



Surname _____

Other Names _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

I declare this is my own work.

A-level

ECONOMICS

Paper 3 Economic Principles and Issues

7136/3

Time allowed: 2 hours

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

[Turn over]



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For this paper you must have:

- the Insert
- a calculator.

INSTRUCTIONS

- Answer ALL questions.
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- 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 answer book. Cross through any work that you do not want to be marked.

INFORMATION

- The maximum mark for this paper is 80.
- 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



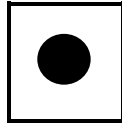
SECTION A

Answer ALL questions in this section.

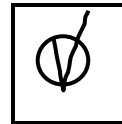
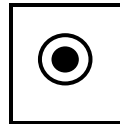
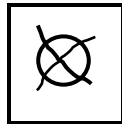
Only ONE answer per question is allowed.

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

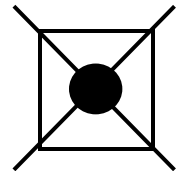
CORRECT METHOD



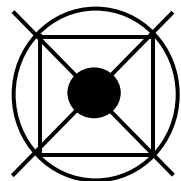
WRONG METHODS



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.



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A positive statement

A does not take into account irrational behaviour.

B enables accurate forecasts to be made.

C includes a value judgement.

D may be true or false.

[1 mark]

[Turn over]



02

Which one of the following is a nudge technique that could be used to encourage healthy eating?

A Banning supermarkets from selling high-calorie energy drinks

B Increasing taxes on high-fat products to raise their price

C Moving products with a high sugar content away from supermarket checkouts

D Subsidising fruit and vegetables to reduce their prices

[1 mark]



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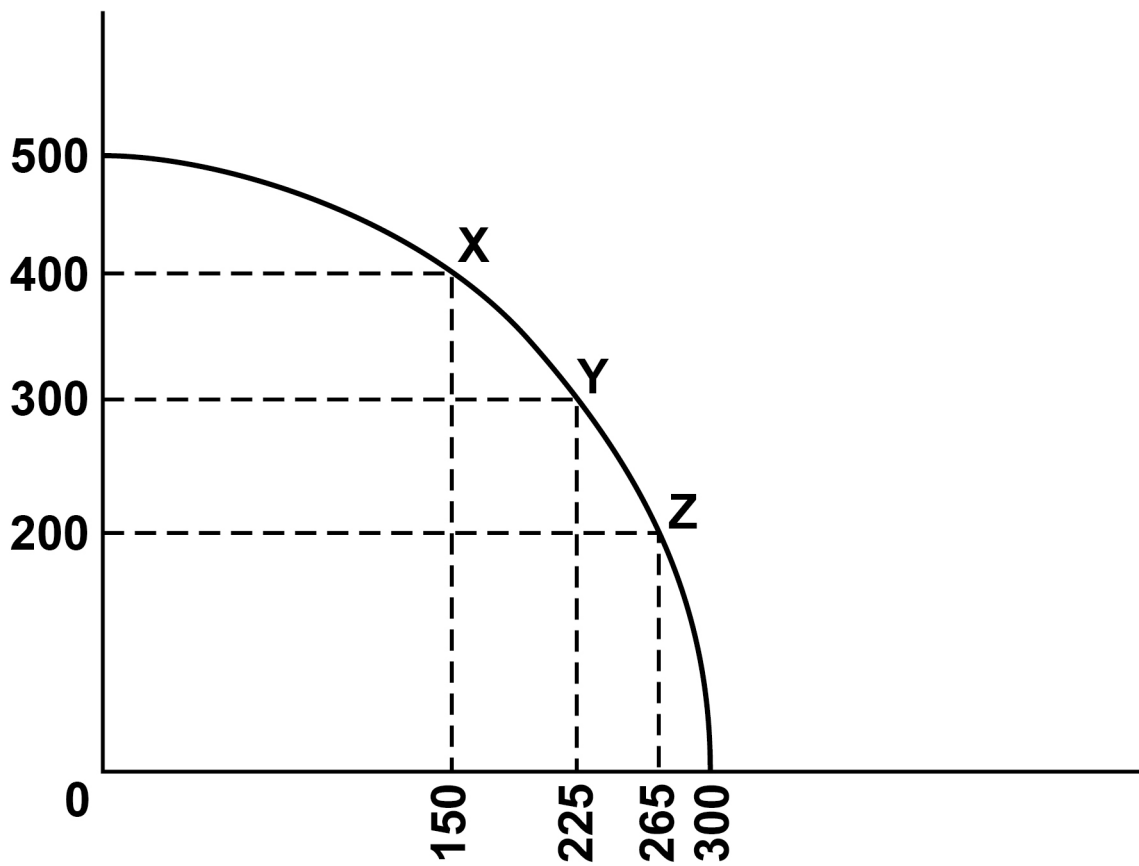


03

FIGURE 1 shows the production possibility diagram for an economy producing capital goods and consumer goods.

FIGURE 1

Capital goods (units)



Consumer goods (units)



The opportunity cost of producing an additional unit of capital goods is

A greater at X than Y.

B greater at Z than Y.

C the same at X, Y and Z.

D zero when 300 units of consumer goods are produced.

[1 mark]

[Turn over]



04

TABLE 1 shows the individual price indices and the weightings of the three goods that make up a price index.

TABLE 1

| Good | Weighting | Price Index in April 2022 (April 2021=100) |
|-------------|------------------|---|
| X | 0.1 | 102 |
| Y | 0.4 | 104 |
| Z | 0.5 | 103 |

What was the percentage increase in the overall price index between April 2021 to April 2022?

A 1.1%

B 3%

C 3.3%

D 9%

[1 mark]



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When using data to make international comparisons of the standard of living, purchasing power parity (PPP) exchange rates are more useful than market exchange rates.

This is because PPP exchange rates take into account differences in countries'

- A distribution of income.**
- B levels of taxation.**
- C price levels.**
- D rates of population growth.**

[1 mark]

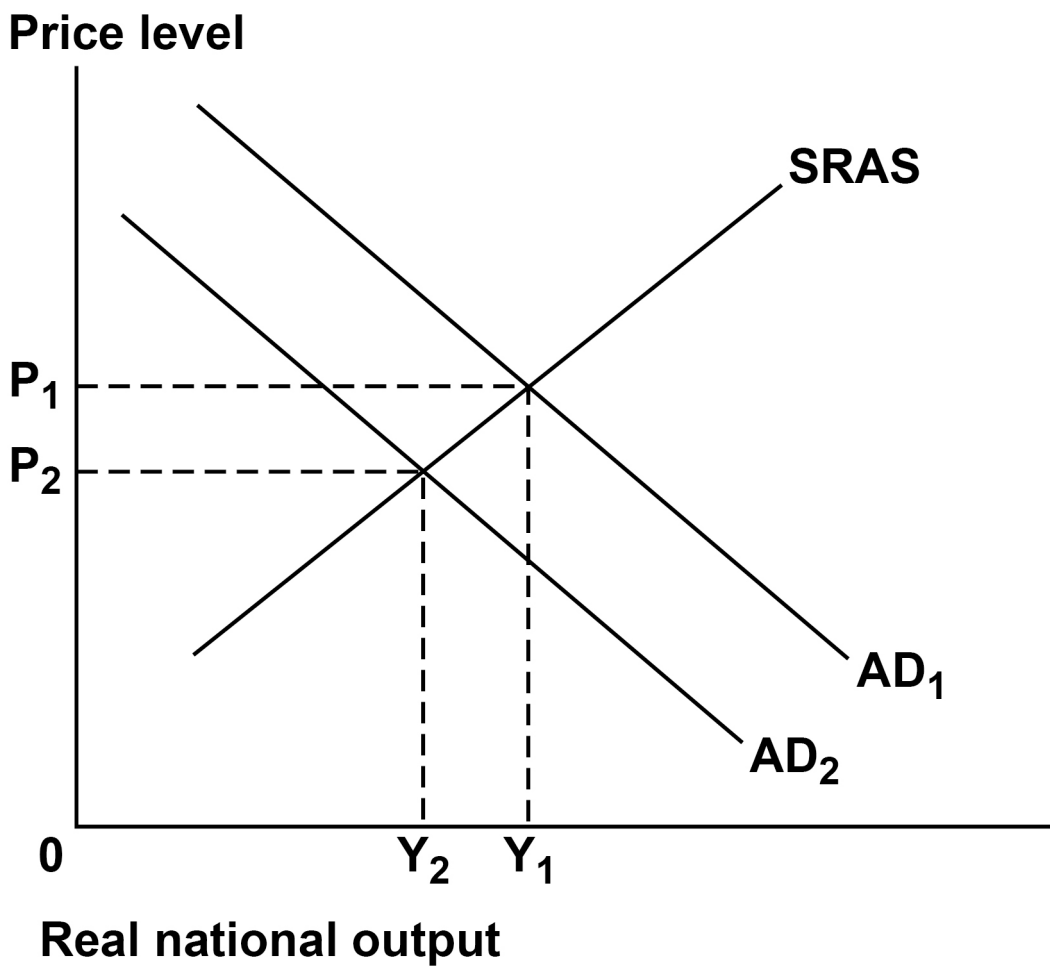
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06

FIGURE 2 shows two aggregate demand (AD_1 and AD_2) curves and the short-run aggregate supply (SRAS) curve for an economy.

FIGURE 2



Which one of the following is the government most likely to increase if it wishes to use fiscal policy to reduce national output from Y_1 to Y_2 ?

A Infrastructure expenditure

B Interest rates

C Rates of income tax

D The budget deficit

[1 mark]

[Turn over]



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Which one of the following is a reason why the extension of property rights is likely to reduce market failure?

A Merit goods will no longer be underconsumed in a free market.

B Producers will be more likely to have to pay compensation for pollution.

C Public goods will no longer be subject to the free-rider problem.

D The inequality in the distribution of income and wealth will be reduced.

[1 mark]



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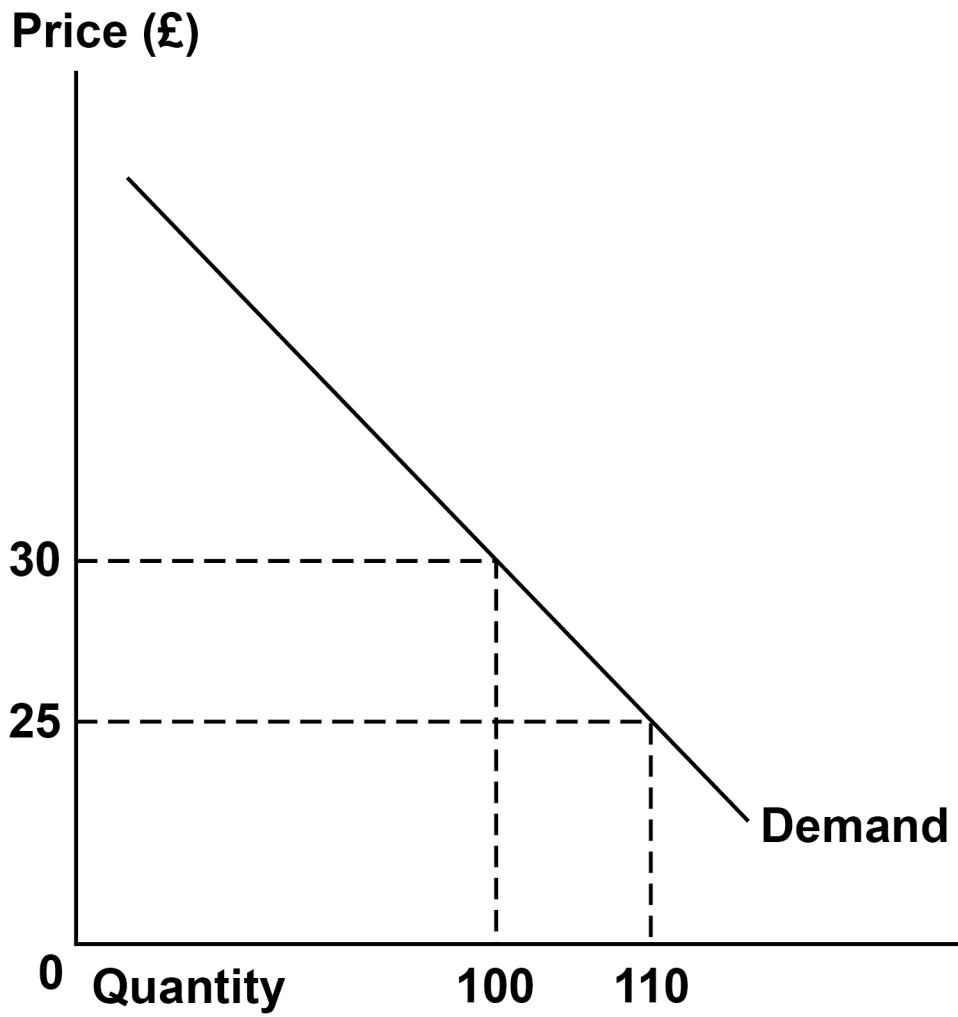
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08

FIGURE 3 shows the demand curve for a firm's scarves.

FIGURE 3



Which one of the following statements is true when the price of scarves is reduced from £30 to £25?

A Demand for scarves is price elastic.

B Price elasticity of demand is -0.5 .

C The firm's total revenue falls.

D The firm's total revenue increases.

[1 mark]

[Turn over]



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A firm charging different customers different prices for the same product is practising

- A limit pricing.**
- B marginal cost pricing.**
- C price discrimination.**
- D price leadership.**

[1 mark]



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In an economy, an index showing the change in the money supply multiplied by the velocity of circulation increases from 100 to 115.5. At the same time, the final output produced by the economy increases from 100 to 110.

According to Fisher's equation of exchange, the price level will increase by

A 5%

B 5.5%

C 10%

D 15.5%

[1 mark]

[Turn over]



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Systemic risk is most likely to occur in financial systems when

- A investment banks have low capital-output ratios.**
- B most banks carry out both commercial and investment banking activities.**
- C the central bank acts as lender of last resort to financial institutions.**
- D the commercial banks have high liquidity ratios.**

[1 mark]



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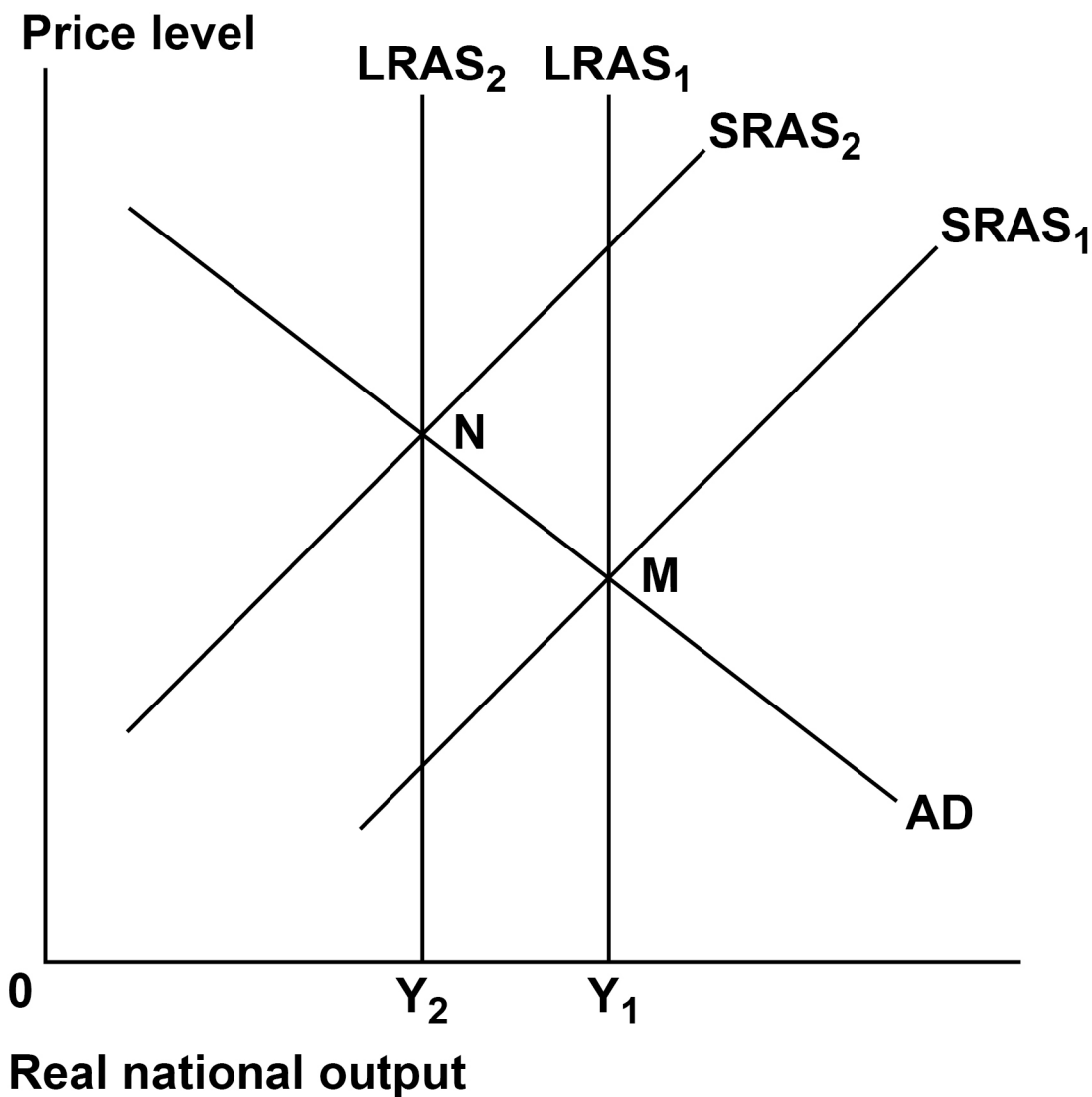
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1 2

FIGURE 4 shows the aggregate demand (AD) curve, the short-run aggregate supply ($SRAS_1$ and $SRAS_2$) curves and the long-run aggregate supply ($LRAS_1$ and $LRAS_2$) curves for an economy.

FIGURE 4



All other things being equal, which one of the following is most likely to move the economy from point M to point N?

A A decrease in the natural rate of unemployment

B A loss of consumer and producer confidence

C A natural disaster, damaging productive capacity

D A rise in factor prices, resulting in cost-push inflation

[1 mark]

[Turn over]



13

Which one of the following is a role of the World Trade Organisation?

A Helping countries settle disputes over tariffs and quotas

B Lending money to countries with balance of payments problems

C Monitoring the stability of the international monetary system

D Providing loans at low rates of interest to low-income countries

[1 mark]



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Which one of the following is a reason why the supply of cars is likely to be price elastic in the short run when the price of cars increases?

A Car manufacturers' stocks of unsold cars are low

B The demand for cars is also price elastic

C The marginal cost of producing cars increases significantly with output

D There is considerable spare capacity in the car industry

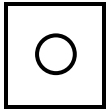
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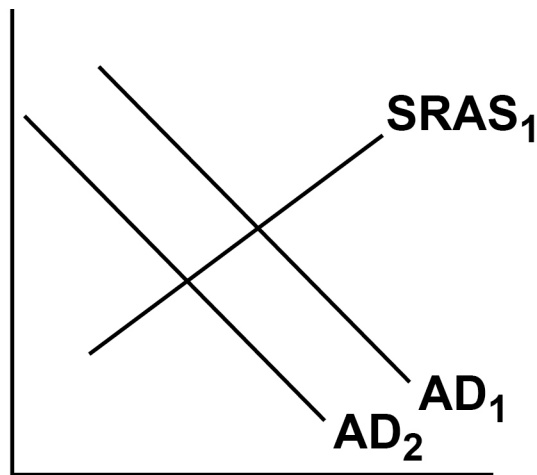


15

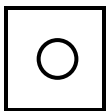
Which one of the following diagrams, A, B, C or D, shows the most likely short-run impact on an economy of an improvement in technology in the production process?



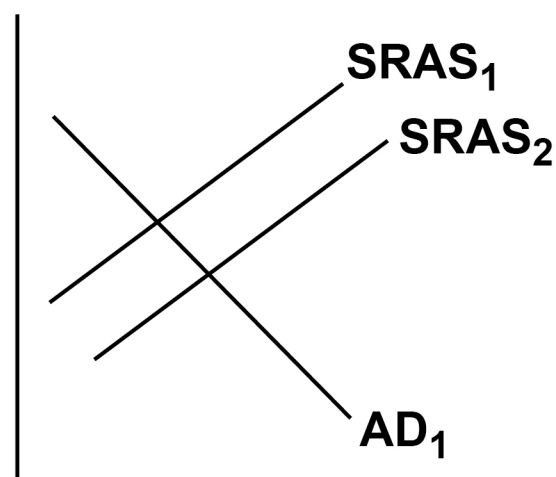
A Price level



Real national output

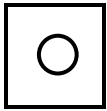
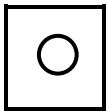
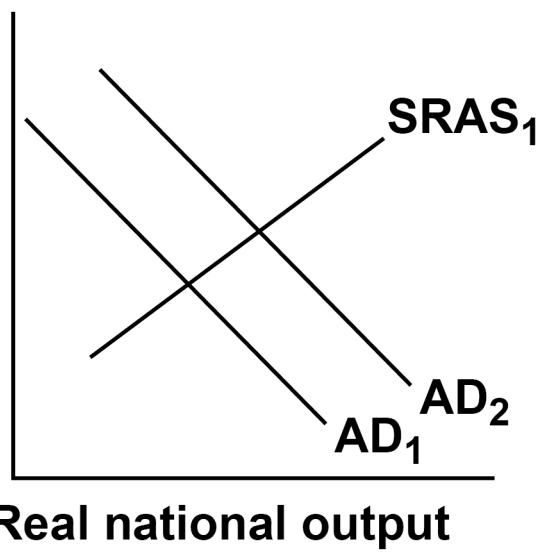
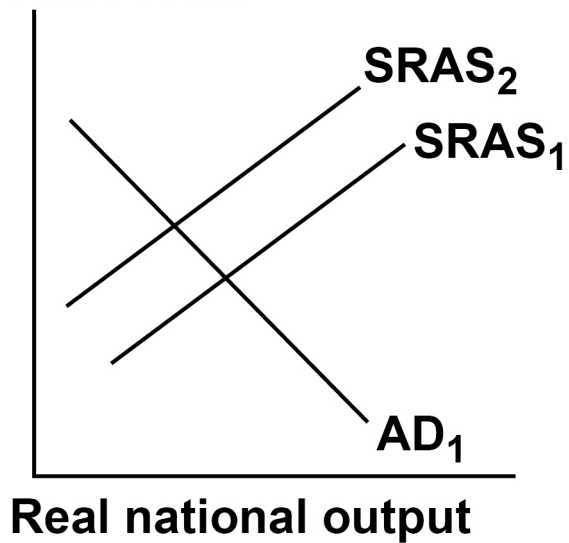


B Price level



Real national output



**C** Price level**D** Price level**[1 mark]****[Turn over]**

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Which one of the following best explains the existence of relative poverty?

A Some households have to pay more in income tax than other households.

B The Gini coefficient in some countries is low.

C The income of some households is significantly less than the median household income.

D The prices of items that are essential for life differ between countries.

[1 mark]



17

TABLE 2 shows the amount paid in tax by individuals at different levels of income.

TABLE 2

| Income (£) | Tax paid (£) |
|------------|--------------|
| 20 000 | 4 000 |
| 30 000 | 5 400 |
| 40 000 | 6 400 |
| 50 000 | 7 000 |

This tax is an example of a

A lump sum tax.

B progressive tax.

C proportional tax.

D regressive tax.

[1 mark]

[Turn over]



18

Which one of the following is a supply-side policy aimed at reducing the natural rate of unemployment?

A Government retraining schemes for structurally unemployed workers

B Increasing legal protection against unfair dismissal for employees

C Increasing the real value of the national minimum wage

D New government subsidies for developers of artificial intelligence

[1 mark]



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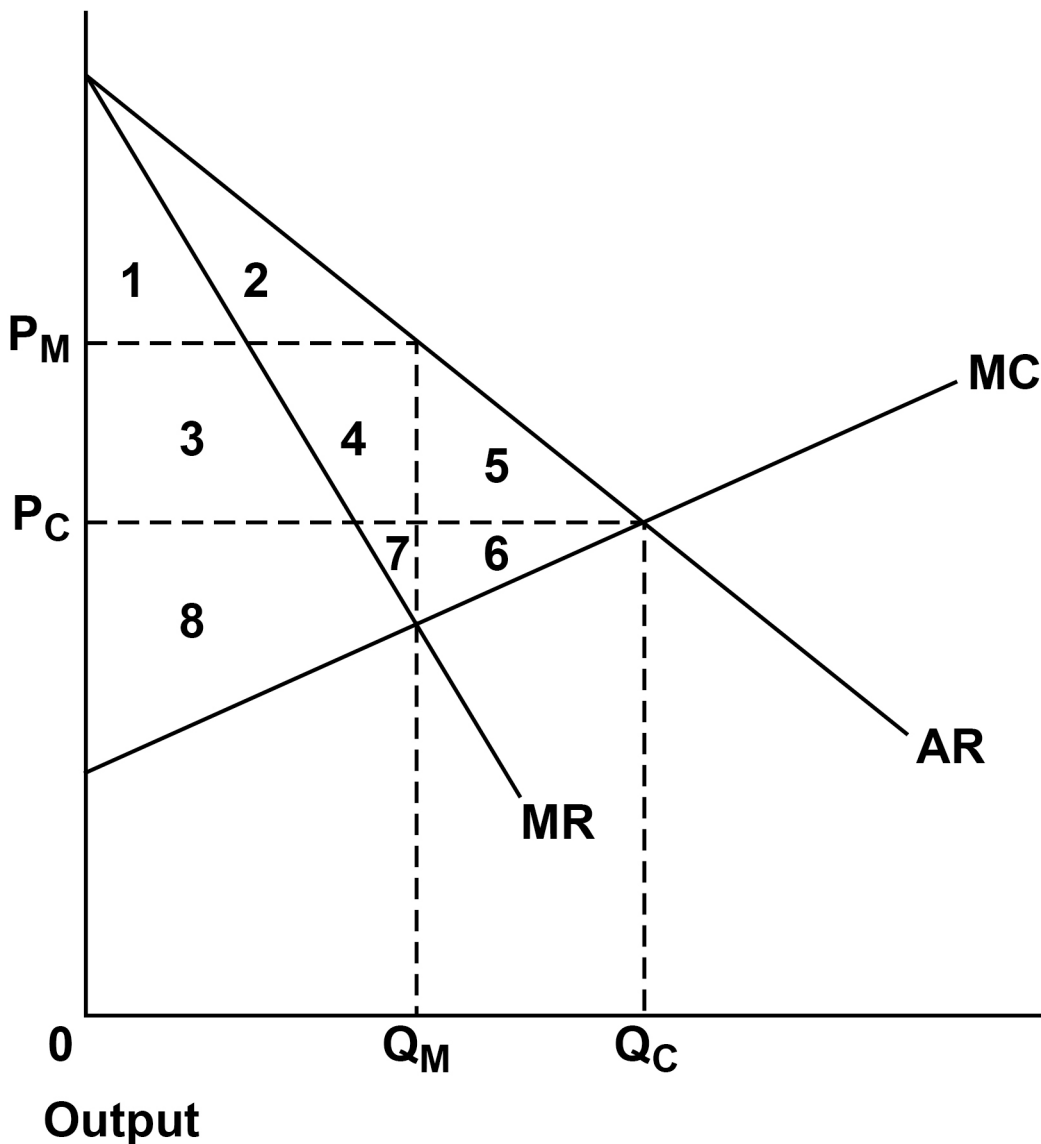


19

FIGURE 5 shows the average revenue (AR), marginal revenue (MR) and marginal cost (MC) curves for an industry which was perfectly competitive but is now a monopoly. The cost and revenue curves remain unchanged.

FIGURE 5

Costs and revenue



Which of the following areas shows the total deadweight loss of consumer and producer surplus resulting from the structure of the industry changing from perfect competition to monopoly?

A 1 + 2

B 3 + 4

C 5 + 6

D 7 + 8

[1 mark]

[Turn over]



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There is a reduction in the market demand for the product supplied by firms operating in a perfectly competitive industry.

All other things being equal, which one of the following will happen to firms' average and marginal revenue as a result of this change?

A Average revenue and marginal revenue will both fall.

B Average revenue and marginal revenue will not change.

C Average revenue will fall and marginal revenue will increase.

D Average revenue will increase and marginal revenue will fall.

[1 mark]



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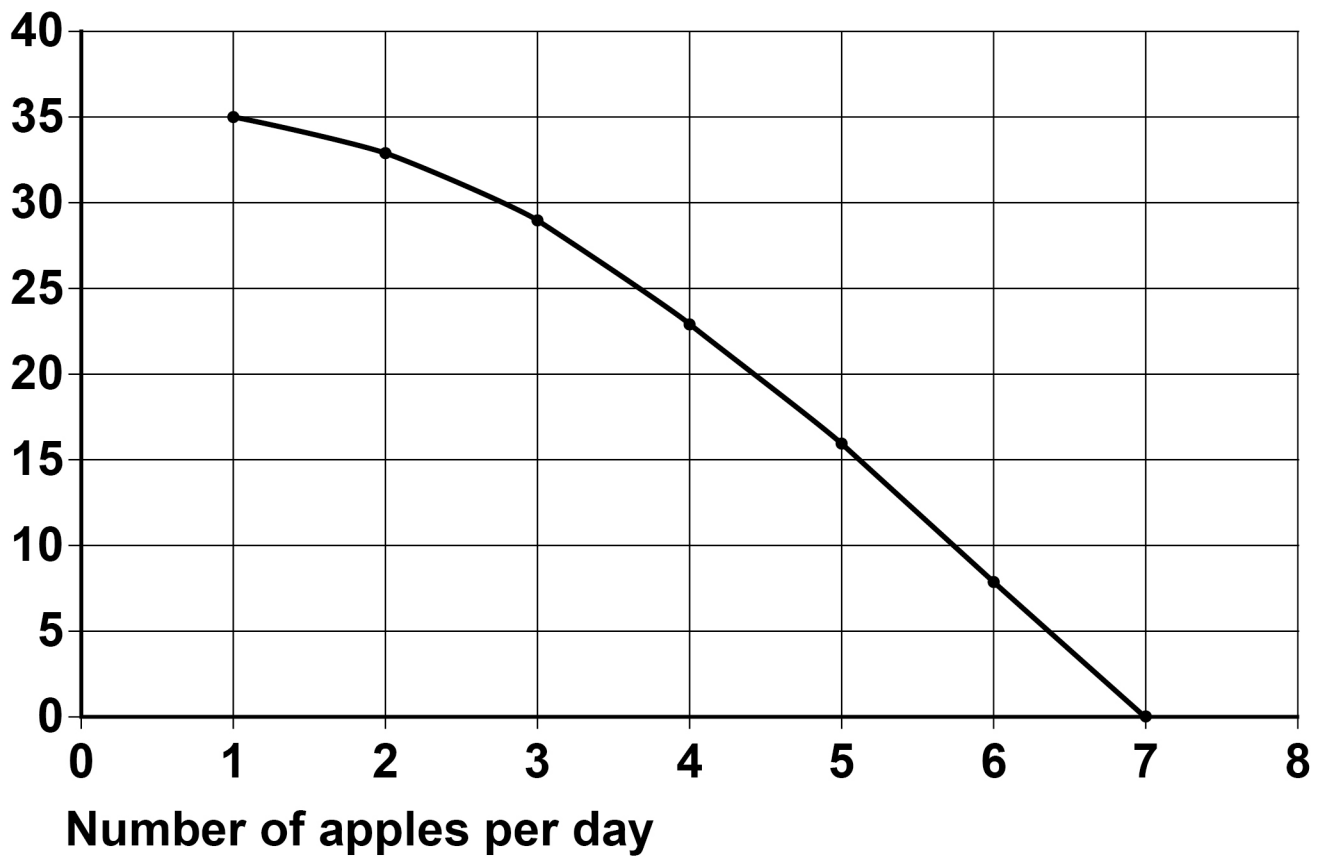


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FIGURE 6 shows the marginal utility that a consumer gains from eating apples.

FIGURE 6

Marginal utility



When 7 apples per day are consumed

A average utility is maximised.

B marginal utility is maximised.

C opportunity cost is minimised.

D total utility is maximised.

[1 mark]

[Turn over]



22

TABLE 3 shows different combinations of performance for three macroeconomic indicators.

Which one of the combinations, A, B, C or D, is most likely to indicate an economy experiencing an economic boom?

TABLE 3

| | | Imports | Price level | Job vacancies |
|-----------------------|----------|-------------------|-------------------|-------------------|
| <input type="radio"/> | A | Decreasing | Increasing | Decreasing |
| <input type="radio"/> | B | Decreasing | Decreasing | Increasing |
| <input type="radio"/> | C | Increasing | Increasing | Increasing |
| <input type="radio"/> | D | Increasing | Decreasing | Decreasing |

[1 mark]



23

TABLE 4 shows the values of nominal GDP and a price index in two different years.

TABLE 4

| Year | 2015 | 2019 |
|--------------------------|------|------|
| Nominal GDP (£ billions) | 250 | 290 |
| Price index | 100 | 110 |

What was the value of real GDP in 2019, to the nearest £ billion, expressed in 2015 prices?

- A £227 billion
- B £261 billion
- C £264 billion
- D £319 billion

[1 mark]

[Turn over]

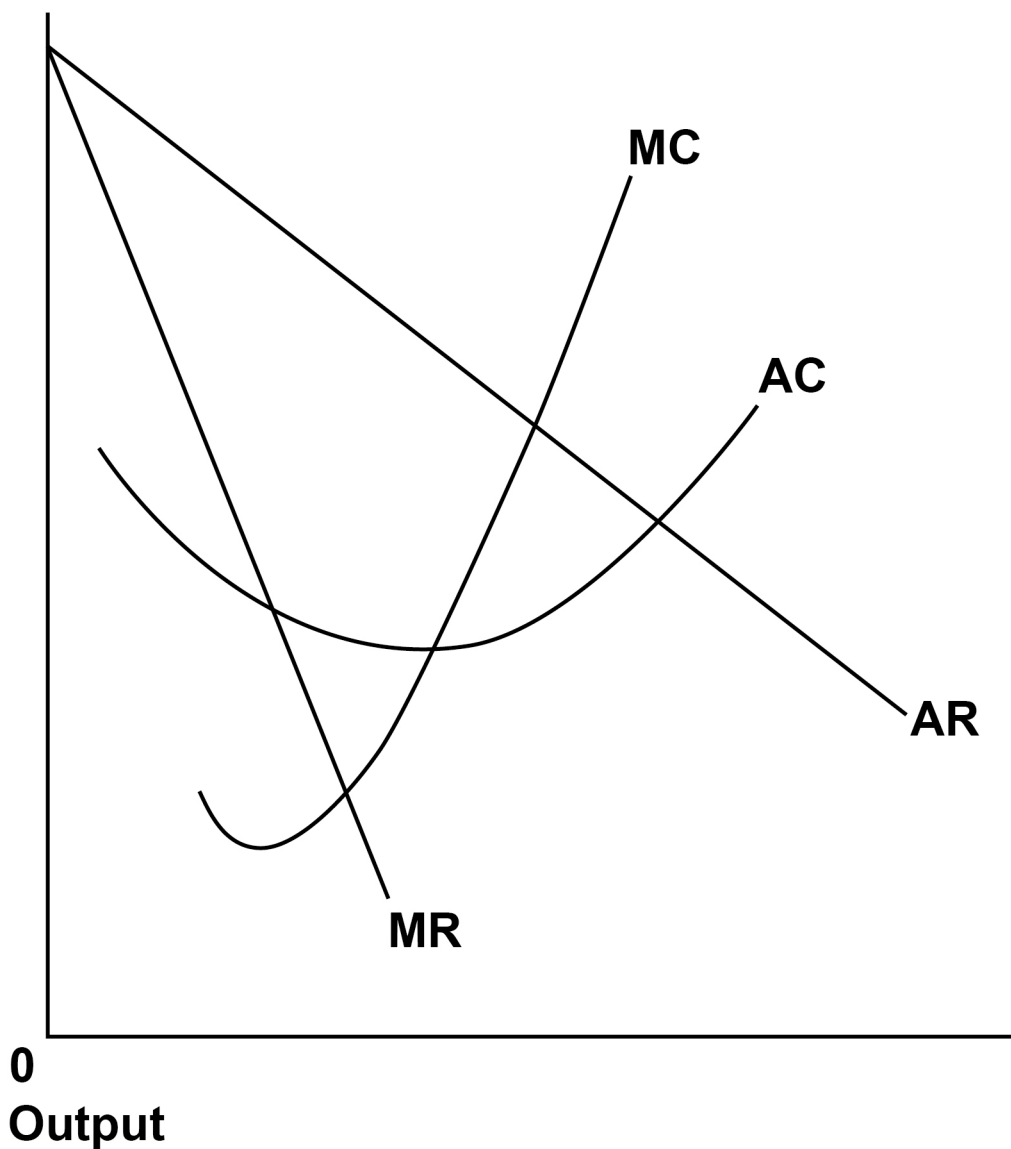


24

FIGURE 7 shows the average revenue and marginal revenue (AR and MR) curves and the average cost and marginal cost (AC and MC) curves for a firm in monopolistic competition in the short run.

FIGURE 7

Costs and revenue



At the profit maximising price and output the firm will

A make supernormal profits.

B produce the allocatively efficient output.

C produce where average revenue = average cost.

D set price equal to minimum average costs.

[1 mark]

[Turn over]



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The price of a government bond was £10 000 when it was issued. The bond does not have a maturity date and the government is not intending to buy back the bond. The bond pays £200 per year to the bond holder and has a market price of £8 000.

Which one of the following fractions represents the yield on the bond?

A $\frac{1}{50}$

B $\frac{1}{40}$

C $\frac{1}{5}$

D $\frac{4}{5}$

[1 mark]



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[Turn over]



26

TABLE 5 contains figures from the balance sheet of a commercial bank.

TABLE 5

| Item | Value (£ bn) |
|---------------------------------------|---------------------|
| Cash | 45 |
| Share capital | 100 |
| Loans advanced | 135 |
| Fixed assets | 115 |
| Long-term liabilities | 85 |
| Investments | 50 |
| Reserves (retained profit) | 30 |
| Balances at the central bank | 25 |
| Deposits and other liabilities | 185 |
| Other liquid assets | 30 |



What is the value of this bank's total liquid assets?

A £70 bn

B £100 bn

C £130 bn

D £175 bn

[1 mark]

[Turn over]



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Changing patterns of consumption have meant that summer holidays at UK seaside towns have become less popular. As a result, UK seaside holiday towns are affected by seasonal unemployment and increasing structural unemployment.

Which one of the following is the most likely consequence of this change in the pattern of consumption?

- A Occupational immobility of labour will help to reduce structural unemployment.**
- B The cost of living for people who live in UK seaside towns will fall.**
- C Unemployment is likely to be higher in the summer than the winter.**
- D Wages in UK seaside towns will rise because firms want to retain workers.**

[1 mark]



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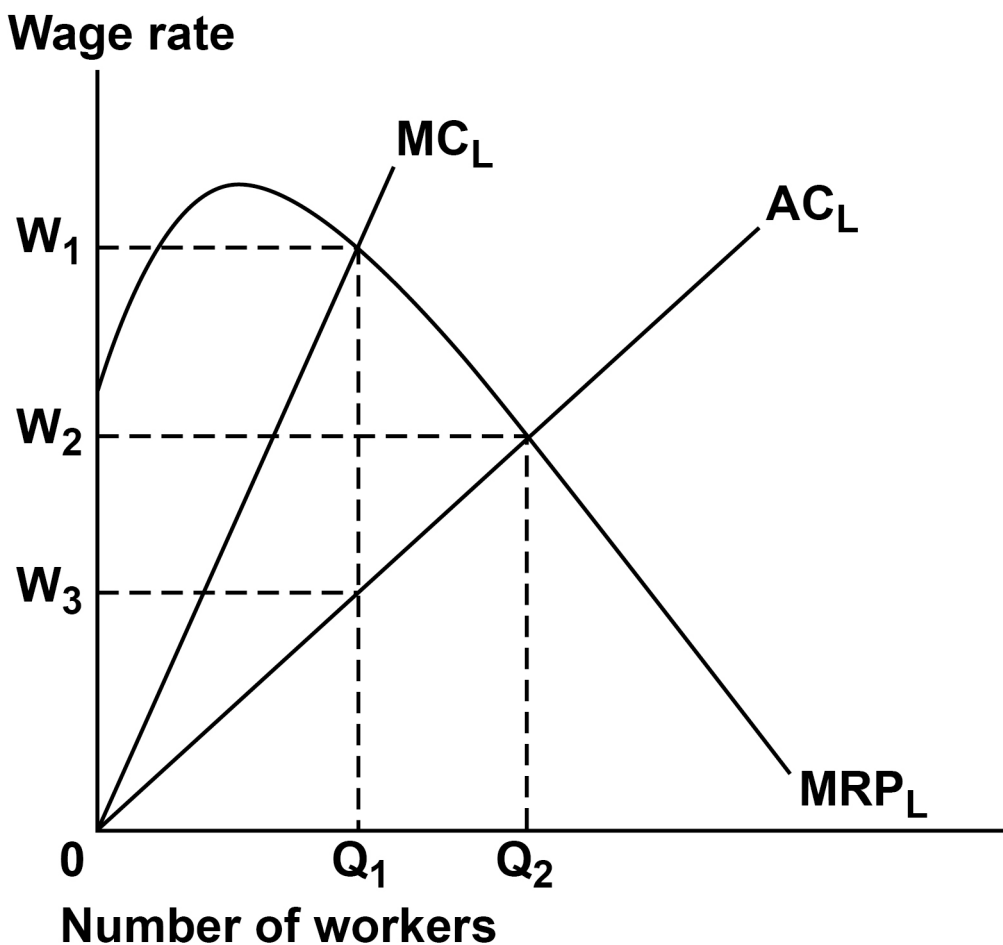
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28

FIGURE 8 shows the marginal cost (MC_L), average cost (AC_L) and marginal revenue product (MRP_L) curves for labour in a specialised computer programming industry.

FIGURE 8



Following a series of mergers between firms in this industry, a single large firm remains as a monopsony employer.



Which one of the following is the most likely to result from a competitive labour market being replaced by a monopsony employer?

A The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.

B The total amount paid in wages will increase from $(W_3 \times Q_1)$ to $(W_1 \times Q_1)$.

C The wage rate will fall from W_1 to W_2 .

D The wage rate will increase from W_3 to W_2 .

[1 mark]

[Turn over]



29

TABLE 6 shows the value of the UK's Human Development Index (HDI) over the period 2015 to 2019.

TABLE 6

| Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------|-------|-------|-------|-------|-------|
| UK HDI Value | 0.916 | 0.918 | 0.919 | 0.920 | 0.932 |

All other things being equal, which one of the following is most likely to explain the trend shown in TABLE 6?

- A A fall in the sterling exchange rate
- B Falling emissions of greenhouse gases
- C Increasing life expectancy at birth
- D Reductions in income inequality

[1 mark]



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Unemployed workers in the south of a country are unable to take up jobs in the north of the country due to higher housing costs. This is an example of

- A cyclical unemployment.**
- B frictional unemployment.**
- C geographical immobility of labour.**
- D occupational immobility of labour.**

[1 mark]

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SECTION B

Answer ALL questions in this section.

Refer to the Insert for EXTRACTS A, B, C, AND D.

Total for this Investigation: 50 marks

The commercial aircraft manufacturing industry

INVESTIGATION

SCENARIO

You are an economist working for an organisation that is investigating the commercial aircraft manufacturing industry.

You have been asked to review the changes to the industry that have taken place since 2014.

As part of this investigation, you are to provide answers to three questions.

REFERRING TO THE INSERT, study EXTRACTS A, B and C, and then use these and your knowledge of economics to help you answer Questions 31 and 32. There is also a news report, EXTRACT D, which is to be used with the other extracts to help you answer Question 33.





[Turn over]





[Turn over]





3 2

Explain the factors that a commercial aircraft manufacturer, such as Boeing or Airbus, should consider when forecasting the future sales of its aircraft. [15 marks]



Lined area for writing or calculations, consisting of 18 horizontal lines.

[Turn over]





[Turn over]





[Turn over]



3 3

After considering EXTRACT D, and the original evidence in EXTRACTS A, B and C, would you recommend that the UK government provides financial and other support to companies involved in the production of commercial aircraft? Justify your recommendation. [25 marks]



[Turn over]





[Turn over]





[Turn over]



[Turn over]



[Turn over]



END OF QUESTIONS

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