

Please write clearly in block capitals.

Centre number

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Candidate number

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Surname

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Forename(s)

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Candidate signature

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# INTERNATIONAL AS ECONOMICS

## UNIT 1: THE OPERATION OF MARKETS, MARKET FAILURE AND THE ROLE OF GOVERNMENT

Specimen 1 2019

Morning

Time allowed: 1 hour 45 minutes

### Materials

For this paper you must have:

- the source booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

### Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of the page.
- Answer **all** questions.
- You must answer the questions in the spaces provided.
- Do not write outside the box around each page or on blank pages.
- Do not write in the source booklet.
- 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).
- All working must be shown.
- Do all rough work in this book. Cross through any work you do not want to be marked.

### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary.

### Section A


Answer **all** questions in the spaces provided


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**

Which one of the following is a positive economic statement?

[1 mark]

- A** The distribution of income is unequal.
- B** The pattern of wealth ownership is unfair.
- C** The rich should be taxed more than the poor.
- D** There are too many poor people today.

**0** | **2**

Which one of these is a function of the market mechanism?

[1 mark]

- A** Achieving an equitable distribution of scarce resources
- B** Eliminating shortages of goods by allowing market prices to fall
- C** Maintaining stable prices between different markets
- D** Providing incentives for firms to provide goods to make a profit

**0 3**

The table below shows the production possibilities for a firm producing butter and cheese.

Output of butter (million kilos)	Output of cheese (million kilos)
0	100
1	90
2	70
3	40
4	0

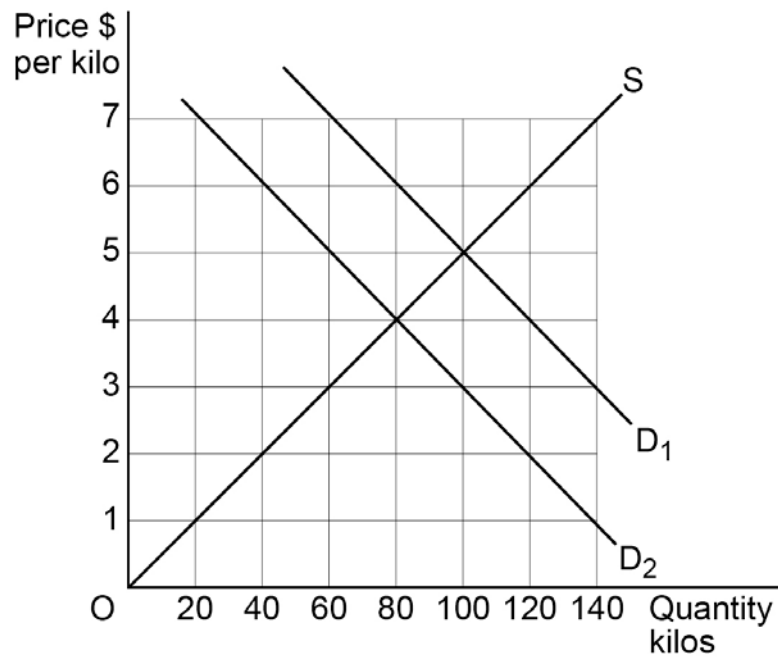
It can be concluded from the table that, as production of butter increases, the opportunity cost of such production, in terms of cheese

[1 mark]

- A** falls.
- B** remains constant.
- C** rises.
- D** rises and then falls.

0 4

The diagram below shows the original market demand ( $D_1$ ) and supply ( $S$ ) curves for tea. A decrease in the demand for tea shifts the demand curve from  $D_1$  to  $D_2$ .



From the above diagram, it can be concluded that when the equilibrium price of tea falls from \$5 per kilo to \$4 per kilo, the price elasticity of supply of tea is

[1 mark]

A -1

B -0.8

C +0.8

D +1

0 5

A government builds a new road to reduce traffic congestion on existing roads. This project would inevitably result in government failure if

[1 mark]

- A** benefits from the new road were less than the cost of the new road.
- B** local residents raised environmental objections to the new road.
- C** the cost of the new road was twice as large as the original estimate.
- D** the reduction in traffic congestion was smaller than forecast.

0 6

The table below shows the market shares of the leading washing machine manufacturers in a country at a particular time.

Company	Market share (%)
Firm V	15
Firm W	29
Firm X	12
Firm Y	22
Firm Z	5
Other	17
<b>Total</b>	<b>100</b>

From the data in the table, what is the three-firm concentration ratio?

[1 mark]

- A** 32%
- B** 56%
- C** 66%
- D** 68%

0 7

Which one of the following statements about money and specialisation is correct?

[1 mark]

- A** Greater specialisation is likely to lead to a reduction in the use of money in a market.
- B** Money can be used only in markets where there is specialisation in production.
- C** Money is used as a medium of exchange which aids specialisation.
- D** The use of money benefits workers more than consumers because of specialisation.

0 8

A supermarket has estimated values of the income elasticity of demand for some of its products as shown in the table below.

Product	Income elasticity of demand
Fruit	0.30
Cheese	0.20
Milk	0.10
Eggs	0.01

If incomes increase by 5%, for which of these food items will the quantity demanded increase by more than 1%?

[1 mark]

- A** Eggs
- B** Fruit
- C** Fruit and cheese
- D** Milk and eggs

**0 9**

In an economy, the median total household wealth was \$218 400 whilst the median total household income was \$32 100. Which one of the following can be concluded from the above statement?

**[1 mark]**

- A** A household with an income of \$32 100 would be expected to have wealth of \$218 400.
- B** Exactly 50% of the population had wealth higher than \$32 100.
- C** The average household wealth was nearly seven times the average household income.
- D** The distribution of income was more unequal than the distribution of wealth.

**1 0**

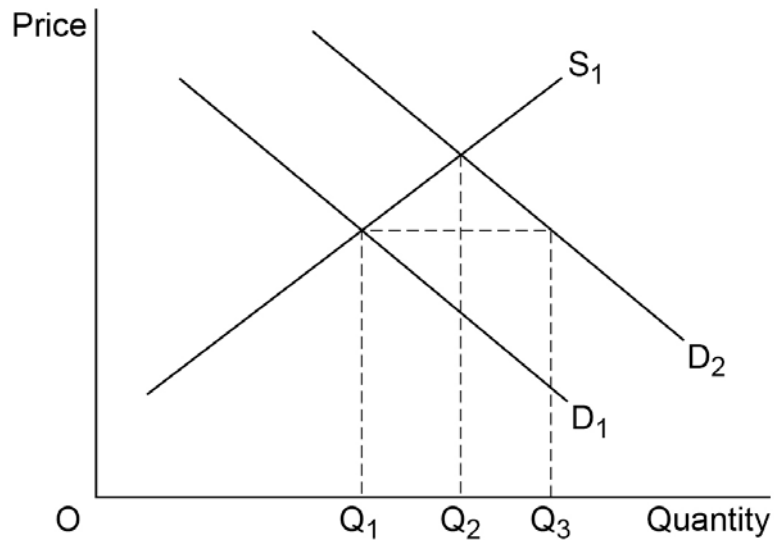
The equilibrium market price of a good increases. The establishment of the new equilibrium at a higher price would most likely result from

**[1 mark]**

- A** a fall in the price of a substitute.
- B** a rise in the price of a complementary good.
- C** excess demand at the original price.
- D** new firms entering the market.

1 1

In the diagram below,  $D_1$  and  $S_1$  are, in the absence of government intervention, the market demand and supply curves for a medicine. The demand curve  $D_2$  shows how much of the medicine would have been demanded if the external benefits could have been captured by the market.



The diagram illustrates that there is a misallocation of resources because in a free market

[1 mark]

- A** the price of the medicine is too high.
- B** there is excess demand equal to  $(Q_3 - Q_1)$ .
- C** there is underconsumption of the medicine equal to  $(Q_3 - Q_1)$ .
- D** there is underproduction of the medicine equal to  $(Q_2 - Q_1)$ .



1 2

Which one of the following sets of characteristics can best be used to distinguish between different market structures?

[1 mark]

- A** The concentration ratio and the income elasticity of demand
- B** The ease of entry to the industry and the degree of product differentiation
- C** The number of buyers in the market and the productivity of firms
- D** The scale of production in the industry and the presence or absence of externalities

1 3

The table below shows how the total output of a factory changes as the number of workers employed changes.

Total output (in units)	Number of workers
1000	100
2500	200
6000	300
7000	400
8000	500

Referring to the data in the table, what happens to labour productivity as the number of workers increases from 100 to 500?

[1 mark]

Labour productivity

- A** falls at first and then rises.
- B** falls over the whole range.
- C** remains constant.
- D** rises at first and then falls.

1 4

If demand for a product is unit elastic, for a given percentage increase in price, total revenue will

[1 mark]

A fall by the same percentage.

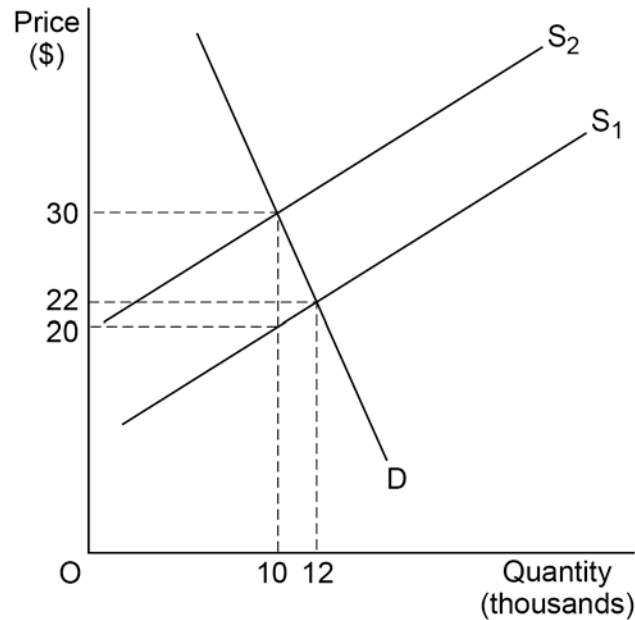
B remain unchanged.

C rise by a smaller percentage.

D rise by the same percentage.

1 5

The diagram below shows the market demand and supply curves and the market equilibrium both before and after an indirect tax is applied to a good.



According to the diagram, the revenue the government collects from this tax is

[1 mark]

A \$80 000

B \$100 000

C \$200 000

D \$300 000

**There are no questions printed on this page**

**Turn over for Section B**

**DO NOT WRITE ON THIS PAGE  
ANSWER IN THE SPACES PROVIDED**

**Turn over ►**

**Section B**

Look at the source booklet and answer **all** questions in the spaces provided

Do **not** write in the source booklet

1 | 6 | . | 1

Define 'derived demand' **Extract B** (line 3).

**[3 marks]**

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1 | 6 | . | 2

Define 'variable costs' **Extract B** (line 5).

**[3 marks]**

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1	7
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**Extract B** (lines 14-16) states: 'between early 2008 and February 2009, the price of potash rose from approximately US\$200 to US\$875 a tonne'.

You are advised to show your working for the calculations below.

1	7	.	1
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Calculate the ratio of the price of potash in early 2008 to the price of potash in February 2009.

**[2 marks]**

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1	7	.	2
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If demand falls by 33% as a result of this price rise, calculate, to **one** decimal place, the price elasticity of demand for potash.

**[4 marks]**

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