



Oxford Cambridge and RSA

**Monday 16 May 2022 – Morning**

**AS Level in Economics**

**H060/01 Microeconomics**

**Time allowed: 1 hour 30 minutes**



**You can use:**

- a scientific or graphical calculator



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

Centre number

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Candidate number

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First name(s)

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Last name

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**INSTRUCTIONS**

- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions in Section A and Section B and **one** question in Section C.

**INFORMATION**

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

**ADVICE**

- Read each question carefully before you start your answer.

## SECTION A

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

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

1 Which factor of production receives the reward of interest?

- A Capital
- B Enterprise
- C Labour
- D Land

Your answer

[1]

2 The quantity supplied of a product is 2000 when its price is £40. If price elasticity of supply is 0.8, what will be the quantity supplied when price rises to £50?

- A 2160
- B 2400
- C 2500
- D 3600

Your answer

[1]

3 Which of the following is an example of composite demand?

- A Demand for chairs increases as the price of tables falls
- B Demand for delivery drivers increases as more consumers shop online
- C Demand for Samsung mobile phones decreases as iPhones become cheaper
- D Demand increases for cheese leading to a fall in supply of cream

Your answer

[1]

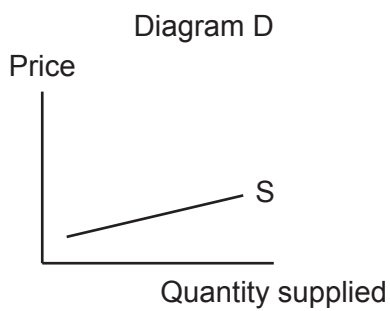
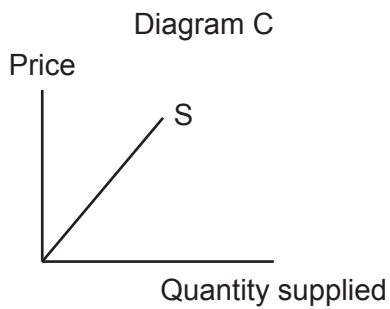
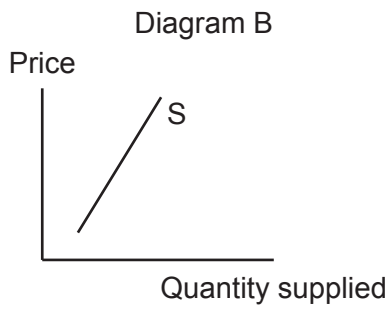
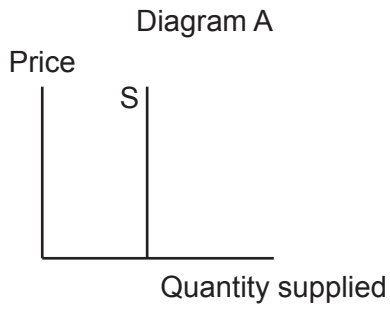
4 Which change would cause the demand curve for houses to shift to the right?

- A A decrease in income tax
- B A decrease in the cost of renting houses
- C An increase in emigration to the EU
- D An increase in the price of houses

Your answer

[1]

- 5 The diagrams below show the relationship between price and quantity supplied of a product.



Which of the supply curves is likely to show the relationship between price and quantity supplied over the long run?

- A Diagram A
- B Diagram B
- C Diagram C
- D Diagram D

Your answer

[1]

- 6 Due to excellent growing conditions the wheat harvest is much greater than is usual. What impact would this be **most** likely to have on the equilibrium price and output of wheat?
- A Fall in equilibrium price and decrease in equilibrium output
  - B Fall in equilibrium price and increase in equilibrium output
  - C Rise in equilibrium price and decrease in equilibrium output
  - D Rise in equilibrium price and increase in equilibrium output

Your answer

[1]

- 7 The table below shows the change in the demand for a product given a change in income. What type of good does this information indicate the product is?

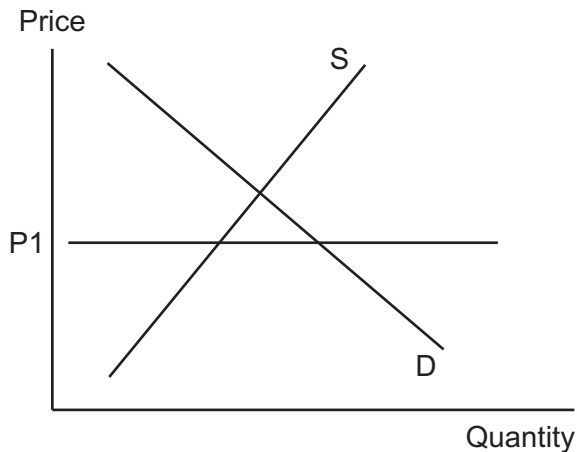
Year	Income	Quantity demanded per annum
2020	£30 000	20
2021	£36 000	21

- A Inferior good
- B Normal good
- C Substitute good
- D Superior good

Your answer

[1]

8 The diagram below shows the supply and demand for strawberries.



Which of the following would be most likely to happen if the price was set at P1?

- A Market price will fall
- B More suppliers will enter the market
- C The market will be in equilibrium
- D There will be a shortage

Your answer

[1]

9 What is the main role of firms in a market economy?

- A To look after the welfare of all citizens
- B To pay subsidies
- C To provide goods and services
- D To provide labour

Your answer

[1]

10 When is productive efficiency achieved?

- A Account is taken of all external costs and benefits as well as the internal costs and benefits
- B Goods and services are allocated according to who needs them most
- C Marginal utility of the good or price consumers are willing to pay equals the marginal cost
- D Maximum number of goods and services are produced with a given amount of inputs

Your answer

[1]

11 Which of the following is a definition of ceteris paribus?

- A Assuming everything else stays constant
- B Demand is exactly equal to supply
- C Resources used in the production process
- D The Government intervenes in the market

Your answer

[1]

12 Which of these is a free good?

- A Fire service
- B Healthcare
- C Roads
- D Sunlight

Your answer

[1]

13 If the cross elasticity of demand between two goods is  $-1.2$  what are the two goods?

- A Complements
- B Inferior
- C Substitutes
- D Unrelated

Your answer

[1]

14 What are positive externalities?

- A Benefits gained by consumers when they buy a product
- B Benefits gained by governments from the production of a product
- C Benefits gained by producers when they sell a product
- D Benefits gained by third parties who are not directly involved in the consumption or production of a product

Your answer

[1]

15 Which of the following is a positive statement?

- A Deflation is bad for everyone
- B Low unemployment benefits everyone
- C Market economies are always the most efficient
- D The UK is a mixed economy

Your answer

[1]

## SECTION B

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

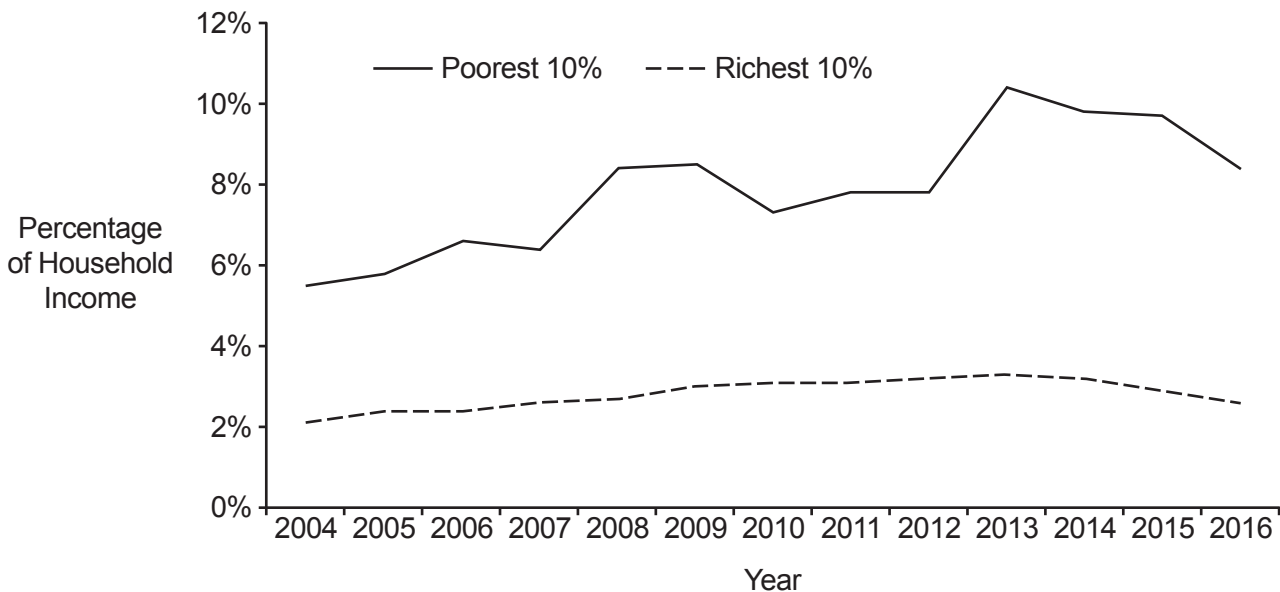
### UK Energy Market

Scientists predict that if global warming continues, it is likely to have a devastating effect on the planet. This view has forced governments, including the UK's, to agree policies to limit global warming. These policies aim to reduce the use of energy sources which produce greenhouse gases and encourage greener energies.

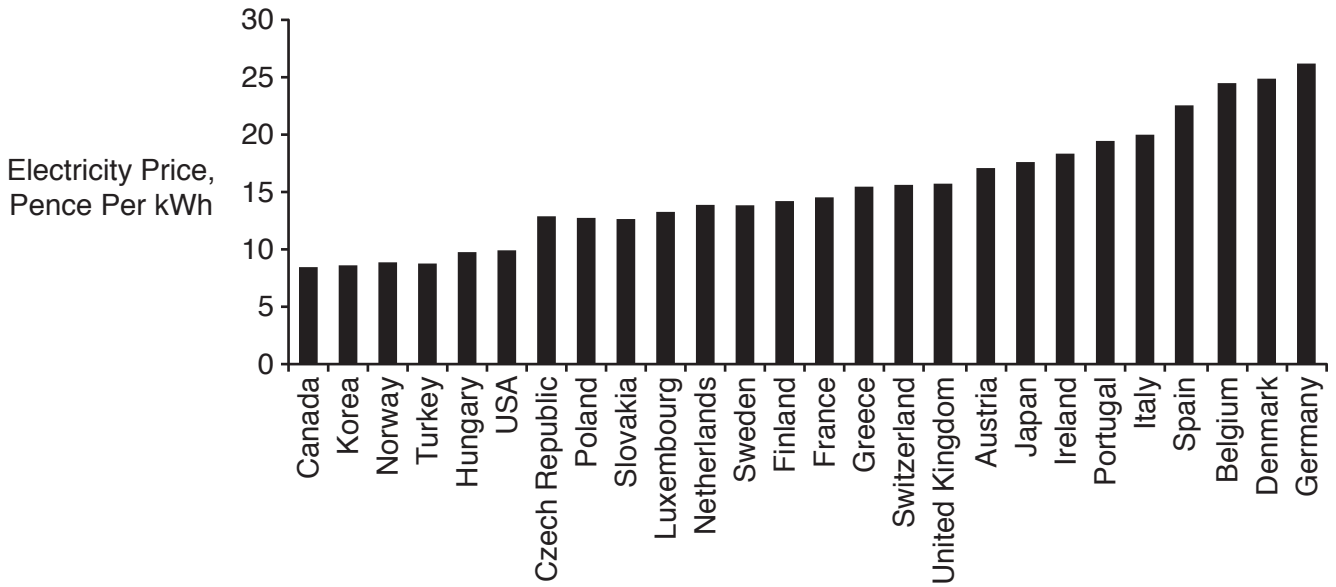
UK electricity bills have risen by 75% since 2004, despite a fall in demand of roughly 10%. One of the reasons for these rises is that the government has increased indirect taxes on electricity consumption in order to subsidise renewable sources and to encourage energy efficiency. The cost of clean energy subsidies added to consumer bills has almost tripled in the last five years, and is set to increase further. Critics argue the costs of subsidies should be met by direct taxation. This would help, also, to protect the poor from price rises. A price cap has been introduced by Ofgem, the energy markets regulator which benefits 15 million energy users.

Shale gas extraction has increased in a number of countries, including the USA, in recent years. This involves drilling through rocks, which can lead to shale gas leaking into surrounding groundwater and cause air pollution and noise disturbance. Extraction is often conducted near built-up areas and can cause earth tremors. In November 2019, the government suspended shale gas extraction, due to fears about earthquakes it had been causing in Lancashire.

New offshore wind power projects have been announced in the UK to be delivered by 2025. These will power more than seven million homes at a lower-than-expected cost as the cost of offshore wind has fallen by about 30% in the last two years. The government says the wind farms represent a breakthrough, typically generating greener electricity without subsidy. The cheapest operator will provide power for as low as £40 per megawatt hour. By comparison, power from Hinkley Point C – the new nuclear power station in Somerset, also due to open in 2025, which has been heavily subsidised is expected to cost £92.50 per megawatt hour. The government expects the overall wholesale electricity price will range between £48.95 in 2023–25 to £52.36 per megawatt hour in 2026–27.



**Fig. 1: Percentage of household income spent on energy for the richest and poorest 10% of the UK population**



**Fig. 2: Domestic electricity price in developed nations in pence per kilowatt hour (kWh) 2017**

16 (a) Using Fig. 1, calculate how much more of the poorest households' income was spent on energy compared to the richest households in 2016.

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..... [1]

(b) (i) Using Fig. 2, if the UK Government introduces a tax so that there is a 50% increase in the total electricity price in 2018 compared to 2017, what would the price be per kilowatt hour (kWh) in the UK?

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..... [2]

(ii) State what impact the increase in electricity price would have on consumer surplus.

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(iii) Explain why money is used as a medium of exchange to pay for electricity.

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(c) Using a diagram, explain the costs experienced by the residents of Lancashire due to the extraction of shale gas.

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..... [4]

(d) (i) What type of economic system is likely to have the most government intervention?

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(ii) Using the information provided, explain **two** benefits of government intervention in the energy market.

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[4]

(e)\* Evaluate, using an appropriate diagram(s), the effects of an increase in the supply of alternative greener energy on the electricity market.

[10]

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SECTION C

Answer Question 17 or Question 18.

17\* The price elasticity of demand for bread is inelastic while for designer watches it is elastic.

Evaluate, using an appropriate diagram(s), the factors that determine the price elasticity of demand for a product.

[20]

OR

18\* Division of labour and specialisation is used in many firms in Germany, a country which specialises in high value manufacturing.

Evaluate, using an appropriate diagram(s), the role of specialisation and division of labour in addressing the problem of scarcity.

[20]

Question .....

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**END OF QUESTION PAPER**

**ADDITIONAL ANSWER SPACE**

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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