



Oxford Cambridge and RSA

Monday 13 May 2019 – Morning

AS Level in Economics

H060/01 Microeconomics

Time allowed: 1 hour 30 minutes



You must have:

- a scientific or graphical calculator



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

Centre number

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First name(s)

Last name

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Read each question carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer **one** question in this section.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

INFORMATION

- The total mark for this paper is **60**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **16** pages.

2
SECTION A

Answer **all** the questions in this section.

Write your answer for each question in the box provided.

1 Which of the following is most likely to be found in a planned economy?

- A** Free universal health care
- B** Low tax rates on firms' profits
- C** Private education
- D** The same wage paid to all workers

Your answer

[1]

2 What will be the long-term effect on a firm of a new production system that increases the division of labour?

- A** Rise in difficulty of implementing automation
- B** Rise in labour productivity
- C** Rise in spending on training
- D** Rise in workers' occupational mobility

Your answer

[1]

3 If wages fall in the steel industry and there is a fall in the global demand for steel, what is the most likely outcome for the steel industry?

- A** A fall in the price of steel
- B** A fall in the quantity of steel traded in the market
- C** A rise in the price of steel
- D** A rise in the quantity of steel traded in the market

Your answer

[1]

4 If good X is a normal good and the cross elasticity of demand between good X and good Y is -0.75 , which of the following imply that the demand for X will increase?

- A** A fall in income and a fall in the price of good Y
- B** A fall in income and a rise in the price of good Y
- C** A rise in income and a fall in the price of good Y
- D** A rise in income and a rise in the price of good Y

Your answer

[1]

5 When will a product tend to have price elastic demand?

- A When it has addictive tendencies
- B When it has a large number of substitutes
- C When it is viewed as a necessity
- D When it can last a long time

Your answer ☐

[1]

6 The information below shows the price at which different levels of output can be sold and the total cost of production for each level of output.

| Price (£) | Quantity Per day | Total cost (£) |
|-----------|------------------|----------------|
| 70 | 500 | 1000 |
| 54 | 600 | 1800 |
| 40 | 700 | 2400 |
| 32 | 800 | 3000 |
| 28 | 900 | 3800 |
| 26 | 1000 | 4750 |

If the price of the product is £54 what is the firm's average cost?

- A £0.33
- B £3.00
- C £11.10
- D £33.33

Your answer ☐

[1]

7 The average cost of producing 20 units of a product is £30 and the average cost of producing 21 units is £32. What is the marginal cost of the 21st unit?

- A £2
- B £32
- C £42
- D £72

Your answer ☐

[1]

- 8 The table below shows the price a firm charges and the total cost over a range of output 1–5.

| Output | Price (£) | Total cost (£) |
|--------|-----------|----------------|
| 1 | 10 | 9 |
| 2 | 9.5 | 17 |
| 3 | 9 | 23 |
| 4 | 8.8 | 31.8 |
| 5 | 8.5 | 40.5 |

At which level of output is profit maximised?

- A** 2
B 3
C 4
D 5

Your answer

[1]

- 9 The price of a product falls from £40 to £32 and as a result demand rises from 200 to 220. What is the price elasticity of demand?

- A** -2.5
B -2.0
C -0.5
D -0.4

Your answer

[1]

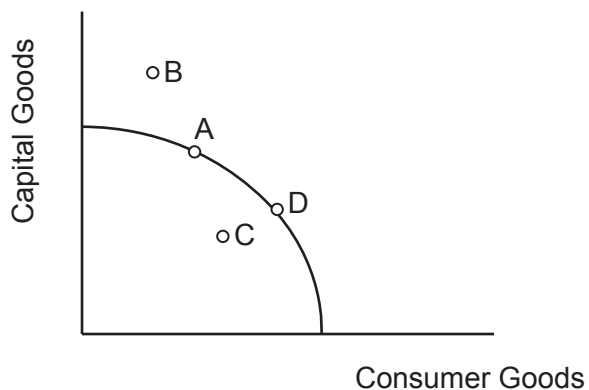
- 10 In which circumstance may a firm experience diseconomies of scale?

| | Quantity of capital employed | Quantity of enterprise employed | Quantity of labour employed | Quantity of land employed |
|----------|------------------------------|---------------------------------|-----------------------------|---------------------------|
| A | Increased | Increased | Increased | Increased |
| B | Unchanged | Increased | Increased | Increased |
| C | Unchanged | Unchanged | Increased | Increased |
| D | Unchanged | Unchanged | Increased | Unchanged |

Your answer

[1]

- 11 A country is currently making full use of all its resources. It decides to produce less consumer goods. Which of the following best represent the choice this country has made?



- A A to B
- B B to C
- C C to D
- D D to A

Your answer

[1]

- 12 Moral hazard can arise if health care is state funded. How could this be explained?

- A Consumers do not know how much health care they may need
- B Consumers do not take into account the costs to 'third parties'
- C Consumers underestimate the future costs of unhealthy living
- D Consumers will take excessive risk with their health if health care is free

Your answer

[1]

- 13 When is allocative efficiency achieved?

- A Consumer surplus is greater than producer surplus
- B Consumer and producer surplus are at a maximum
- C Consumer and producer surplus are equal
- D Consumer and producer surplus are zero

Your answer

[1]

- 14 If there is an increase in the interest rate, what will be the most likely effect on a market?

- A Demand curve will shift to the right
- B Equilibrium quantity traded will rise
- C Supply will become more elastic
- D Supply curve will shift to the left

Your answer

[1]

15 Which of the following are examples of public goods?

- A** Courts and prisons
- B** Hospitals and ambulance services
- C** Rail and bus services
- D** Street lighting and street cleaning

Your answer

☐

[1]

SECTION B

Answer **all** the questions in this section.

Avocados are an agricultural fruit crop grown in Africa, Asia and North and South America. Mexico is the largest supplier. The countries listed below accounted for 85% of total world supply in 2014.

| Top 10 Avocado Producing Countries | | |
|------------------------------------|--------------------------|----------------------------|
| Rank | Country | Production in tonnes, 2014 |
| 1 | Mexico | 1520695 |
| 2 | Dominican Republic | 428301 |
| 3 | Peru | 349317 |
| 4 | Indonesia | 307326 |
| 5 | Colombia | 288739 |
| 6 | Kenya | 218692 |
| 7 | United States of America | 179124 |
| 8 | Rwanda | 161519 |
| 9 | Chile | 160000 |
| 10 | Brazil | 156699 |

Fig. 1 World avocado production. 2014 = 4 335 974 tonnes

Whilst the world price of many foods has had large price fluctuations, this has not been true in the case of the avocado. Demand has continued to exceed supply in the global market. This has meant that the price of the avocado between 1996 and 2017, overall, has risen in the UK.

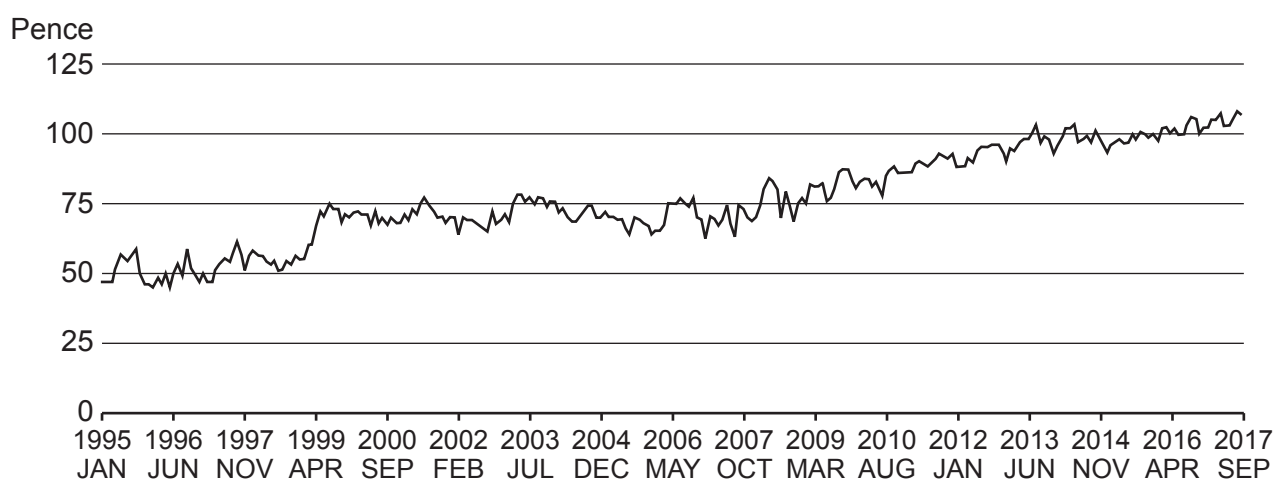


Fig. 2 UK price of avocados

In the UK twenty years ago, avocados were seen as a luxury food bought by higher income households, but today this has changed. Whilst GDP increased from £1694 m in 2012 to £2041 m in 2017, sales of avocados increased by 184%.

Two reasons for the increased worldwide sales have been: claims, supported by celebrity endorsements, that avocados have health benefits, such as lowering cholesterol; and the rise in the standard of living in countries such as China and India.

However, the US government is concerned about the effect of imported avocados on domestic growers. It is considering, therefore, imposing a tax on imports of the fruit to protect US farmers' income.

16 (a) What is meant by 'demand'?

.....
 [1]

(b) (i) Calculate the percentage of world output supplied by Mexico in 2014.

.....

 [4]

(ii) Calculate the percentage increase in avocado prices in the UK from 2009 to 2016.

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 [2]

- (c) Using an appropriate diagram(s), show how consumer surplus would be affected by the imposition of a tax on avocados.

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..... [4]

- (d) Using information from the case study, state and explain **one** factor that has increased world demand for avocados.

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..... [2]

(e) (i) What is meant by 'income elasticity of demand'?

..... [2]

(ii) Evaluate, using an appropriate calculation, the significance of income elasticity of demand for avocados from 2012 to 2017. **[10]**

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Evaluate, using an appropriate diagram(s), the effects of reducing the subsidy for university education. **[20]**

18* In 2014 the soft drinks manufacturer Coca-Cola spent over \$3 billion on global advertising.

Evaluate, using an appropriate diagram(s), the effects of increased advertising on the market for Coca-Cola products. **[20]**

Question no.

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