £300 of fixed costs. The drink is sold at £4 a bottle.

A rival firm drops out of the market and sales increase to 250 bottles a week. Other things remaining the same, profit per week increases by

A £65

B £125

C £140

D £400

[1 mark]



1	6
---	---

Which one of the following is most likely to increase barriers to firms wishing to enter a market?

A Government subsidies to small firms

B Higher labour mobility between different industries

C New technology that increases the scope for economies of scale

D Reduced spending on advertising by firms already in the market

[1 mark]

[Turn over]



17

The cross elasticity of demand for chips with respect to the price of rice is positive. It can be concluded that chips and rice are

A inferior goods.

B jointly demanded.

C normal goods.

D substitute goods.

[1 mark]



1	8
---	---

A firm that is a pure monopoly can result in market failure because

A consumers lack information on alternative suppliers.

B products will be identical.

C the firm does not experience economies of scale.

D the firm's output is too low.

[1 mark]

[Turn over]



1	9
---	---

A shift left in the supply curve causes a market to be in disequilibrium at the original market price because

A consumers cannot buy as much as they would like.

B consumers no longer wish to buy the same quantity.

C firms are willing to supply more of the good.

D firms experience an increase in their stocks of the good.

[1 mark]



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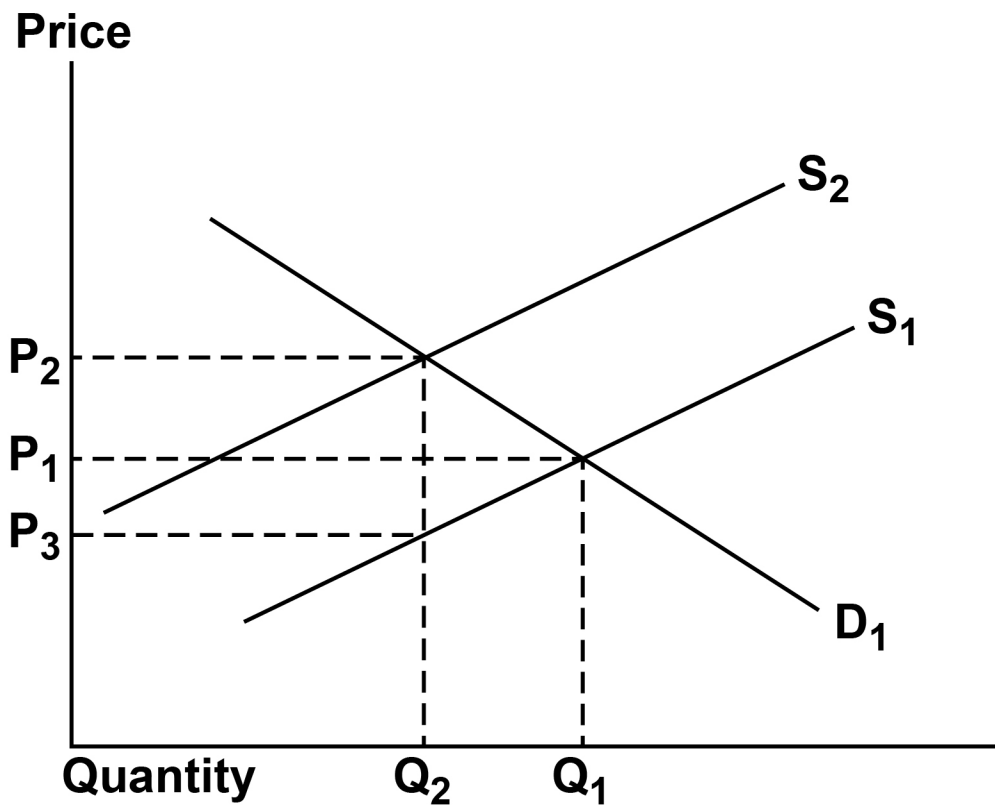
[Turn over]



20

Many goods are sold in plastic packaging that has harmful effects on the environment. In FIGURE 3, D_1 and S_1 are the free market demand for and supply of plastic packaged goods. S_2 would be the supply if firms took account of the cost to the environment of plastic packaging.

FIGURE 3



The government decides to implement a policy that would result in production moving from the free market level at Q_1 to the social optimum at Q_2 . Which one of the following policies is most likely to achieve the government's objective?

A A subsidy at the rate $P_1 P_3$

B A subsidy at the rate $P_2 P_3$

C A tax at the rate $P_2 P_1$

D A tax at the rate $P_2 P_3$

[1 mark]

20

[Turn over]



SECTION B

Look at the Insert and choose to answer **EITHER** Context 1 OR Context 2.

Answer **EITHER** Questions 21 to 26 on pages 29 to 50.

OR

Questions 27 to 32 on pages 51 to 70 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

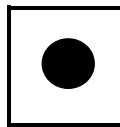
Context

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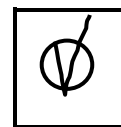
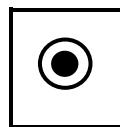
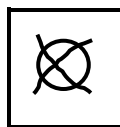
Context

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CORRECT METHOD



WRONG METHODS



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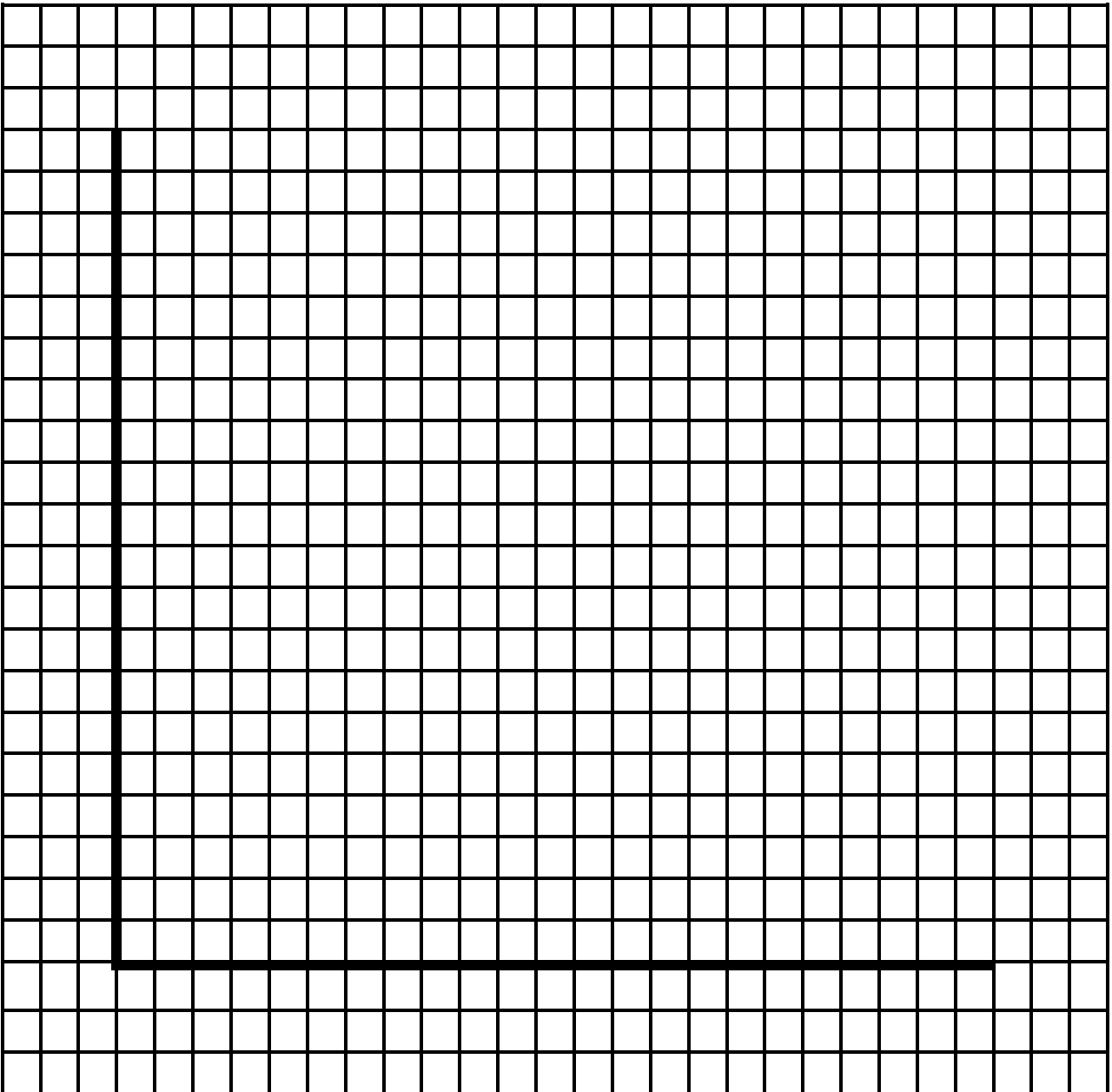
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2 4

EXTRACT C (line 36) states: 'Perhaps a maximum price should be set for water'.

**Draw a diagram to show the impact on the market for water of setting a maximum price below the equilibrium.
[4 marks]**



2	5
---	---

EXTRACT B (lines 23–26) states: ‘Most water (and sewerage) services are not provided by competitive markets... Only businesses can choose their water supplier’.

Explain how firms in the water industry could compete to attract businesses or other customers. [10 marks]

[Turn over]



[Turn over]





[Turn over]





[Turn over]



Lined writing area with 18 horizontal lines.

[Turn over]

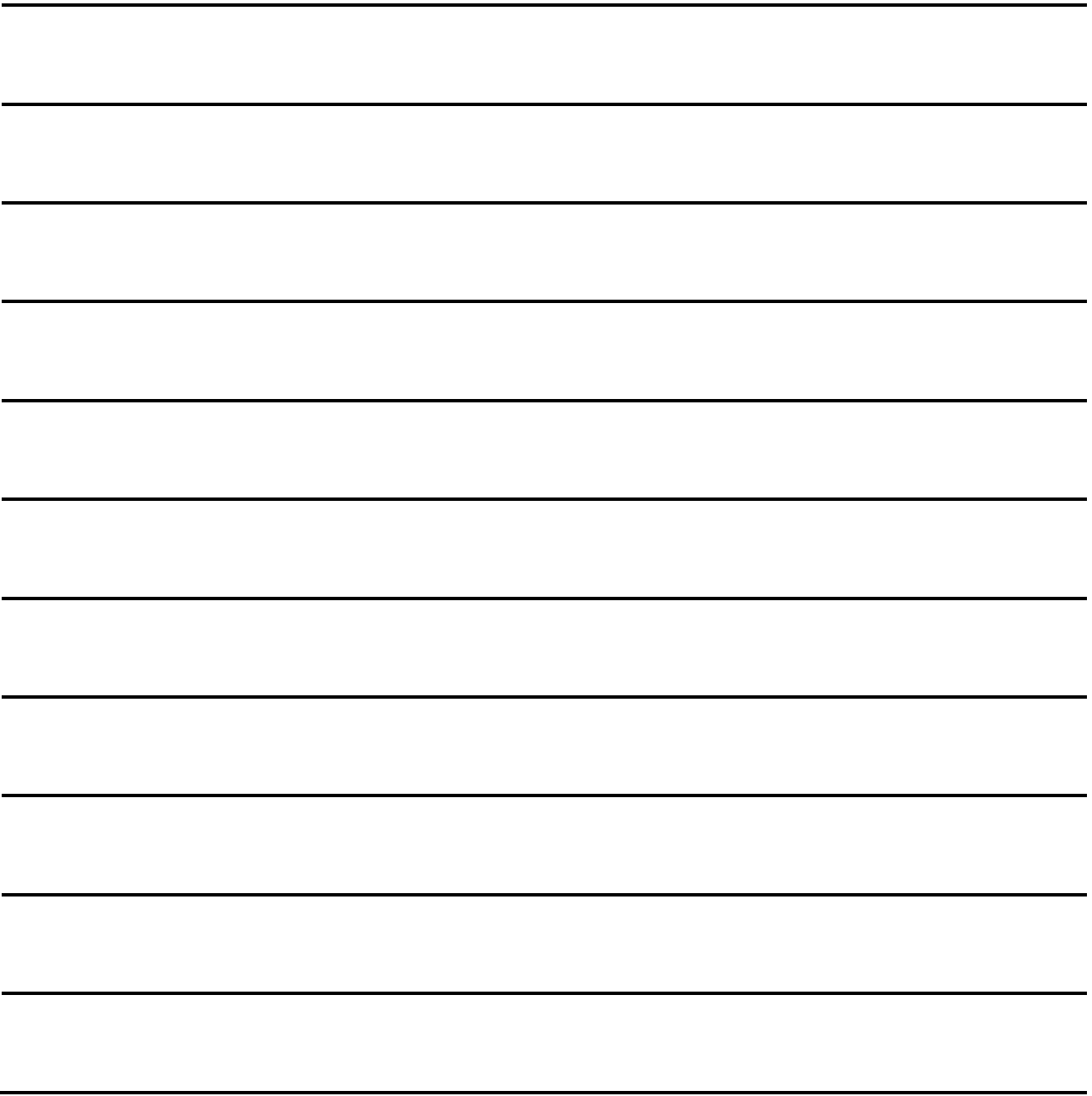


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[Turn over]





Do NOT answer Context 2 if you have answered Context 1.

OR

CONTEXT 2

Total for this context: 50 marks

ALCOHOL

Use the Insert provided to study QUESTIONS 27 to 32 and EXTRACTS D, E and F, and then answer the questions in the spaces which follow.

2	7
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Define 'income' EXTRACT F (line 18). [3 marks]



[Turn over]

[Turn over]



2	9
---	---

Use EXTRACT D to identify TWO significant features of the affordability of alcohol index for the UK, over the period shown. [4 marks]

Feature 1 _____

Feature 2 _____



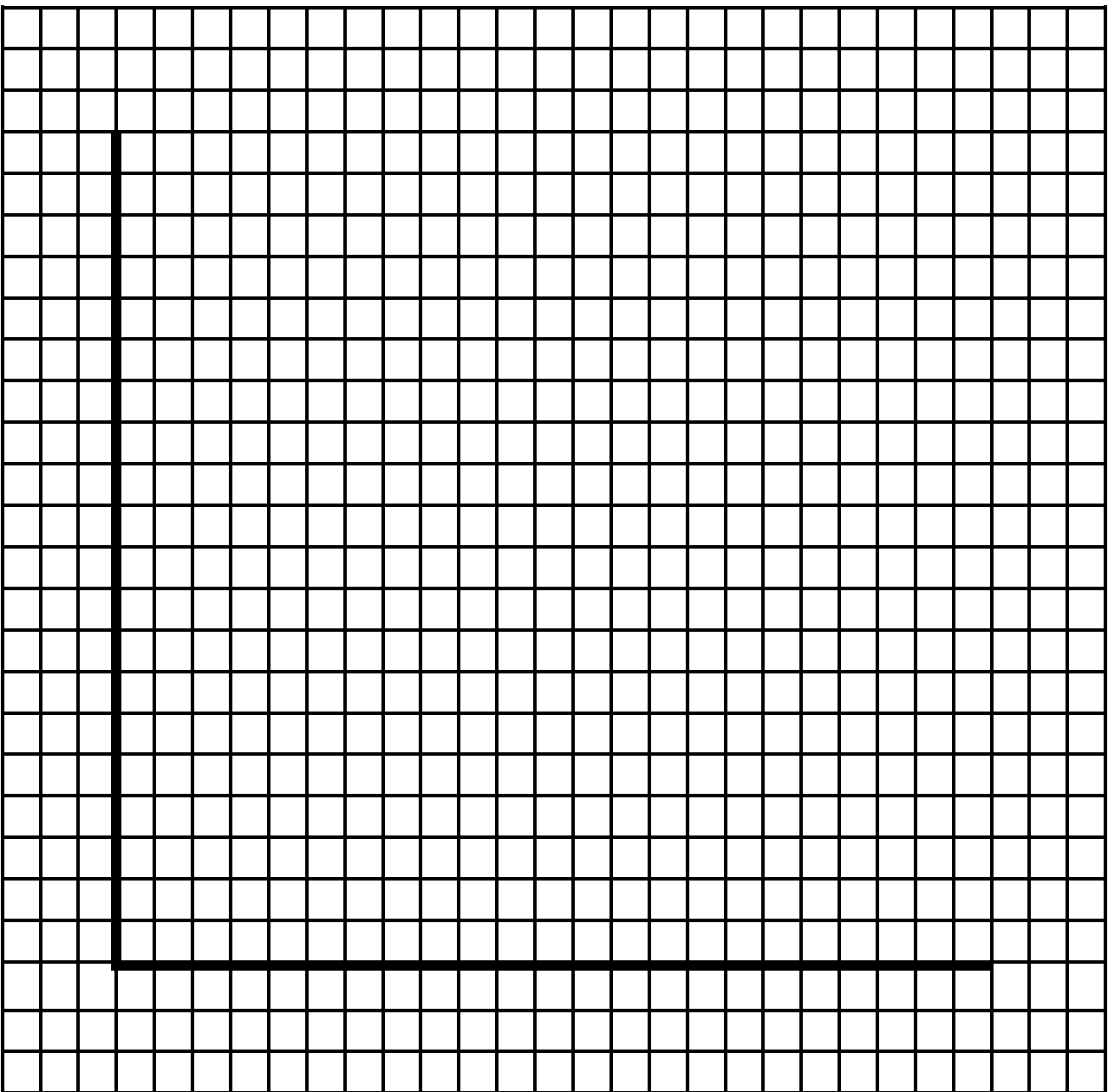
[Turn over]



3 0

EXTRACT E (lines 3–5) states: ‘The minimum age for buying alcohol is 18, although in some countries, such as the US, the minimum age is 21’.

Draw a diagram to show the impact on the market for alcohol of raising the age for buying alcohol in the UK from 18 to 21. [4 marks]



3	1
---	---

EXTRACT E (lines 1–3) states: ‘alcohol has traditionally been viewed as a demerit good, subject to high indirect taxes’.

Explain the likely effects of imposing indirect taxes on alcohol. [10 marks]

[Turn over]





3	2
---	---

EXTRACT F (lines 35–37) states: ‘Cheap alcohol is wrecking lives and livelihoods in England as well as Scotland’.

Use the extracts and your knowledge of economics to assess whether a minimum price for alcohol should be introduced in England and Northern Ireland. [25 marks]

[Turn over]





[Turn over]



[Turn over]





[Turn over]



Handwriting practice lines (horizontal lines).



[Turn over]



END OF QUESTIONS

50



Additional page, if required.

Write the question numbers in the left-hand margin.



Additional page, if required.

Write the question numbers in the left-hand margin.



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For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

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