



Oxford Cambridge and RSA

# AS Level in Economics

H060/01 Microeconomics

**Monday 14 May 2018 – Morning**

**Time allowed: 1 hour 30 minutes**



**You must have:**

- a scientific or graphical calculator



First name

Last name

Centre  
number

Candidate  
number

## INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- 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.
- Do **not** write in the barcodes.

## 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.

**SECTION A**

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

**Write your answer for each question in the box provided.**

- 1 A farm decides to reduce its production of strawberries to increase its production of raspberries. What is the relationship between the two goods?
- A Competitive demand
  - B Competitive supply
  - C Composite supply
  - D Joint demand

Your answer

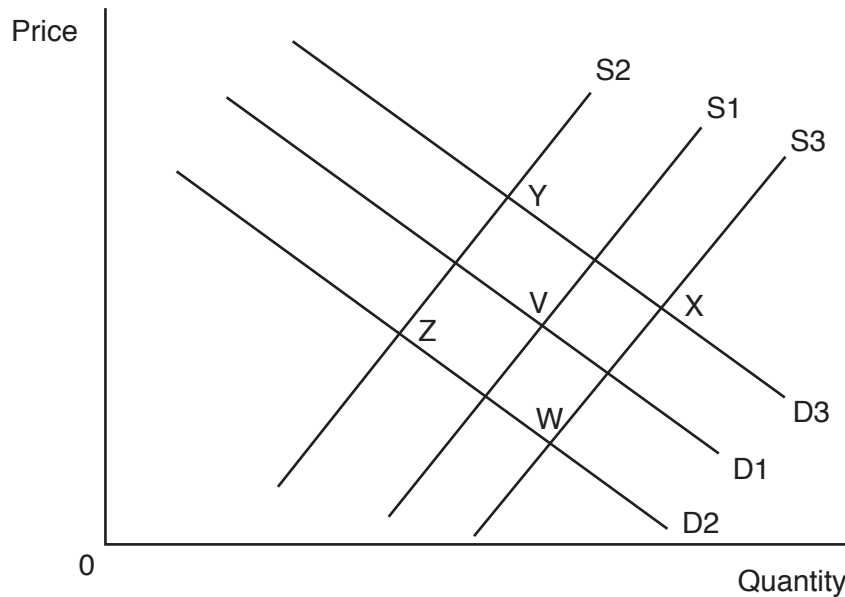
[1]

- 2 What does the economic problem of scarcity result from?
- A A mixed economy
  - B Government failure
  - C Limited resources
  - D Limited wants

Your answer

[1]

3



The market for a product is originally in equilibrium at V. There is a successful advertising campaign for the product and a rise in the rental cost of office space for the producer. At which point will the market reach a new equilibrium?

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

Your answer

[1]

4 Which of the following statements about average fixed cost (AFC) is true?

- A AFC declines as a firm increases output
- B AFC does not change as output falls
- C AFC increases as output increases
- D AFC will always be greater than price

Your answer

[1]

5 Which one of the following is a function of a government in a mixed economy?

- A Banning public goods
- B Producing free goods
- C Reducing labour market flexibility
- D Regulating some firms

Your answer

[1]

6 Why will a merit good be underconsumed?

- A Consumers underestimate its benefits
- B It leads to negative consumption externalities
- C It will only be provided by the state
- D Socially optimum output is below quantity traded

Your answer

[1]

7 When will a maximum price placed on the market for a good be ineffective?

- A When demand for the good is elastic
- B When supply of the good is elastic
- C When the maximum price is fixed above the equilibrium price
- D When there is excess demand for the product in the market

Your answer

[1]

8 Good X has an income elasticity of demand of  $-1.25$ . The quantity demanded of good X rises from 48 000 per week to 60 000 per week. Which change in income must have occurred to cause this rise in demand?

- A Income must have fallen by 16%
- B Income must have fallen by 20%
- C Income must have risen by 16%
- D Income must have risen by 25%

Your answer

[1]

9 The cross elasticity of demand between X and Y is 0.5 and between X and Z it is 1. What will happen when the price of X falls?

- A A fall in demand for Y and a fall in demand for Z
- B A fall in demand for Y and a rise in demand for Z
- C A rise in demand for Y and a fall in demand for Z
- D A rise in demand for Y and a rise in demand for Z

Your answer

[1]

10 Which change would reduce the price elasticity of supply of a product?

- A A decrease in stocks of the product
- B A decrease in the time it takes to produce the product
- C An increase in the degree of substitutability of the factors used to produce the product
- D An increase in the spare capacity of the firms in the industry

Your answer

[1]

- 11** A small firm has a total fixed cost of £100. The table below shows its total variable cost across a range of output.

Output	Total variable cost (£)
10	20
20	30
30	50
40	80

If the firm produces 20 units of output what will be its average total cost?

- A** £1.5
- B** £3.5
- C** £5.0
- D** £6.5

Your answer

[1]

- 12** If price and total revenue are inversely related, what is price elasticity of demand?

- A** Elastic
- B** Inelastic
- C** Perfectly inelastic
- D** Unitary

Your answer

[1]

- 13** What will be the effect on consumer and producer surplus if costs of production increase?

- A** Consumer and producer surplus will fall
- B** Consumer and producer surplus will rise
- C** Consumer surplus will fall and producer surplus will rise
- D** Consumer surplus will rise and producer surplus will fall

Your answer

[1]

- 14** Minimum efficient scale of production occurs where:

- A** average total cost is at a minimum
- B** diseconomies of scale are at a maximum
- C** external economies of scale are zero
- D** total cost is falling

Your answer

[1]

**15** What does it mean if a good provides a marginal external benefit?

- A** The good is a demerit good
- B** The good is overproduced
- C** The good is underconsumed
- D** The good leads to negative externalities

Your answer

**[1]**

**SECTION B**

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

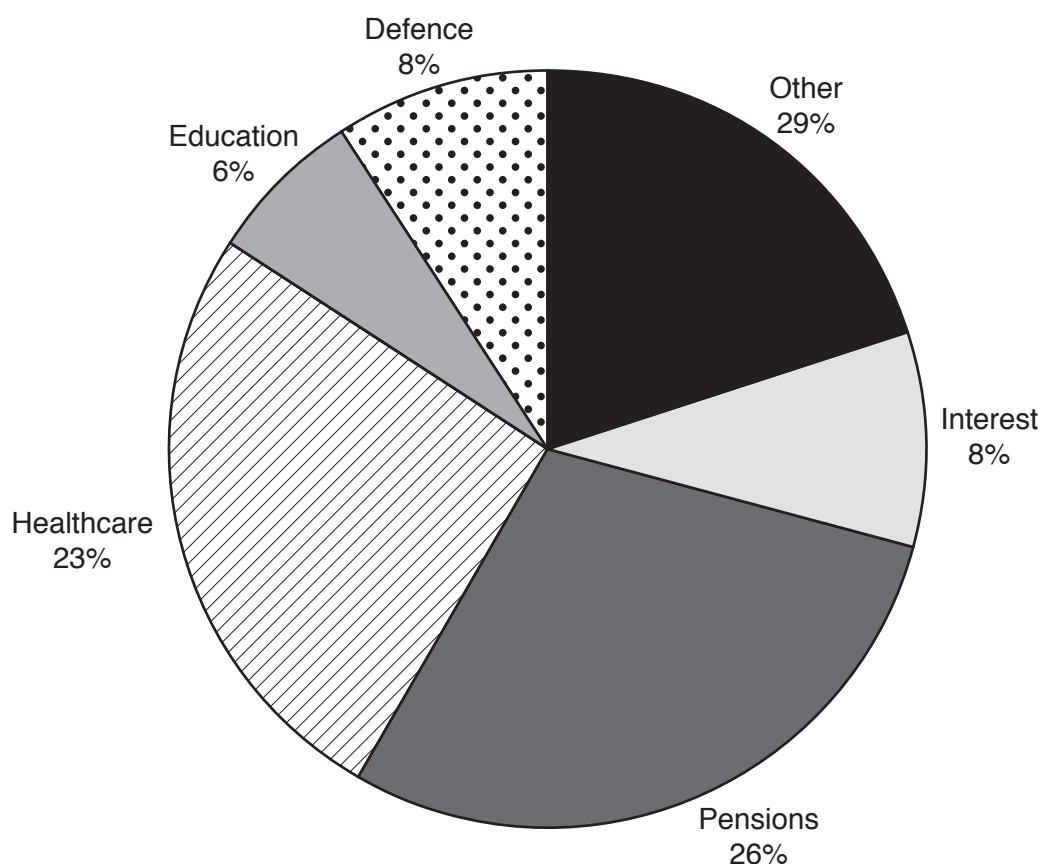
**A Defence Controversy**

The UK budget deficit grew rapidly after the 2009 recession. In order to reduce the size of the budget deficit, the UK government has been trying to reduce its spending. This policy has included reduced spending on healthcare and education. However, the government has been reluctant to reduce spending on defence.

Many economists argue that defence needs to be provided by the state since it is a public good which, if left to the free market, would not be produced. A controversial aspect of the government's plans is spending on defence. In particular, whether or not to replace Britain's four existing Trident nuclear missile submarines with four new ones.

The Ministry of Defence has said it will cost £41bn to build the replacement system. Total (central) government spending in 2016 was £588.8 billion. (Fig. 1 shows the breakdown of this spending.) Those in favour of a nuclear deterrent argue that it is an essential part of Britain's defence strategy. The Prime Minister argued it would be "sheer madness" to give up the UK's nuclear weapons, because of the threat posed by other countries with a nuclear defence capability.

Opponents argue that the cost is too high and that the money would be better allocated to healthcare or education. One estimate suggests that the cost of Trident over 30 years will be £200bn and this would be enough to fully fund hospital accident and emergency services for 50 years, employ 200 000 new nurses, build 40 000 new primary schools, or cover tuition fees for 5 million students.



**Fig. 1 UK Government spending by area in 2016**

- 16 (a)** State one factor of production that might be used in the production of submarines.

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 ..... [1]

- (b)** State and explain two factors that might lead to an increase in the cost of replacing Trident.

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- (c)** Using defence as an example, explain two characteristics of a public good.

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- (d)** Using the concept of scarcity and the information in Fig. 1, explain the effect of increased government spending on defence.

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- (e)** Using information in the case study, calculate, in pounds, how much more the UK government spent on healthcare and education than on defence in 2016.

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- (f) Evaluate, using an appropriate diagram(s), whether a country devoting more of its resources to the production of defence goods will always result in a reduction in its output of other goods and services.

[10]

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**SECTION C**

Answer Question 17 **or** Question 18.

**17\*** In the UK over 85% of healthcare is provided by the public sector.

Evaluate, using an appropriate diagram(s), whether healthcare should be provided by the state.

**[20]**

**OR**

**18\*** World oil prices are predicted to double by 2020.

Evaluate, using an appropriate diagram(s), the extent to which this predicted increase is likely to be due solely to a rise in costs of production.

**[20]**

Question no. ....

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