Please write clearly in block capitals.

Centre number

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## INTERNATIONAL A-LEVEL ECONOMICS

## UNIT 3: THE ECONOMICS OF BUSINESS BEHAVIOUR AND THE DISTRIBUTION OF INCOME

## Specimen 12019

## 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 in Sections A, B and C.
- Answer EITHER Question 15 or Question 16 in Section D.
- 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 90 .
- 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 $-\infty$ WRONG METHODS $\infty<\infty \quad \varnothing$
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.

| $\mathbf{0}$ | $\mathbf{1}$ |
| :--- | :--- |

A addition to total revenue when the firm produces and sells an extra unit of output.

amount produced per worker per time period.


C change in total output that is produced when one extra worker
is employed.

employing one more worker.

| $\mathbf{0}$ | $\mathbf{2}$ | The table below shows possible differences between the meanings of the terms |
| :--- | :--- | :--- | invention and innovation. Which combination, $\mathbf{A}, \mathbf{B}, \mathbf{C}$ or $\mathbf{D}$, correctly identifies the difference between the meanings of these terms?

A

| Invention | Innovation |  |
| :--- | :--- | :--- |
| Making something entirely new | Turns the results of invention <br> into a product | 0 |
| Applies to changes in goods <br> only | Applies to changes in <br> services only | 0 |
| Applies to changes in services <br> only | Applies to changes in goods <br> only | 0 |
| Turns the results of innovation <br> into a product | Making something entirely <br> new | 0 |


| $\mathbf{0}$ | $\mathbf{3}$ A firm employs three factors of production: land, labour and capital. The table below |
| :--- | :--- | shows how the firm's output is affected by changing the amount employed of these factor inputs.

[1 mark]

| Units of output | Units of capital | Units of land | Number of workers |
| :---: | :---: | :---: | :---: |
| 10000 | 10 | 4 | 120 |
| 20000 | 40 | 16 | 480 |
| 40000 | 70 | 28 | 840 |
| 60000 | 105 | 42 | 1260 |
| 80000 | 150 | 58 | 1720 |

The firm experiences constant returns to scale when it increases its output from

A $\quad 10000$ to 20000 units.


B 20000 to 40000 units.


C $\quad 40000$ to 60000 units.
D 60000 to 80000 units.

| $\mathbf{0}$ | $\mathbf{4}$ | The price elasticity of demand for the chairs produced by a firm is -2 . It can be |
| :--- | :--- | :--- | concluded that if the firm increases the price of its chairs by $20 \%$, the firm's total revenue will

A fall.


B increase by less than 20\%.


C increase by more than $20 \%$.

D remain the same.0

| $\mathbf{0}$ | $\mathbf{5}$ Which one of the following is most likely to measure the degree of competition in an |
| :--- | :--- | :--- | oligopolistic industry?

A The price elasticity of supply in the industry

## 0

B The profitability of the 10 largest firms in the industry
C The three firm concentration ratio
D The value of the Gini coefficient

| $\mathbf{0}$ | $\mathbf{6}$ The diagram below shows a firm operating in perfect competition in the short run. |
| :--- | :--- | :--- |

Which quantity, OE, OF, OG, or $\mathbf{O H}$, indicates the output where profits are maximised?


A OE $\square$
B OF
0
C OG


D OH

| $\mathbf{0}$ | $\mathbf{7}$ |
| :--- | :--- | :--- | The table below shows the profit maximising output, average variable costs (AVC), average fixed cost (AFC) and average revenue (AR) for four firms.


| Firm | Units of output | AVC (\$) | AFC (\$) | AR (\$) |
| :---: | :---: | :---: | :---: | :---: |
| Firm 1 | 100 | 15 | 12 | 14 |
| Firm 2 | 80 | 10 | 4 | 12 |
| Firm 3 | 250 | 12 | 6 | 16 |
| Firm 4 | 200 | 11 | 4 | 15 |

If these firms aim to maximise their profits, which one of the following is correct?

A Firm 1 will produce in the short run but not in the long run.


B Firm 2 will produce in the short run and in the long run.
C Firm 3 will produce in the short run but not in the long run. 0
D Firm 4 will produce in the short run but not in the long run.

| $\mathbf{0}$ | $\mathbf{8}$ | The diagram below shows the demand curve for plastic cups. |
| :--- | :--- | :--- |



What is the change in consumer surplus if the price charged for plastic cups increases from $P_{1}$ to $P_{2}$ ?

A $\quad P_{1} P_{2} Y W$
0
B $\quad P_{1} P_{2} Y X$
$\circ$
C $\quad P_{2} Y Z$
0
D WYX

$$
0
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| $\mathbf{0}$ | $\mathbf{9}$ |
| :--- | :--- | The table below shows the costs for a firm that produces 20 units of output each month.


| Marginal cost | Average variable cost | Average total cost |
| :---: | :---: | :---: |
| $£ 130$ | $£ 120$ | $£ 150$ |

The firm's total fixed costs are

A $£ 30$


B $£ 200$


C $£ 400$
D $£ 600$
0

| $\mathbf{1}$ | $\mathbf{0}$ | Which one of the following is an example of vertical integration? |
| :--- | :--- | :--- |

A A firm manufacturing bicycles merging with another bicycle manufacturer

B A firm producing biscuits taking over a firm producing bread
C A food manufacturing company buying a farm
D A supermarket merging with an insurance company

## Turn over for Section B

## Section B

Answer all questions in the spaces provided

| 1 | $\mathbf{1}$ | The table below shows the units of utility an individual derives from eating |
| :--- | :--- | :--- | sweets.


| Number of <br> sweets | Total utility | Marginal utility | Average utility |
| :---: | :---: | :---: | :---: |
| 1 | 20 |  | 20 |
| 2 | 36 |  |  |
| 3 |  | 10 |  |
| 4 | 54 |  |  |
| 5 |  | 1 |  |
| 6 |  | -1 |  |
| 7 |  | -5 |  |


| 1 | 1 | 1 | Define 'marginal utility'. |
| :--- | :--- | :--- | :--- |

[2 marks]
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You are advised to show your working.
[2 marks]
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You are advised to show your working.
[2 marks]
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| $\mathbf{1}$ | $\mathbf{1} .4$ | Explain, using a diagram, the hypothesis of diminishing marginal utility. |
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## Section C

Look at the source booklet and answer all questions in the spaces provided Do not write in the source booklet

| 1 | 2 |
| :--- | :--- |
|  | Extract B (lines $2-3$ ) states: 'As the world economy has grown, the production | of motor vehicles has increased.'


| $\mathbf{1}$ | $\mathbf{2}$ | $\mathbf{1}$ Explain why changes in world GDP are likely to affect the global production of |
| :--- | :--- | :--- | cars.

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| $\mathbf{1}$ | $\mathbf{2}$ | $\mathbf{2}$ To what extent do the data suggest that world GDP affects the global |
| :--- | :--- | :--- | production of cars? Use the data in Extract A to support your answer.

[4 marks]
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Turn over for the next question


Explain factors that are likely to affect the degree of monopoly power enjoyed by an individual firm in the car industry.
[12 marks]
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| 1 | 4 | $E x t r a c t ~ C ~(l i n e s ~ 3-4) ~ s t a t e s: ~ ‘ T h e ~ e x t e r n a l ~ c o s t s ~ o f ~ r o a d ~ t r a n s p o r t ~ a r e ~ w e l l ~$ |
| :--- | :--- | :--- | known.'

Assess the advantages and disadvantages of various government policies to reduce the damaging effects on the environment that result from the use of cars and other road vehicles.
[25 marks]
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| 1 | 5 | A government imposed national minimum wage may increase some people's income |
| :--- | :--- | :--- | but might also reduce employment.

Assess the view that a national minimum wage is good for an economy.
[25 marks]
OR

| $\mathbf{1}$ | $\mathbf{6}$ Critics of state ownership believe that the government is less effective at promoting |
| :--- | :--- | :--- | innovation and less efficient than a private company. Others argue that firms in the private sector aim to make profits for their shareholders and will charge higher prices.

The electricity supply industry produces, distributes and sells electricity to households and firms.

Discuss the case for and against government ownership of the electricity supply industry.
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END OF QUESTIONS


| Question number | Additional page, if required. <br> Write the question numbers in the left-hand margin. |
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