EZY ECONOMICS

Sample Papers – Set 2

EDEXCEL A Level – Paper 1 (Markets and Business Behaviour)

Question Paper

Time Permitted: 2 hours

Paper Instructions:

- In **Sections A and B**, answer all questions.
- In **Section C**, answer **one** essay question.
- There are 100 marks available in this paper
- The mark allocation for each question are shown in the accompanying brackets.
- You may require the use of a calculator to answer certain questions.

SECTION A

Answer **All Questions**

Q1

The table below shows the quantity demanded for a can of Coca Cola at a range of different prices after a significant price increase in a rival brand, Pepsi.

Price (£)	Original Quantity Demanded ('000s)	New Quantity Demanded ('000s)
0.60	60	70
0.70	52	62
0.80	44	54
0.90	36	46
1.00	28	38
1.10	20	30
1.20	12	22

a) Given the price change in a can of Pepsi, to 1 decimal place, calculate the own price elasticity of demand for Coca Cola between the prices of 80p and 90p after Pepsi's price rise. You are advised to show your workings.

____

____

____

[2 marks]

b) Pepsi finds that their price elasticity of demand over this range is -0.2. Demand for their drinks is:

A Perfectly Price Inelastic

B Price Inelastic

C Price Elastic

D Perfectly Price Elastic

E Unit Price Elastic

Answer ☐

[1 mark]

c) Given the price elasticity of demand value for Pepsi explain the expected change in revenue of a price increase in a can of Pepsi.

____

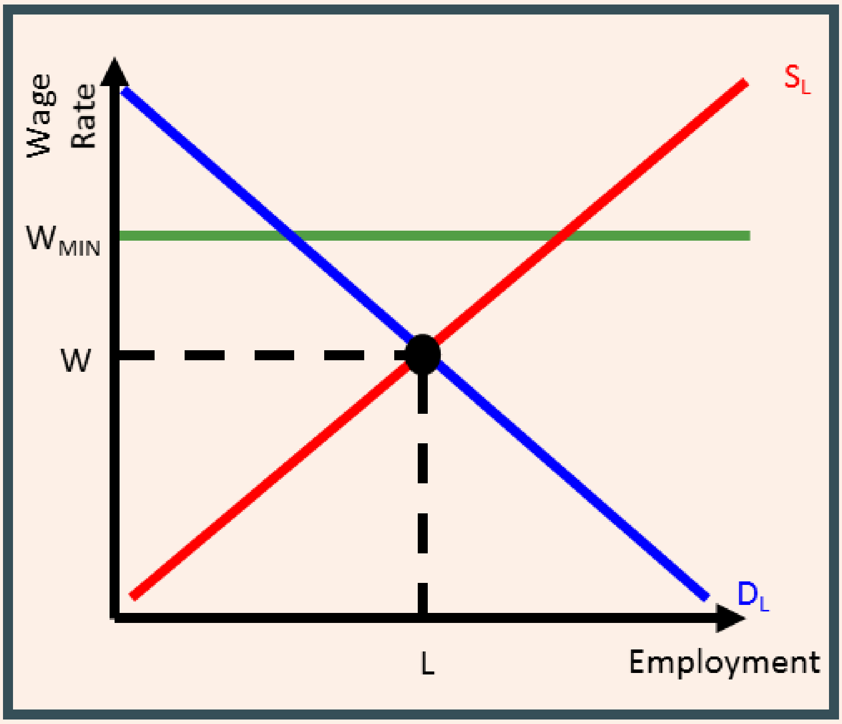
____

____

[2 marks]

Q2

A government introduces a minimum wage to prevent the exploitation of cheap labour. The diagram below shows the effect of this labour market policy on the labour market for bar staff.



a) The policy of introducing a minimum wage in this industry is an applied example of:

A An indirect tax

B A per unit subsidy

C A direct tax

D A price control

Answer

[1 mark]

b) With reference to the diagram, explain the likely impact of the imposition of the minimum wage on employment levels in this industry

____

____

____

____

____

____

____

[4 marks]

Q3

Below is a table that shows the pricing strategy of a popular local cinema chain:

Ticket Type	Ticket Price
Child	£6.00
Adult	£12.00
Senior Citizen	£8.00

a) The table shows that the cinema charges a different price for different age groups. What form of price discrimination does this describe?

A First-Degree Price Discrimination

B Second-Degree Price Discrimination

C Third-Degree Price Discrimination

D Perfect Price Discrimination

Answer

[1 mark]

Information regarding the average daily tickets sold under two opposing pricing strategies for the cinema is shown in the table below:

	Price Discrimination		Uniform Pricing	
Ticket Type	Ticket Price	Tickets Sold	Ticket Price	Tickets Sold
Child	£6.00	112	£8.00	90
Adult	£12.00	243	£8.00	275
Seniors	£8.00	64	£8.00	64

b) Calculate the average weekly revenue for the cinema under each pricing strategy and state which pricing strategy the cinema chain is most likely to adopt. You are advised to show your workings.

____

____

____

____

____

____

____

[2 marks]

c) Using the data in the table and your own knowledge, explain why this form of price discrimination can result in undesirable effects for consumers.

____

____

____

____

____

____

____

[2 marks]

Q4

a) Two rival jewellers are competing under monopolistic competition. Which one of the following does **not** describe an assumption that is made under this type of market structure.

A Each firm has a small amount of market power.

B The industry is composed of many firms.

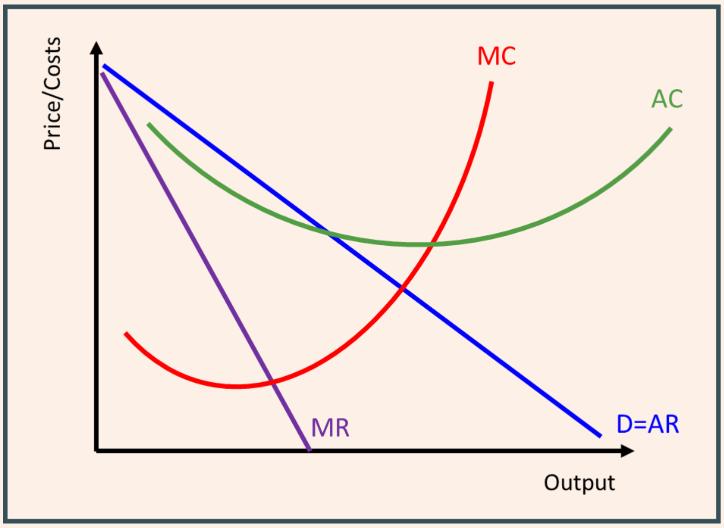
C All firms in the market produce homogeneous products.

D There are no barriers to entry or exit.

Answer

[1 mark]

Below is a diagram which describes the short-run outcome for one of the profit maximising jewellers:



b) Using the diagram, explain what the profit outcome will be for the firm in the short-run

____

____

____ **[2 marks]**

c) Explain why some consumers may prefer firms to operate under a market structure of monopolistic competition compared to a perfectly competitive market.

____

____

____

____

____

____

____

[2 marks]

Q5

a) X-inefficiency describes the process where firms experience:

A Conflicts that exist between the objectives of the managers and owners.

B A movement down their LRAC curve.

C A greater than proportionate increase in their costs compared to output.

D Organisational slack which results in a firm operating at a point above their LRAC curve at the level of output produced.

Answer ☐

[1 mark]

b) Explain why a monopolist firm is likely to suffer from x-inefficiencies:

____

____

____

____

____

____

____

[4 marks]

SECTION B

Read Figure 1 and the following extracts (A to C) before answering **all parts** of question 6.

The UK Housing Market

Extract A

UK House Prices on the March

UK house prices have been highly volatile in the past few decades. On average, house prices have increased by 7% per year since 1980. The greatest annual increase in house prices was 25.6% in 1988. In 2015, house prices increased by as much as seven times that of average incomes. The affordability of houses is set to considerably deteriorate by 2030, as house price rises outstrip growth in household incomes by a multiple of 10. The number of properties in Britain worth £1m or more is set to more than triple by 2030 to 1.6m, widening the inequality gaps for housing, income and wealth.

The UK housing market is particularly sensitive to and important for the strength of the UK economy. A change in house prices affects the value of household wealth, creating a positive or negative wealth effect for economic agents. House prices reflect both demand and supply, and, as in all markets, the equilibrium price of a house will occur at the price that matches current demand to available supply.

The number of households in the UK, and therefore demand for housing, has increased, partly as a result of an increasing population together with decreasing average household size in the midst of a low interest rate environment. In 1980, 20% of homeowners consisted of only one person; two decades later, this single occupancy figure increased to 30%. Lower interest rates lead to lower mortgage rates, and encourage new entrants such as people looking to buy second homes as an investment.

In the short run, supply is relatively inelastic because of the existence of construction time lags and legal complexities such as the difficulty of obtaining planning permission. The overall level of house building in the UK has declined since 1980, with approximately 150,000 houses built in 2015 – a fall of 40% from the 250,000 homes built in 1980. This has resulted in the UK having one of the lowest house building rates in Europe.

One of the main concerns of rising house prices is the impact on intergenerational inequality across the UK. In 1991, 67% of the 25 to 34 age group were homeowners. By 2014, this figure had declined to 36%. By contrast, home ownership has increased among older age groups.

Source: News Reports, 2017

Extract B

Externalities of Housing

Building the right kind of housing can have benefits to the rest of society such as the prevention of economic deprivation, inequality and poverty. This is because the social benefit of good quality housing can be greater than the private benefit that property developers gain.

The provision of homes with sufficient insulation can help protect against noise and air pollution as well as reduce the environmental costs of heating. However, in a free market, there may be little incentive to increase the building cost of a new house to improve environmental standards. Thus, new houses tend to be built cheaply without taking into account the external benefits of improved features.

Whilst housing can often be classified as a merit good, externalities from housing can also be negative. Much depends on the quality of the build, the surrounding social conditions and the economic infrastructure. Bad housing projects are often associated with social problems such as crime, vandalism and potential health problems.

Some industry experts have criticised the current state of the housing market and the lack of government intervention. The gap between planning permission acceptances and new houses being built has grown from 25,000 to approximately 100,000 in the last decade. The lack of housing supply has contributed to reduced geographical mobility in the labour market.

Source: News Reports, 2017

Extract C

Government Intervention in the Housing Market

The UK government has continued to defend their position in this market over the last decade. It points towards their efforts to encourage 100,000 first time buyers to take their first move onto the housing ladder via the 'Help to Buy' scheme. However, these sorts of schemes have been criticised for not directly solving the fundamental problem of limited supply in the UK housing market.

It has been argued the most effective form of government intervention is to introduce a new housebuilding programme across the country to increase supply. This would provide local authorities with the right to purchase brownfield land at the value of its existing use. It would require the government to invest £50bn in housing loans and subsidies up to the year 2021 – a significant sum whilst the UK continues to have a government budget deficit.

Source: News Reports, 2017

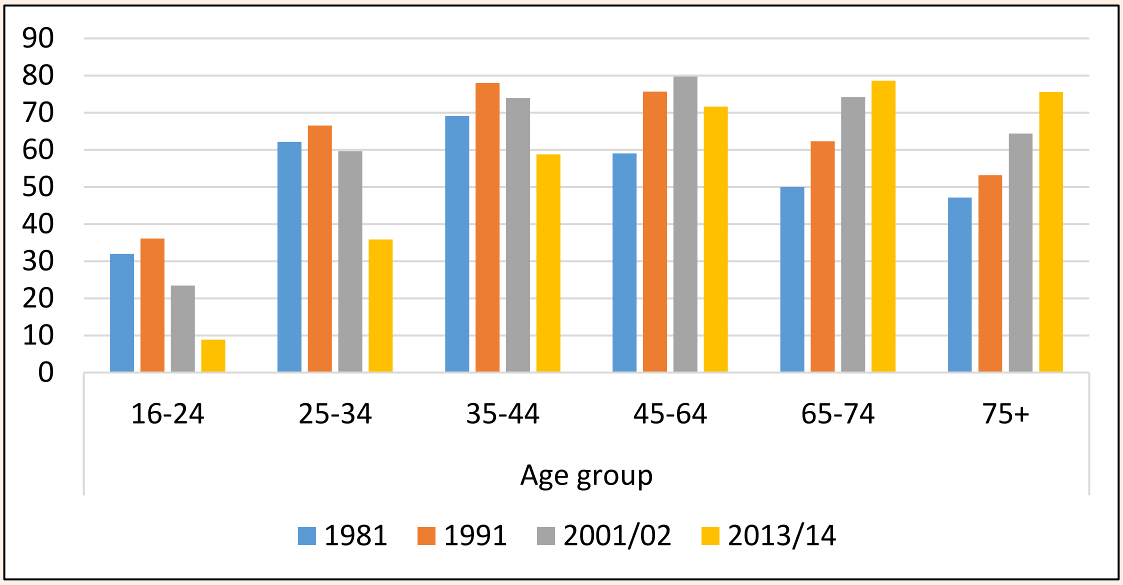


Figure 1: Percentage of each age group that are home owners, UK, 1981-2014

Source: ONS, 2017

Questions:

Q6a

Using a demand and supply diagram, explain why in the UK 'on average, house prices have increased by 7% per year since 1980'.

[5 marks]

Q6b

Examine two reasons why demand for homes in the UK have increased in the last three decades.

[8 marks]

Q6c

With reference to Figure 1, discuss the impact of higher house prices on different age groups of consumers in the UK.

[12 marks]

Q6d

Assess one positive and one negative externality from the introduction of national house building projects in the UK housing market.

[10 marks]

Q6e

Assess the view that the UK government should intervene in the housing market by directly providing financial support to prospective first-time buyers.

[15 marks]

SECTION C

Answer **ONE** question from this section.

Q7

'In 2016 the European Commission blocked the mobile network Three's proposed £10.6bn takeover bid of O2 in the UK telecommunications market amid competition concerns.'

Evaluate the view that mergers, such as the one proposed between the mobile networks Three and O2, always results in a lessening of competition within an industry.

[25 marks]

Q8

'In 2016, the National Living Wage (the minimum wage for workers over the age of 25) increased to £7.20 an hour.'

Evaluate the impact of increasing the national minimum wage upon firms and workers.

[25 marks]