



Oxford Cambridge and RSA

# A Level Economics

H460/03 Themes in economics

## Friday 15 June 2018 – Morning

Time allowed: 2 hours



**You may use:**

- 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.
- Answer **all** the questions.
- Write your answer to each question in the space provided. If additional space is required, 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 **80**.
- 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 **28** pages.

**2**  
**SECTION A**

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

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

- 1** What is a free good?
- A** A good that is available with no opportunity cost
  - B** A good that is non-excludable and non-rival
  - C** A good that is provided by the government
  - D** A good that is scarce

Your answer

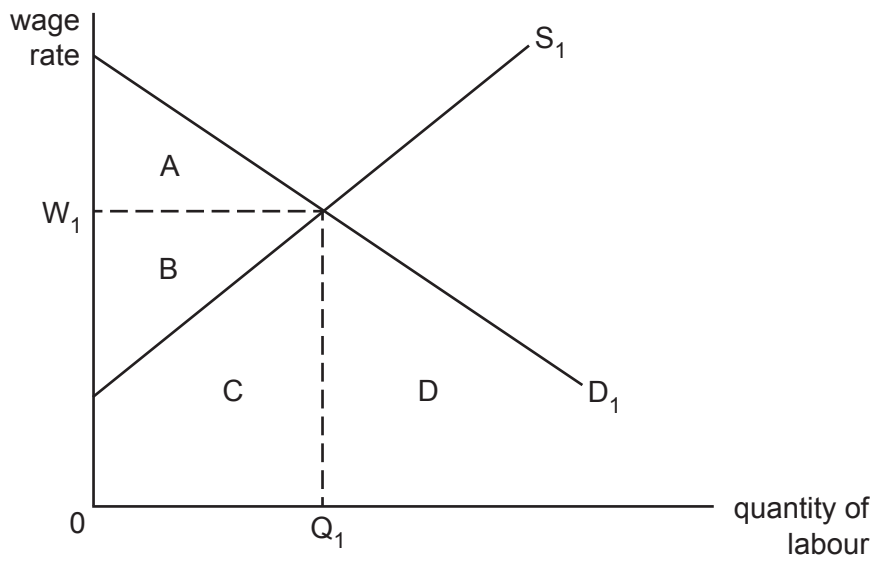
[1]

- 2** Which of the following is a component of the Human Development Index?
- A** Air quality
  - B** Cost of crime
  - C** Income inequality
  - D** Life expectancy at birth

Your answer

[1]

3 In the diagram below, which area represents transfer earnings?



- A Area A
- B Area B
- C Area C
- D Area D

Your answer

[1]

4 Which of the following identifies the stages of the economic cycle experienced by the UK economy between 1998 and 2016?

	1998–2007	2008–2009	2010–2014	2015–2016
<b>A</b>	Boom	Recession	Recovery	Slowdown
<b>B</b>	Recession	Recovery	Boom	Slowdown
<b>C</b>	Recovery	Recession	Boom	Slowdown
<b>D</b>	Slowdown	Recession	Recovery	Boom

Your answer

[1]

5 A firm could lower its average costs whilst keeping its output the same. What type of inefficiency is occurring?

- A Allocative inefficiency
- B Dynamic inefficiency
- C Productive inefficiency
- D X-inefficiency

Your answer

[1]

6 In which of the following cases will the natural rate of unemployment increase?

- A Regional house price differentials increase
- B The demand for labour falls
- C The school leaving age increases
- D Unemployment benefits decrease

Your answer

[1]

7 In August 2016 the Bank of England's Monetary Policy Committee announced it was cutting the base rate of interest from 0.5% to 0.25% and extending its programme of quantitative easing. What is likely to happen as a result of this decision?

- A Decrease in government tax revenue
- B Decrease in inflationary pressures
- C Exchange rate depreciation
- D Increase in marginal propensity to save

Your answer

[1]

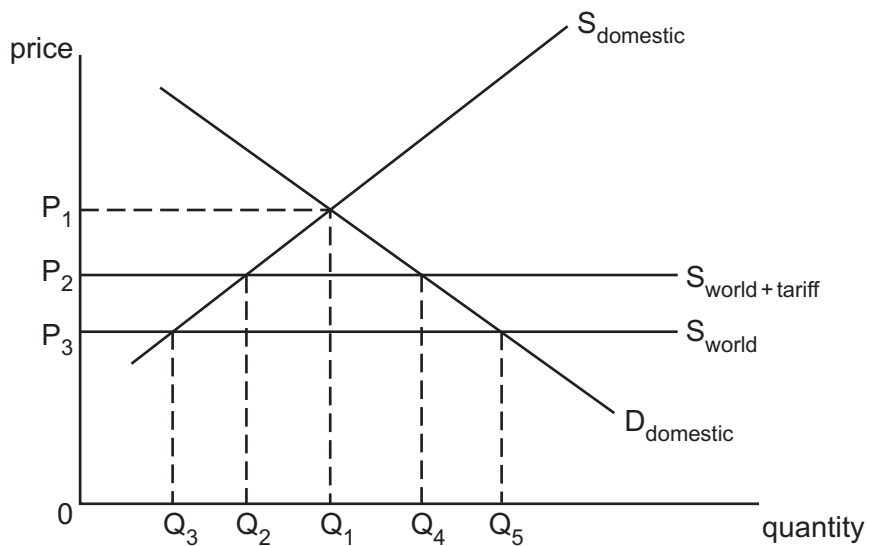
8 Danielle has just been appointed to manage a large public limited company that has a range of stakeholders, including shareholders, employees and customers. Which business objective is Danielle most likely to pursue?

- A Profit maximisation
- B Profit satisficing
- C Revenue maximisation
- D Utility maximisation

Your answer

[1]

9



In the diagram above, what is the new level of imports if a tariff is removed?

- A  $Q_2 - Q_3$
- B  $Q_4 - Q_2$
- C  $Q_5 - Q_3$
- D  $Q_5 - Q_4$

Your answer

[1]

10 Using the Fisher equation of exchange, what is the money supply in an economy where real GDP is £400bn, the price level is 3 and the velocity of circulation of money is 4?

- A £300bn
- B £400bn
- C £533bn
- D £1200bn

Your answer

[1]

11 600 units of a good are demanded at a price of £8. If the price elasticity of demand is  $-0.75$ , what is the level of demand when the price falls by £3?

- A 431
- B 769
- C 870
- D 881

Your answer

[1]

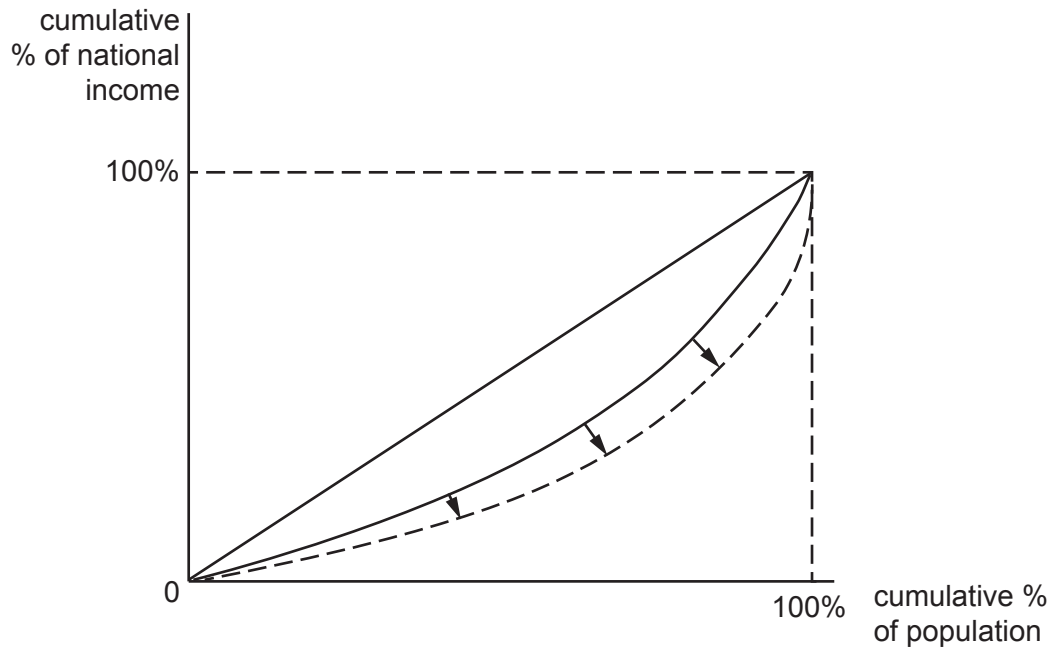
12 The proportion of the working age population in the labour force increased from 76.8% to 78.4% between 2006 and 2016 in the UK. What would have increased as a result of this change?

- A Dependency ratio
- B Employment rate
- C Participation rate
- D Replacement ratio

Your answer

[1]

- 13 The initial distribution of income in a country is shown by the continuous line in the diagram. It then changes and the new distribution is shown by the dotted line. Which one of the following statements describes this change?



- A Absolute poverty has increased
- B Income inequality has increased
- C Relative poverty has decreased
- D The Gini coefficient has decreased

Your answer

[1]

- 14 Which one of the following is a defining characteristic of a contestable market?

- A Collusion
- B Long run supernormal profits
- C Many small buyers and sellers
- D No barriers to entry or exit

Your answer

[1]

15 In which of the following cases is the interest rate charged on borrowing likely to be lowest?

- A High risk and high security
- B High risk and low security
- C Low risk and high security
- D Low risk and low security

Your answer

[1]

16 What is meant by the term 'negative output gap'?

- A Actual GDP is below potential GDP
- B Negative externalities resulting in over-production
- C The economy is operating beyond its production possibility frontier
- D Two consecutive quarters of negative economic growth

Your answer

[1]

17 In August 2016 scientists published a report indicating that eating red meat resulted in an increased risk of death. Prior to this report being published, what was likely to be the initial cause of this market failure?

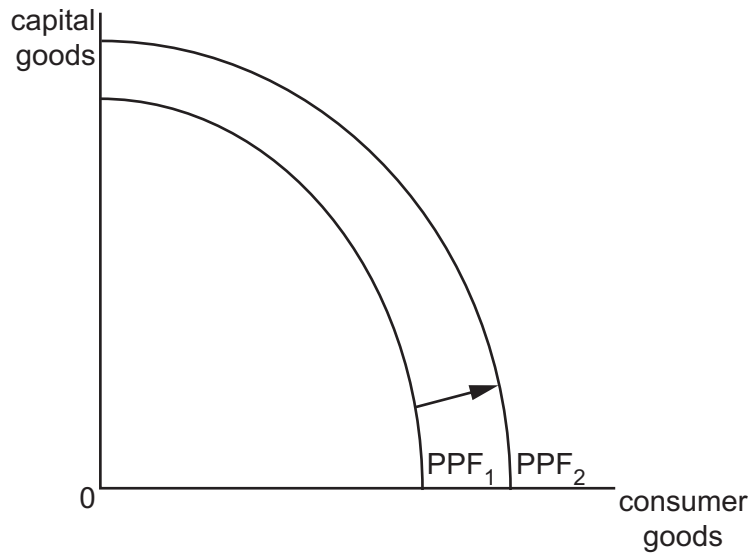
- A Overconsumption
- B Overproduction
- C Underconsumption
- D Underproduction

Your answer

[1]



18 Which of the following could have caused the shift from PPF<sub>1</sub> to PPF<sub>2</sub> illustrated in the diagram below?



- A A decrease in unemployment
- B A natural disaster
- C An increase in immigration
- D A reallocation of resources from the production of capital goods to consumer goods

Your answer

[1]

19 Which of the following identifies the components of aggregate demand that are likely to be affected by an increase in household income?

	Consumption	Investment	Government spending	Net exports
A	/			
B	/	/		
C	/	/	/	
D	/	/	/	/

Your answer

[1]

20 What is an advantage of EU membership?

- A Member states have tariff free trade with the rest of the world
- B Member states have control over fiscal and monetary policy
- C There are no trade barriers between member states
- D The same currency is shared by all members

Your answer

[1]

21 What does the environmental Kuznets curve illustrate?

- A Environmental degradation is negatively correlated with economic growth
- B Environmental degradation is positively correlated with economic growth
- C The correlation between environmental degradation and economic growth changes from negative to positive as a country develops
- D The correlation between environmental degradation and economic growth changes from positive to negative as a country develops

Your answer

[1]

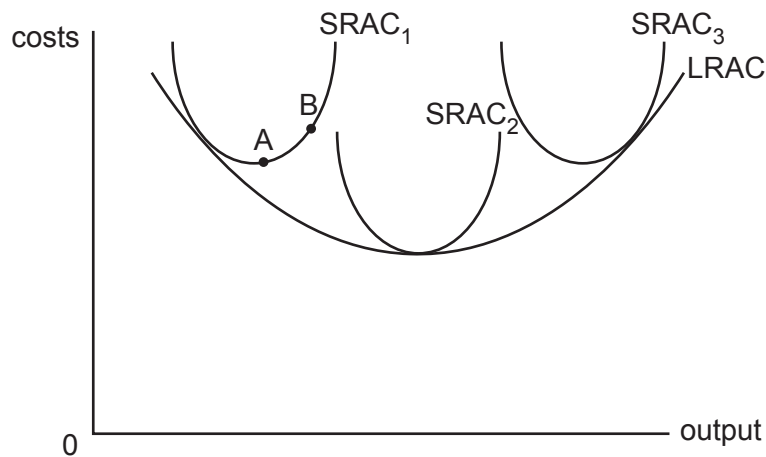
22 An economy has three leakages from its circular flow of income – savings, tax and imports. Its national income multiplier rose from 2 to 2.5 between 2015 and 2018. Over this period its marginal propensity to save fell from 0.14 to 0.02 and its marginal rate of tax increased from 0.17 to 0.22. What was the change in the country's marginal propensity to import over this time period?

- A A fall from 0.19 to 0.16
- B A fall from 0.50 to 0.40
- C A rise from 0.69 to 0.76
- D A rise from 1.69 to 2.26

Your answer

[1]

23 Which of the following concepts is represented by the movement from A to B in the diagram below?



- A Allocative inefficiency
- B Diminishing returns
- C Diseconomies of scale
- D Economies of scale

Your answer

[1]

24 Which of the following is a disadvantage of the division of labour for a firm?

- A Firms are more reliant on individual workers
- B Less time wasted switching between tasks
- C Repetition improves productivity
- D Quality increases as a result of more skilled workers

Your answer

[1]

25 What is a consequence of the market failure caused by positive externalities of production?

- A Marginal private benefit exceeds marginal social benefit
- B Marginal private cost exceeds marginal social cost
- C Marginal social benefit exceeds marginal private benefit
- D Marginal social cost exceeds marginal private cost

Your answer

[1]

26 What is the relationship between the UK government and the Bank of England?

- A The Bank of England sets the inflation target and interest rate independently of the government
- B The Bank of England sets the inflation target and the government sets the interest rate
- C The government and the Bank of England work together to set the inflation target and the interest rate
- D The government sets the inflation target and the Bank of England sets the interest rate

Your answer

[1]

27 If the aim of an indirect tax is to reduce consumption, which of the following elasticities of demand represents the situation in which the tax will be most effective?

- A Elastic
- B Inelastic
- C Perfectly inelastic
- D Unit elastic

Your answer

[1]

28 Which of the following identifies a difference between the neo-classical and Keynesian approach to macroeconomic thinking?

	<b>neo-classical</b>	<b>Keynesian</b>
<b>A</b>	Aggregate supply is perfectly inelastic in the long run	There is an elastic section of the aggregate supply curve
<b>B</b>	Fiscal policy can affect real output in the economy	Fiscal policy cannot affect real output in the economy
<b>C</b>	Prices and wages are not always flexible	Prices and wages are always flexible
<b>D</b>	Unemployment is caused by demand side factors	Unemployment is caused by supply side factors

Your answer

[1]

29 A country's nominal GDP in 2013 was £800bn. The nominal growth rate in 2014 was 5%. Using the price index below, what is real GDP in 2014 at 2010 prices?

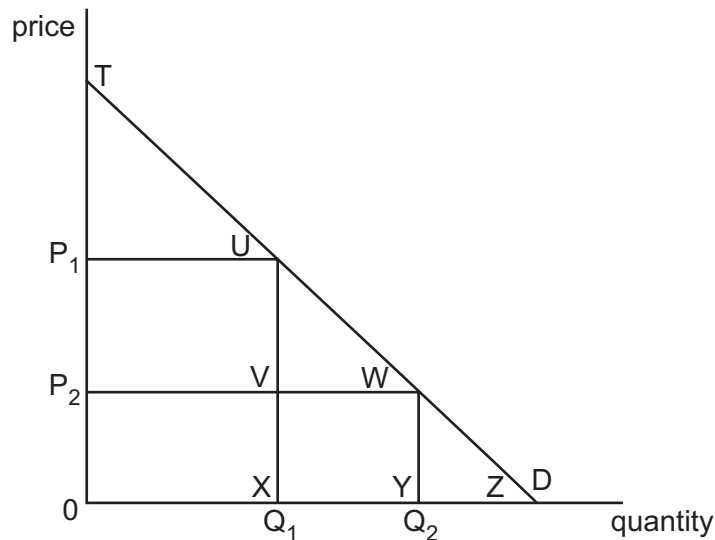
Year	2010	2011	2012	2013	2014	2015
Price index	100	105	112	116	120	127

- A £700bn
- B £720bn
- C £812bn
- D £840bn

Your answer

[1]

30 In the diagram below, price is initially set at  $P_1$  with 20 consumers purchasing  $Q_1$  amount. The price is then reduced to  $P_2$ . The initial 20 consumers continue to purchase  $Q_1$  amount. The lower price attracts 15 new consumers, causing the total quantity demanded to rise to  $Q_2$ . What is the area of consumer surplus enjoyed by the new consumers?



- A  $P_1UWP_2$
- B  $VUW$
- C  $XVWY$
- D  $YWZ$

Your answer

[1]

## SECTION B

Read the following extracts and answer **all** questions which follow.

**Extract 1 – Is hosting the Olympic Games a profitable business?**

In the build up to the 2016 Rio Olympic Games, Brazilians were divided over the merits of hosting the world's largest sporting event in their country. With the economy in recession for the second year running and costs spiralling 50% over budget, many argued that the \$4.6bn could have been better spent in this developing nation. Such critics point to the loss made by the majority of previous host cities as evidence of wasteful expenditure.

Fig. 1.1 summarises the financial implications for Vancouver and London, hosts of the 2010 Winter and 2012 Summer Olympics respectively. A significant proportion of Olympics revenue goes to the International Olympic Committee (IOC); the figures detailed in Fig. 1.1 reflect what was kept by the host nations.

**Fig. 1.1 – Vancouver 2010 & London 2012 Olympic Games Costs & Revenues**

	<b>Vancouver 2010 (\$ millions, USD)</b>	<b>London 2012 (\$ millions, USD)</b>
<b>Costs</b>		
General infrastructure	3,497	5,970
Sporting infrastructure	715	1,790
Other	3,344	3,641
<b>Revenues</b>		
Broadcasting rights	414	713
Sponsorship	863	1,450
Ticketing	250	988
Licensing	51	119

However, those in favour of hosting the Olympic Games argue that these statistics significantly underestimate the benefits, many of which will be felt for generations to come. Improvements in the transport infrastructure can enhance productivity, whilst the regeneration of East London in 2012 provided tangible benefits to local residents.

Critics question whether the long run benefits from the Olympics are better than those which would have resulted from alternative infrastructure projects. For example, significant investment to meet a three week period of peak demand may result in severe overcapacity once the event is over, illustrated by the now weed infested cycling racetrack used for the Beijing Olympics.

Recognising that many potential hosts were being put off by the rising costs of hosting an Olympics, the IOC published its Olympic Agenda 2020 in December 2014. At the centre of the agenda is a desire to include sustainability in all aspects of the Olympic Games, in doing so improving the economic viability of hosting the spectacle.

## Extract 2 – The Olympic Games as a macroeconomic stimulus

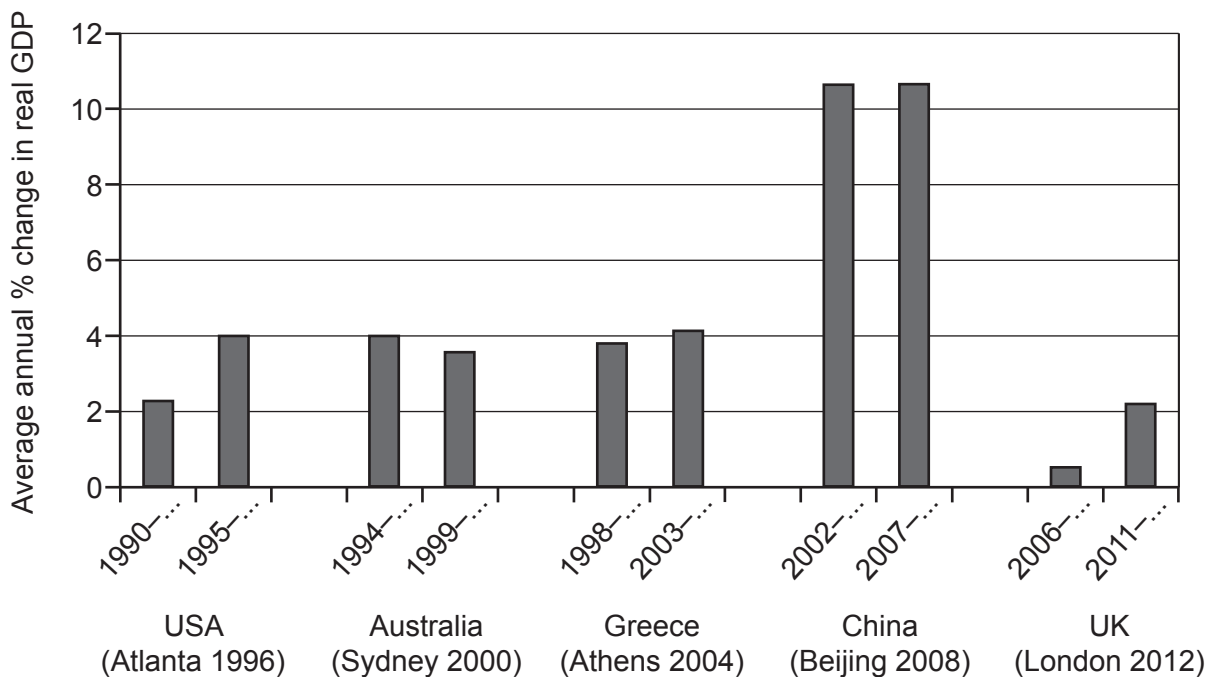
Despite the significant costs involved governments around the world remain attracted to bid for the Olympic Games because of the wider macroeconomic stimulus hosting the event can provide. The Bank of Japan has estimated that the Japanese economy could be boosted by up to \$249bn as a result of hosting the next games in Tokyo.

In many ways expenditure on the Olympic Games can be seen as an example of expansionary fiscal policy, generating thousands of jobs in construction in the build up and a significant amount of tourist expenditure. Economists estimate the multiplier effect of Olympics expenditure to be approximately 1.7; this wider economic effect is used to argue that in the long run hosting the Olympics more than pays for itself. Indeed, the macroeconomic stimulus proved particularly timely for the UK, which was in the midst of recovering from the global financial crisis when the 2012 London Games took place.

However, the size of the injection into the economy from hosting the Games is generally overstated. This is in part because it ignores the substitution effect: money spent on the Olympics by local residents is money that would have been spent on other goods and services had the Olympics not taken place. Projected increases in tourism also fail to take into account the number of people who choose not to come to the country during the Olympics, with holiday or business travellers put off from coming to the country because of the crowds associated with the Olympics. In both Beijing and London tourist numbers during 2008 and 2012 were actually lower in total than in the previous year. Moreover, whilst the employment gains are particularly beneficial during a period of recession, this will only ever occur by chance rather than design, given the Games need to be bid for seven years in advance. When the Olympics takes place in a country during the boom phase of the economic cycle the gains from employment are limited, workers simply switch from alternative employment towards Olympics related employment.

Fig. 2.1 compares historical growth rates with the rate of economic growth experienced by countries in the five year period during which they hosted the Olympic Games.

**Fig. 2.1 – Economic growth rates of Olympic hosts**



The long run consequences of hosting an Olympics are just as debatable. Some argue that the legacy of hosting the event has a powerful long term impact as a result of improved infrastructure and urban regeneration. Shortly after the 2012 Olympics a BBC survey found evidence of a 'feel good effect', with 80% of people saying they felt proud to be British. This could have an impact on confidence and therefore the propensity to consume.

Ultimately, the gains from tourism depend on the nature of the host city prior to the Olympics taking place. Whilst Barcelona and Salt Lake City saw a sustained increase in tourist numbers after hosting, this is largely attributed to them being destinations that were not popular before. Cities such as London clearly stand to gain less given London was already the world's most visited tourist destination before hosting the games.

The Olympics is also thought to have a positive impact on a country's balance of payments, with short run increases in tourist expenditure and long run increases in foreign direct investment as a result of companies becoming more familiar with the country. Fig. 2.2 outlines the impact on the exchange rates of host countries through use of the 'Olympics index'. This is constructed by following the host country's exchange rate in the four years prior to the Olympics taking place – for example, between 2004 and 2008 the Chinese Yuan is used for the index in the build up to the Beijing Olympic Games.

**Fig. 2.2 – Exchange rate changes of Olympic hosts compared to other currencies, 1980–2012**

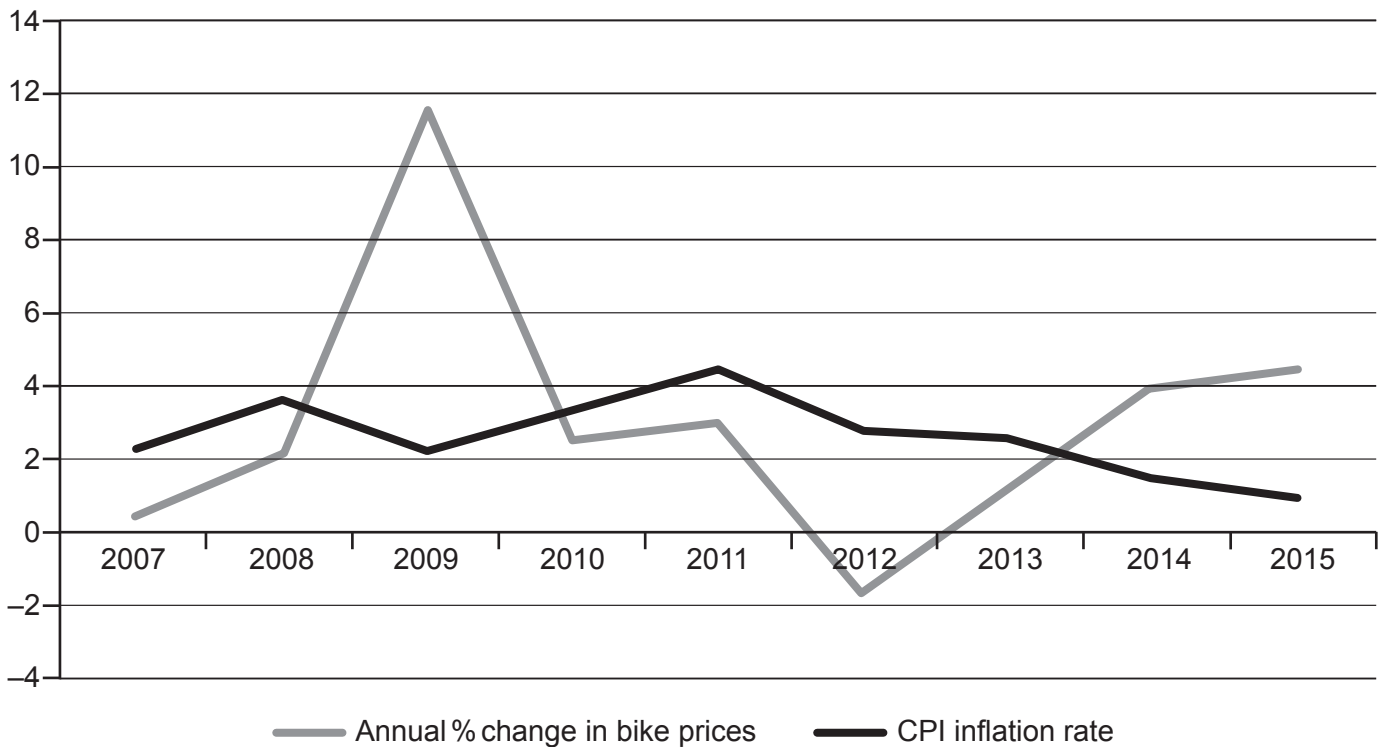
Currency	Exchange Rate Change 1980–2012 (%)
Australian Dollar	19.78
British Pound	-21.52
Indian Rupees	-45.11
Japanese Yen	53.72
Olympics Index	89.27
US Dollar	4.46



### Extract 3 – Growth of the UK bicycle market

Gold medal winning performances by British cyclists has contributed to the rapid growth seen in the bicycle market. The increase in popularity of the sport has coincided with large scale infrastructure investment in cycle networks around the UK. This has been driven by a desire to ease traffic congestion, reduce pollution and improve the health of the population. Fig. 3.1 illustrates how the price of cycling has changed over time in the UK.

**Fig. 3.1 – Bike prices & inflation in the UK 2007–2015**



With £12,000 bikes now available to, and purchased by, consumers, some blame the rising cost of cycling on the lack of competition in the bicycle market. Evans Cycles, Halfords and Wiggle dominate the market, accounting for over 50% of market share between them, with Wiggle's recent takeover of rival Chain Reaction further increasing the collective power of these three retailers.

An alternative explanation for the rising price of bicycles is the fact that bicycle equipment has improved dramatically over the years. Innovations such as electronic gears and carbon fibre mean modern day bicycles are incomparable with those on sale 20 years ago. With the number of independently owned bike shops increasing by more than 10% over the past decade, it is clear firms are looking to take advantage of this ever expanding market.

31 Using Fig. 1.1, compare the profitability of hosting the Vancouver and London Olympic Games.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

..... [4]

32 Evaluate, using the information in Extract 1, whether expenditure on the Olympic Games represents sustainable investment.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

**[8]**

33 Using the data in Extract 2, explain what is meant by the multiplier effect of Olympics expenditure.

.....

.....

.....

.....

.....

..... [2]

34 Evaluate, using the information in Extract 2, the extent to which hosting an Olympic Games has a positive impact on the government's macroeconomic policy objectives. [15]

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

A series of horizontal dotted lines for writing.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**35** Explain, using an appropriate diagram, why the changes in the Olympics index, illustrated in Fig. 2.2, may occur as a result of a country hosting the Olympic Games.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....



A series of 24 horizontal dotted lines spanning the width of the page, providing a template for handwriting practice.



.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**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).

A large area of lined paper for writing. It consists of horizontal dotted lines spaced evenly down the page. A vertical solid line runs down the left side of the page, creating a margin. The entire area is intended for providing additional answer space.



