



Oxford Cambridge and RSA

# A Level Economics

H460/03 Themes in economics

## Monday 19 June 2017 – Afternoon

Time allowed: 2 hours



**You may use:**

- a 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 **32** pages.

## SECTION A

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

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

1 Which of the following is a function of the World Bank?

- A To encourage the removal of trade barriers
- B To promote economic development
- C To provide short term finance to help countries overcome balance of payments problems
- D To stabilise exchange rates

Your answer

[1]

2 A pharmaceutical company convinces thousands of customers to purchase medication it claims will increase life expectancy by ten years. Following its own research the company finds this claim to be false but does not tell its customers through fear of losing sales. Which of the following describes this situation?

- A Asymmetric information
- B Merit good
- C Moral hazard
- D Negative externalities of consumption

Your answer

[1]

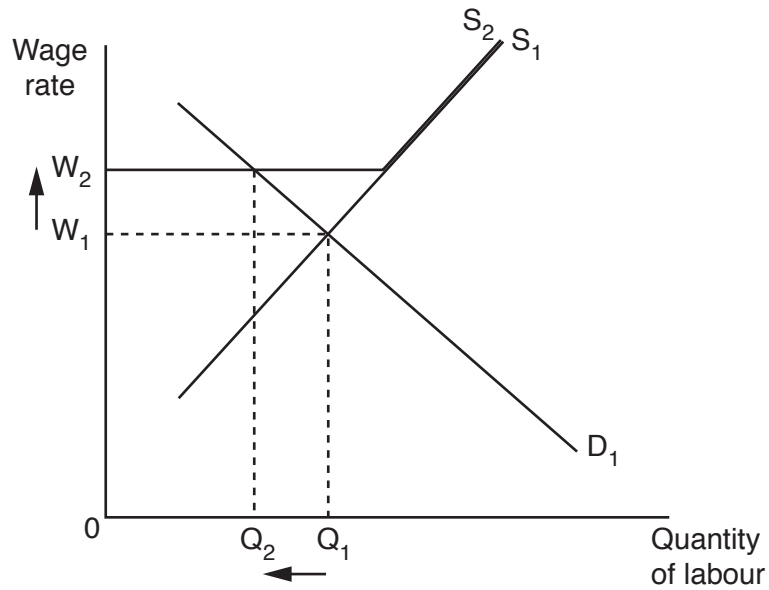
3 Which school of macroeconomic thought became dominant as a result of the Great Depression?

- A Austrian
- B Classical
- C Keynesian
- D Monetarist

Your answer

[1]

4 Which of the following is illustrated in the diagram below?



- A A monopsonist employer acting as the monopoly buyer of labour
- B A reduction in the National Minimum Wage
- C A trade union successfully engaging in collective bargaining
- D Workers emigrating to take up higher paid jobs abroad

Your answer

[1]

5 Which change will cause the exchange rate to appreciate?

- A A decrease in the demand for exports
- B An increase in domestic interest rates
- C An increase in interest rates abroad
- D An increase in the demand for imports

Your answer

[1]

6 Which of the following describes the free rider problem?

- A Individuals are unwilling to pay for public goods
- B Individuals will over-consume goods that are provided for free by the government
- C There are competing wants for most goods, creating an opportunity cost
- D There are third party impacts that are ignored by the market mechanism

Your answer

[1]

7 Four women in Togo, a small republic in Sub-Saharan Africa, take out a loan of US\$500 to purchase supplies for a start-up cosmetics business. What is this an example of?

- A Debt relief
- B Microfinance
- C Overseas Development Assistance
- D Remittances

Your answer

[1]

8 Which of the following is the most likely impact of a government decision to increase the top rate of income tax and make means tested benefit more generous?

	<b>Lorenz Curve</b>	<b>Gini coefficient</b>
<b>A</b>	Shifts left	Decreases
<b>B</b>	Shifts left	Increases
<b>C</b>	Shifts right	Decreases
<b>D</b>	Shifts right	Increases

Your answer

[1]

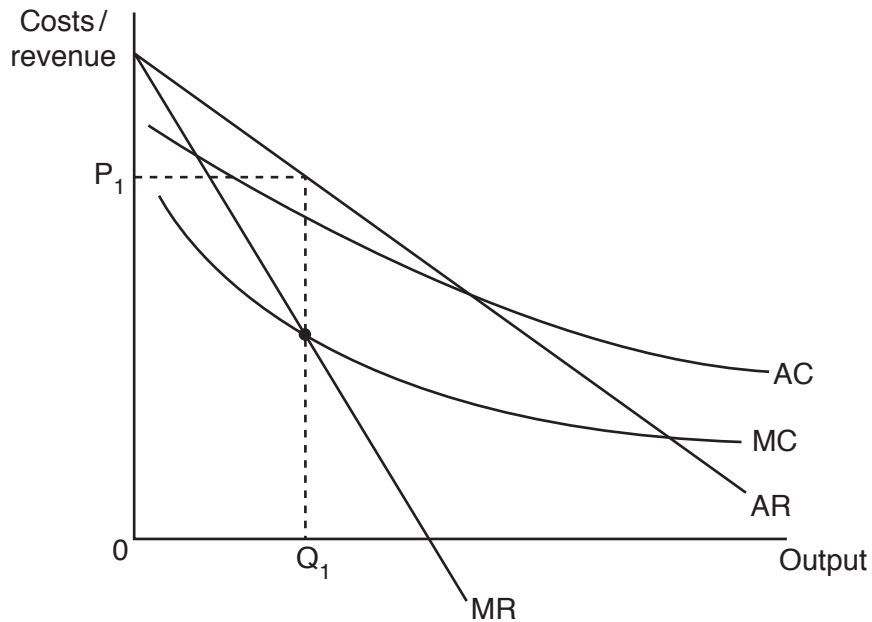
9 Which of the following pairs of macroeconomic objectives does the Phillips Curve illustrate a trade-off between?

- A Growth and the balance of payments
- B Growth and unemployment
- C Inflation and the balance of payments
- D Unemployment and inflation

Your answer

[1]

10 Which of the following is represented in the diagram below?



- A Contestable market
- B Monopolistic competition
- C Natural monopoly
- D Oligopoly

Your answer

[1]

- 11 What is the balance on the current account based on the information given about the country below?

Component	Balance (USD, millions)
Foreign direct investment	-4,015
Foreign purchases of domestic assets	-985
Secondary income (net international transfers)	158
Primary income (net investment income)	2,055
Trade in goods	3,974
Trade in services	-1,201

- A -\$32 million  
 B \$2,773 million  
 C \$4,001 million  
 D \$4,986 million

Your answer

[1]

- 12 Which change will make the wage elasticity of demand for labour more elastic?

- A Demand in the product market becomes more price inelastic  
 B Technological advancement enables greater capital-labour substitution  
 C The labour force becomes more occupationally mobile  
 D The proportion of labour costs in total costs decreases

Your answer

[1]

13 In which circumstance would supply side policy be likely to be most effective?

- A The economy is in recession
- B The economy is operating close to full capacity
- C There is a large negative output gap
- D There is risk of deflation occurring

Your answer

[1]

14 In February 2016 global bank HSBC announced its intentions to keep its headquarters in the UK, having considered moving them to Hong Kong. Two months later it announced a new loan scheme for small and medium sized firms including small textile firms. In which sectors of the economy do HSBC and textile firms operate?

	HSBC	Textile firms
A	Primary	Tertiary
B	Secondary	Primary
C	Secondary	Tertiary
D	Tertiary	Secondary

Your answer

[1]

15 Which of the following explains how and why a central bank carries out the policy of quantitative easing?

- A Purchases financial assets to prevent inflation falling below target
- B Purchases financial assets to prevent inflation rising above target
- C Sells financial assets to prevent inflation falling below target
- D Sells financial assets to prevent inflation rising above target

Your answer

[1]

**16** An increase in the price of strawberries encourages a farmer to grow strawberries instead of potatoes in her fields. Which type of supply relationship applies in this situation?

- A** Competitive
- B** Composite
- C** Derived
- D** Joint

Your answer

[1]

**17** Which of the following is most likely to reduce uncertainty amongst economic agents?

- A** A central bank adopting a formal inflation target
- B** A reduction in the basic rate of income tax
- C** Moving from a fixed to floating exchange rate system
- D** Zero hours contracts being introduced in the public sector

Your answer

[1]

**18** In the UK the price level increased by 1.5% in 2014 and 0% in 2015. Which of the following terms describes what was happening between 2014 and 2015?

- A** Deflation
- B** Disinflation
- C** Inflation
- D** Hyperinflation

Your answer

[1]



19 What does the Laffer Curve show?

- A Tax revenue will remain constant as the tax rate increases.
- B The correlation between the tax rate and tax revenue changes as the tax rate increases.
- C There is a negative correlation between the tax rate and tax revenue.
- D There is a positive correlation between the tax rate and tax revenue.

Your answer

[1]

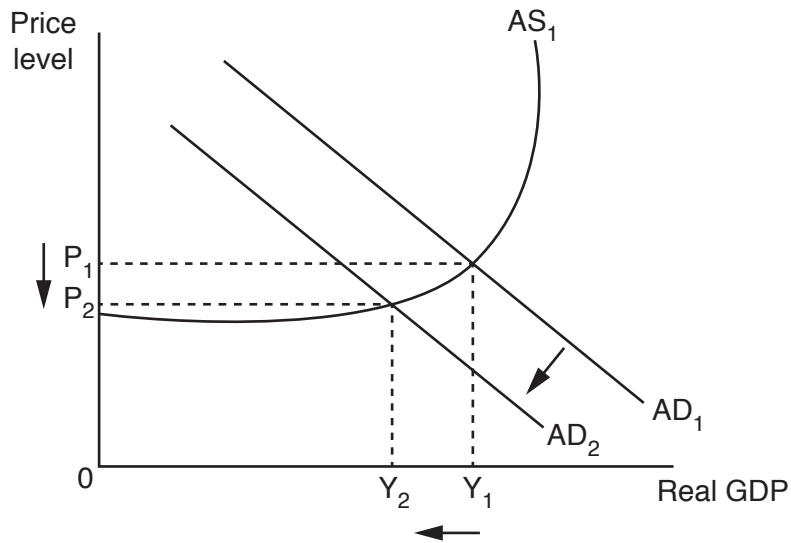
20 Which of the following is a need?

- A Clothing
- B Holiday entitlement
- C Internet connection
- D Television

Your answer

[1]

21



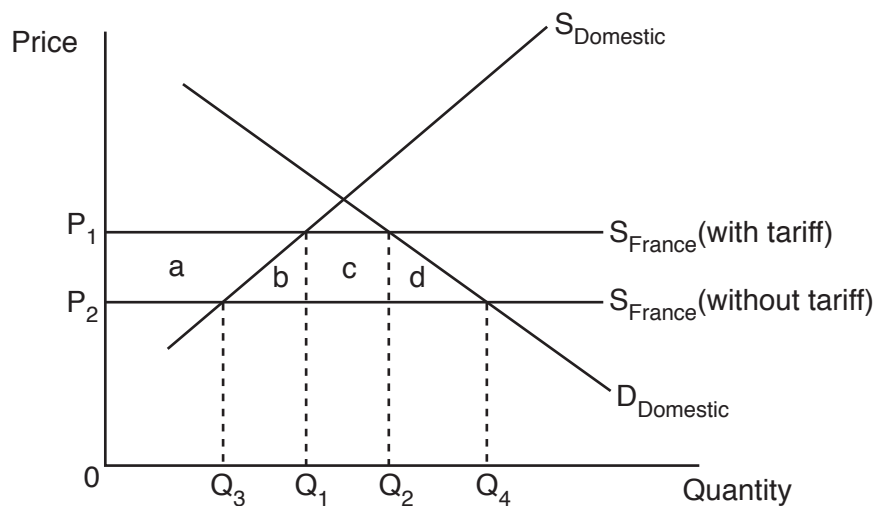
Which of the following is the most likely explanation of what is shown in the diagram above?

- A An improvement in the availability and affordability of childcare
- B An increase in the basic rate of income tax
- C A reduction in the interest rate
- D Research & development subsidies

Your answer

[1]

- 22 In 2016 Turkey was involved in negotiations attempting to gain membership of the European Union. One impact of it gaining membership would be the removal of the tariff currently charged on agricultural products imported into Turkey from France. The diagram below shows the effect of the removal of the tariff. Which area on the diagram would represent the net welfare gain from trade creation?

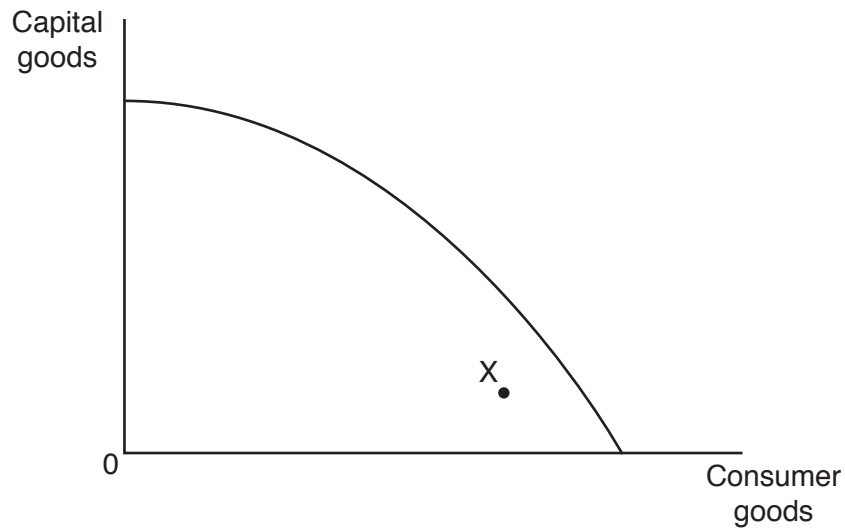


- A  $a + b + c + d$   
 B  $a + c$   
 C  $b + d$   
 D  $c$

Your answer

[1]

23 In the diagram below, what does point X represent?



- A Allocative inefficiency
- B Opportunity cost
- C Productive inefficiency
- D Scarcity

Your answer

[1]

24 Goods A and B are substitutes. Which of the following options describes what will happen to their demand curves if an excise duty is placed on good A?

	Good A	Good B
A	Contraction	Extension
B	Contraction	Shift right
C	Shift left	Shift left
D	Shift left	Shift right

Your answer

[1]

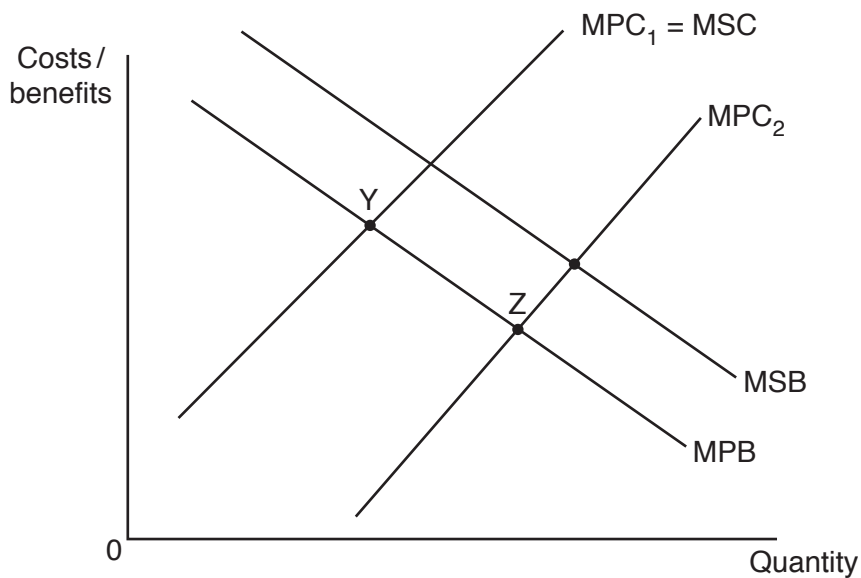
25 A country's marginal propensity to import is 0.1, the marginal rate of taxation is 0.3 and the marginal propensity to consume is 0.8. What is the size of the country's multiplier?

- A 0.60
- B 0.83
- C 1.20
- D 1.67

Your answer

[1]

26 Government intervention in a market results in the equilibrium position moving from Y to Z. Which of the following best describes what is illustrated by the diagram?

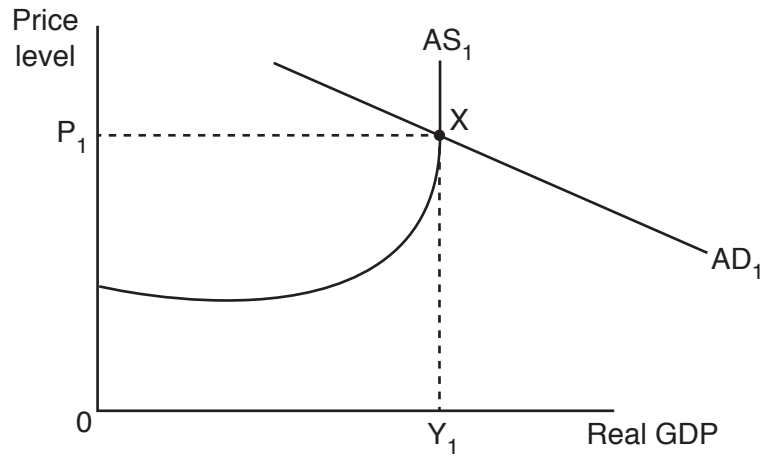


	Market Failure	Government Intervention	Outcome of Intervention
<b>A</b>	Negative externalities of consumption	Subsidy	Market failure solved
<b>B</b>	Negative externalities of consumption	Tax	Government failure
<b>C</b>	Positive externalities of consumption	Subsidy	Government failure
<b>D</b>	Positive externalities of consumption	Tax	Market failure solved

Your answer

[1]

- 27 If an economy is operating at point X in the diagram below, which of the following best describes the impact of an increase in consumer expenditure?



	<b>Economic Growth</b>	<b>Inflation</b>	<b>Unemployment</b>
<b>A</b>	Decreases	Decreases	Decreases
<b>B</b>	Increases	Increases	Increases
<b>C</b>	Increases	Unchanged	Increases
<b>D</b>	Unchanged	Increases	Unchanged

Your answer

[1]

- 28 Two countries are involved in the production of cars and bananas. If they each decided to use half of their resources on the production of each of the products, they would produce the following quantities:

Good	Country Y	Country Z
Cars	4,000	3,000
Bananas	300,000	100,000

Which of the following represents world output of each good if both countries fully exploited their comparative advantage?

	Cars	Bananas
A	3,000	300,000
B	4,000	100,000
C	6,000	600,000
D	8,000	200,000

Your answer

[1]

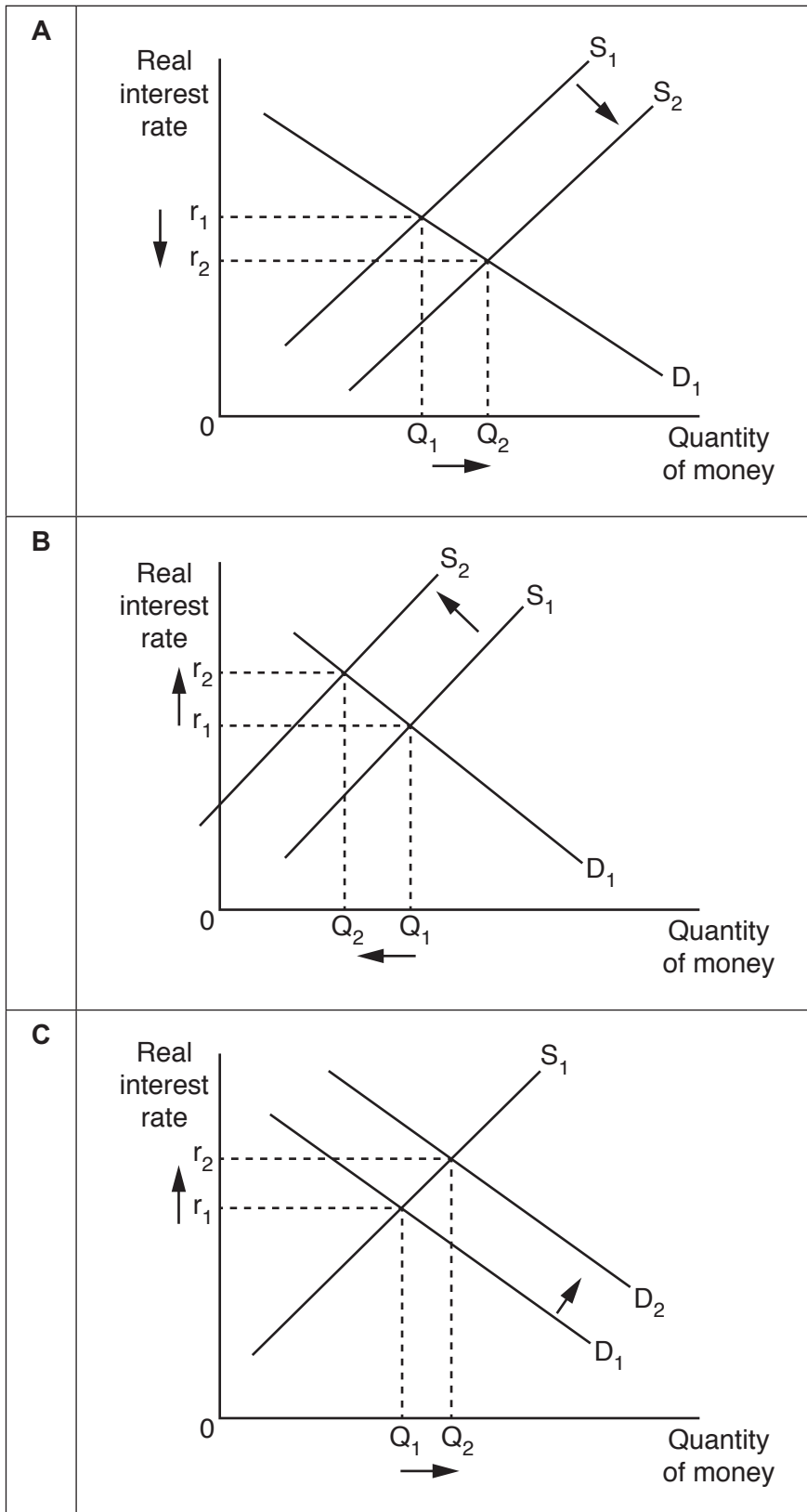
- 29 The total costs for an individual operating a fast food van outside a local DIY store last year were £15,000. If 25,000 sales were made in total and the only fixed cost incurred was the rental of the van at £250 a month, what was the average variable cost?

- A 48p
- B 59p
- C 60p
- D 72p

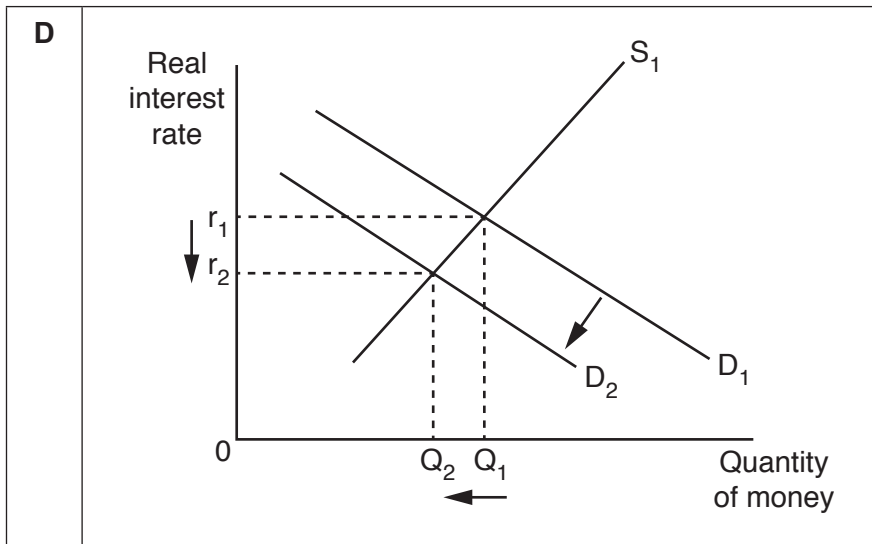
Your answer

[1]

30 The rate of corporation tax in the economy is set to increase. Which diagram shows the most likely impact on the market for loanable funds of this anticipated change?







Your answer

[1]

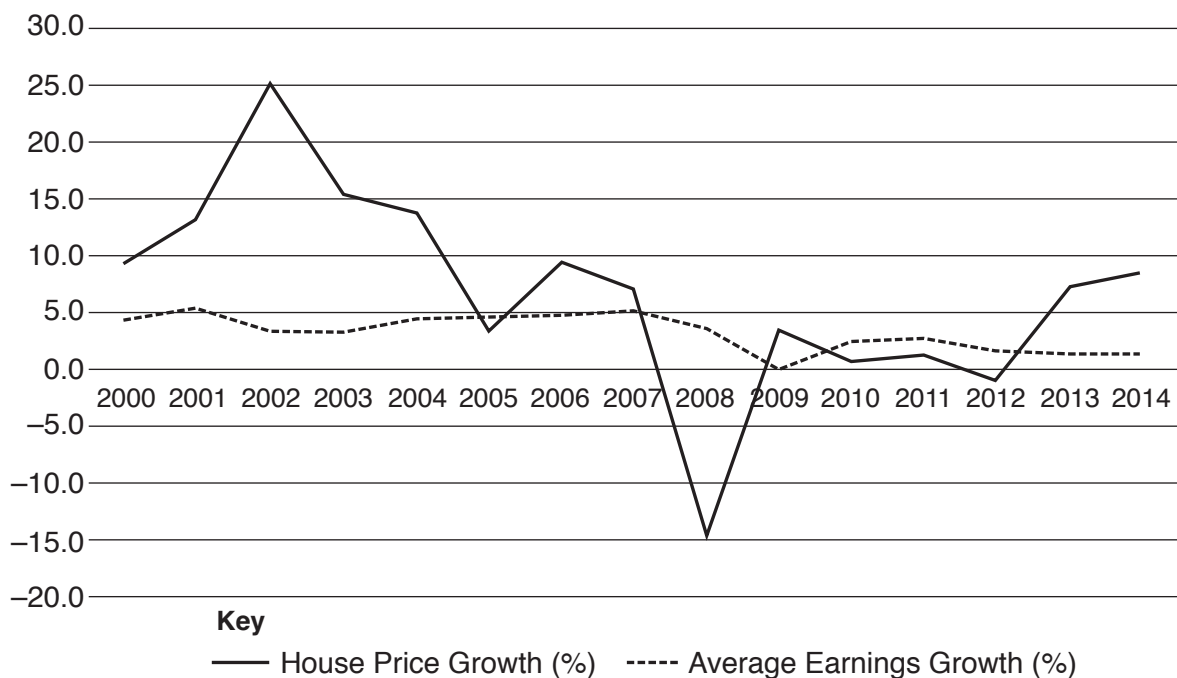
## SECTION B

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

### Extract 1 – The challenge of affordable housing

Average house price growth of nearly 10% in 2015 has contributed to an increasing crisis in the availability of affordable housing in the UK. Demand for housing has been fuelled by sustained record low interest rates, population growth resulting from immigration and changing lifestyles increasing the number of single occupier households. With rates of house building falling significantly below the rate of household formation, the shortage of properties on the market has contributed to rapidly rising prices. The increase in prices has been most rapid in London, where average prices increased by £500 a day in January 2016.

One method of measuring the affordability of housing is to study the ratio of house prices to average earnings, which by the end of 2015, had reached 5:1. This exceeded the ratio of approximately 4:1 during the housing boom of the late 1980s, evidence that the housing market is in danger of overheating.



**Fig. 1.1 – House Price & Earnings Growth 2000–2014**

In the 2015 Autumn Statement a number of policy reforms designed to tackle the rise in house prices were announced. One reason for the rise in house prices has been the increased number of buy to let investors, who purchase property as an investment which they then let out on the private rental market. As well as removing tax relief on mortgage interest payments, the Chancellor introduced a 3% additional stamp duty rate on any property bought as a buy to let or second home. This was in addition to the stamp duty already charged on the purchase of residential property. These reforms were designed to reduce significantly the incentives to invest in this market and prevent further upward pressure on house prices.

Further steps to make purchasing a house more affordable were taken in the March 2016 Budget; the Chancellor announced the 'Lifetime ISA'. Prospective homebuyers are incentivised to save up to £4,000 a year for a new home by the government offering a 25% bonus on all money saved. Alongside

the Help to Buy Equity Loans scheme introduced in 2013, which gives individuals access to a 20% equity loan from the government, it is hoped this policy will make it significantly easier for first time buyers to secure the deposits they need to get a foot on the property ladder.

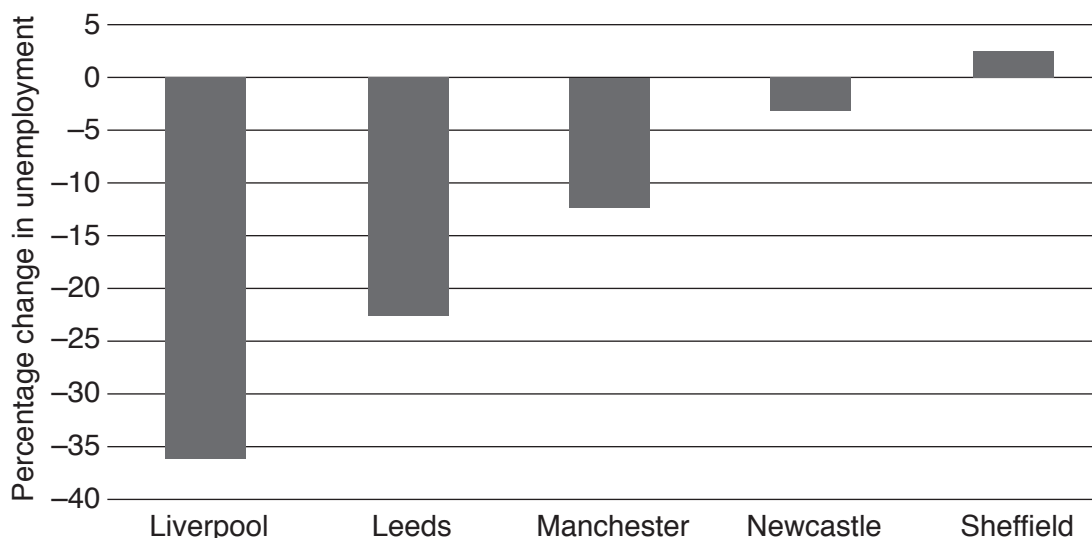
### Extract 2 – Promoting the development of infrastructure

Central to the government’s strategy to make housing more affordable is the need to significantly increase the rate of house building. However, despite a range of policy initiatives designed to achieve this, such as the relaxation of planning regulations, activity in the construction industry remains weak. Questions have been raised over whether developers are deliberately restricting supply of housing in order to keep prices artificially high. Even with the rising prices experienced in recent years, house building is still occurring at less than two thirds of the level witnessed in the pre-financial crisis peak, when the number of houses constructed each year regularly exceeded 200,000. This has raised a question over whether developers are deliberately restricting the supply of housing in order to keep prices artificially high.

<b>Year</b>	<b>House Price</b>	<b>Houses Built</b>
2009	£162,116	158,370
2010	£162,971	136,590
2011	£164,785	140,600
2012	£162,924	141,530
2013	£174,444	135,350
2014	£189,002	144,970

However, many environmentalists argue the relatively slow rate of house building is no bad thing. A particularly contentious debate exists around building on ‘green belt’ land, which accounts for approximately 10% of the UK’s land. This has been protected from development by legislation that has been in place since 1947. It is designed to prevent urban sprawl and the loss of green space. As the need for more housing becomes more severe the Government is considering allowing some development to take place on this protected land; in late 2015 it announced ‘starter’ homes, to be sold at a 20% discount off the market rate, could be built on green belt land. This has led to great concern about the potential damage such building could do to areas of outstanding natural beauty and the habitat of wildlife. Such harms, however, need to be balanced against the potential benefits such development could bring – not only in terms of lower house prices, but also long term environmental benefits that could be delivered from more people living in modern, well insulated and energy efficient accommodation.

As well as building more houses, the government is attempting to reduce the pressure on over-populated areas in the south of England by aiming to develop a ‘Northern Powerhouse’. Cities such as Hull, Liverpool and Newcastle have all suffered from the migration of young professionals to London where more attractive employment prospects are on offer. This migration has driven up house prices in the south and harmed the economic prosperity of the north. Central to the government’s strategy to address this is the development of HS3 – a new, taxpayer-funded, high-speed railway across the Pennines connecting Liverpool, Manchester, Leeds, Hull and Newcastle. A report by the National Infrastructure Commission in March 2016 noted “A better connected north will be better for jobs, better for families and better for Britain. The work should begin as quickly as possible”.



**Fig. 2.2 – Projected impact of HS3 on regional unemployment rates**

Critics argue such investment represents wasteful ‘vanity’ spending and cannot be justified at a time when there are competing pressures on public spending. They point to the inability of high speed rail to deliver the promised return on investment elsewhere in the world as proof that the scheme should not go ahead.

### **Extract 3 – Housing in developing and emerging countries**

Half of the world’s population lives in urban areas and 80% of future population growth is expected to be in urban areas. Much of this population growth will take place in developing and emerging countries. Relatively high rates of economic growth in recent years have not been matched by growth in the supply of good quality housing. Policy failings, a lack of political will, poor access to finance and insufficient infrastructure have all contributed to the insufficient supply of affordable dwellings. This is a particular problem in many Latin American cities where it is estimated as many as 66% of the households established each year settle into informal housing such as slums.

**Fig. 3.1 – Latin American growth rates & housing quality**

<b>Country</b>	<b>Average GDP growth rate 2010–2014 (%)</b>	<b>% of total households homeless or living in poor quality houses</b>	<b>HDI value (2014)</b>
Brazil	3.62	33	0.744
Chile	3.88	23	0.822
Costa Rica	3.28	18	0.763
Mexico	1.95	34	0.756
Paraguay	3.72	43	0.676
Peru	6.70	72	0.737

It is unlikely that any one policy measure alone would be sufficient to overcome this problem – nearly 10% of GDP would need to be dedicated to public housing programmes if Latin American governments were to use tax revenue to provide enough affordable houses. Therefore, alongside increased public spending there is a need to incentivise more private providers to enter the construction industry. This is however likely to require further infrastructure spending as well as the development of more formal financial systems.

31 Using the information in Extract 1, explain how the problem of scarcity can be applied to the housing market.

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32 Using the data from Fig. 1.1, compare what has happened to house prices and average earnings between 2000 and 2014.

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33\* Evaluate, using an appropriate diagram, the extent to which the policy reforms outlined in Extract 1 are likely to improve the affordability of housing in the UK. [15]

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34 Using the data from Fig. 2.1, calculate the price elasticity of supply of new housing in 2014.

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35 Evaluate, whether there is evidence of market failure in the market for house building. [8]

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37 Economic theory would suggest there is a positive correlation between economic growth and the quality of housing. Explain whether the data in Fig. 3.1 supports this view.

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38\* Using the information in Extract 3, evaluate the relationship between economic growth and economic development. [15]

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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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A page of ruled lines for writing, consisting of a solid vertical margin line on the left and horizontal dotted lines for the writing area.

A large area of the page is reserved for writing, featuring a vertical solid line on the left side and horizontal dotted lines extending across the page.



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