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OCR AS ECONOMICS: QUESTIONS BY TOPIC

## Introduction to Microeconomics

**OCR AS Economics H060 — Topic MICRO 1**

25 questions · 84 marks · Mark schemes included

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### HOW TO USE THIS BOOKLET

Questions run from the lowest mark tariff to the highest, so similar questions sit together.

Click any row below to jump straight to that question.

On every question page, click the header (top right) to jump to its mark scheme, and click again to jump back.

Mark schemes are collected together at the end of this booklet, cropped from the genuine OCR mark-scheme grid.

**25 questions · 84 marks · lowest tariff first**

|     | QUESTION                       | SOURCE                                 | MARKS    | PAGE      |
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| 2.  | <b>Section A (MCQ), Q5</b>     | H060/01 Microeconomics · June 2017     | 1 mark   | <b>6</b>  |
| 3.  | <b>Section A (MCQ), Q2</b>     | H060/01 Microeconomics · June 2018     | 1 mark   | <b>7</b>  |
| 4.  | <b>Section A (MCQ), Q11</b>    | H060/01 Microeconomics · June 2019     | 1 mark   | <b>8</b>  |
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| 7.  | <b>Section A (MCQ), Q12</b>    | H060/01 Microeconomics · June 2022     | 1 mark   | <b>11</b> |
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| 9.  | <b>Section A (MCQ), Q15</b>    | H060/01 Microeconomics · June 2022     | 1 mark   | <b>13</b> |
| 10. | <b>Section A (MCQ), Q1</b>     | H060/01 Microeconomics · June 2023     | 1 mark   | <b>14</b> |
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| 12. | <b>Section A (MCQ), Q4</b>     | H060/01 Microeconomics · June 2023     | 1 mark   | <b>16</b> |
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| 14. | <b>Section A (MCQ), Q3</b>     | H060/01 Microeconomics · June 2024     | 1 mark   | <b>18</b> |
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| 16. | <b>Section A (MCQ), Q9</b>     | H060/01 Microeconomics · June 2024     | 1 mark   | <b>20</b> |
| 17. | <b>Section A (MCQ), Q1</b>     | H060/01 Microeconomics · November 2020 | 1 mark   | <b>21</b> |
| 18. | <b>Section A (MCQ), Q11</b>    | H060/01 Microeconomics · November 2020 | 1 mark   | <b>22</b> |
| 19. | <b>Section A (MCQ), Q14</b>    | H060/01 Microeconomics · November 2020 | 1 mark   | <b>23</b> |
| 20. | <b>Section A (MCQ), Q15</b>    | H060/01 Microeconomics · November 2020 | 1 mark   | <b>24</b> |
| 21. | <b>Section A (MCQ), Q3</b>     | H060/01 Microeconomics · November 2020 | 1 mark   | <b>25</b> |
| 22. | <b>Section B, Q16(d)</b>       | H060/01 Microeconomics · June 2018     | 3 marks  | <b>27</b> |
| 23. | <b>Section C (Essay), Q18*</b> | H060/01 Microeconomics · June 2018     | 20 marks | <b>30</b> |
| 24. | <b>Section C (Essay), Q17*</b> | H060/01 Microeconomics · June 2024     | 20 marks | <b>35</b> |
| 25. | <b>Section C (Essay), Q18*</b> | H060/01 Microeconomics · June 2024     | 20 marks | <b>40</b> |

# QUESTIONS

25 questions · 84 marks · lowest tariff first

# 1-MARK QUESTION

21 questions in this booklet

7

- 14 The below table illustrates the potential output of two countries, A and B, if they divide all their resources equally between the production of two goods, X and Y.

| Country | Good X | Good Y |
|---------|--------|--------|
| A       | 300    | 600    |
| B       | 600    | 900    |

The opportunity cost of producing an additional unit of good X in country A is

- A 0.5 units of good Y.
- B 1.5 units of good Y.
- C 2 units of good Y.
- D 3 units of good Y.

Your answer

[1]

- 15 The purpose of a National Minimum Wage is to ensure

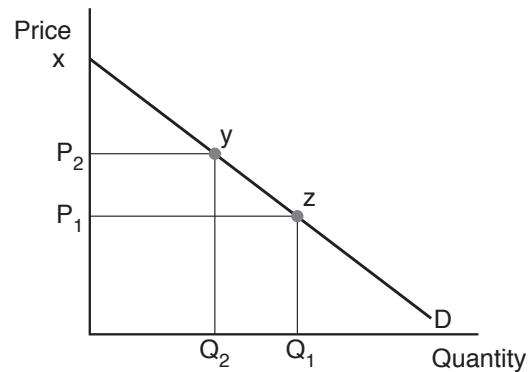
- A all workers are guaranteed a job.
- B employees receive a wage above the market equilibrium wage.
- C firms' labour costs are reduced.
- D the labour market is in equilibrium.

Your answer

[1]

3

- 4 In the diagram below, price rises from  $P_1$  to  $P_2$ . What effect does this price movement have on consumer surplus?



- A Increases it to  $P_1xz$   
B Increases it by  $P_2xy$   
C Reduces it by  $P_1xz$   
D Reduces it by  $P_1P_2yz$

Your answer

[1]

- 5 Profit is a payment to which factor of production?

- A Capital  
B Enterprise  
C Labour  
D Land

Your answer

[1]

2

## SECTION A

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

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

- 1 A farm decides to reduce its production of strawberries to increase its production of raspberries. What is the relationship between the two goods?

- A Competitive demand
- B Competitive supply
- C Composite supply
- D Joint demand

Your answer

[1]

- 2 What does the economic problem of scarcity result from?

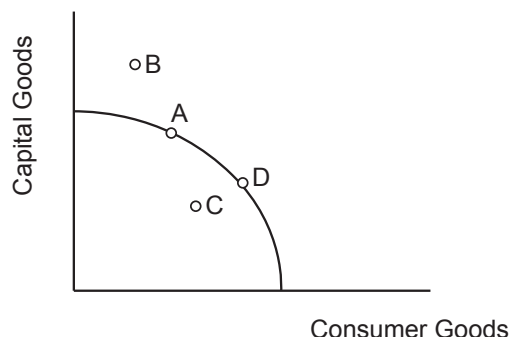
- A A mixed economy
- B Government failure
- C Limited resources
- D Limited wants

Your answer

[1]

5

- 11 A country is currently making full use of all its resources. It decides to produce less consumer goods. Which of the following best represent the choice this country has made?



- A A to B  
B B to C  
C C to D  
D D to A

Your answer

☐

[1]

- 12 Moral hazard can arise if health care is state funded. How could this be explained?

- A Consumers do not know how much health care they may need  
B Consumers do not take into account the costs to 'third parties'  
C Consumers underestimate the future costs of unhealthy living  
D Consumers will take excessive risk with their health if health care is free

Your answer

☐

[1]

- 13 When is allocative efficiency achieved?

- A Consumer surplus is greater than producer surplus  
B Consumer and producer surplus are at a maximum  
C Consumer and producer surplus are equal  
D Consumer and producer surplus are zero

Your answer

☐

[1]

- 14 If there is an increase in the interest rate, what will be the most likely effect on a market?

- A Demand curve will shift to the right  
B Equilibrium quantity traded will rise  
C Supply will become more elastic  
D Supply curve will shift to the left

Your answer

☐

[1]

2

## 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?

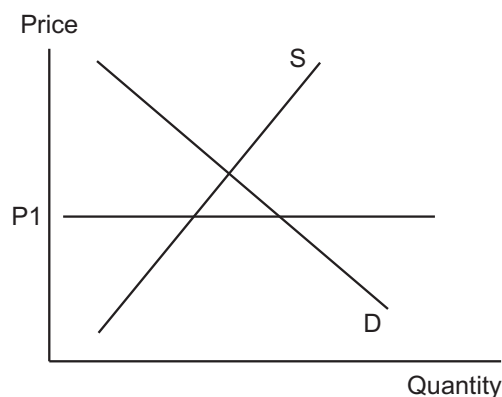
- A A decrease in income tax
- B A decrease in the cost of renting houses
- C An increase in emigration to the EU
- D An increase in the price of houses

Your answer

[1]

5

- 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]

6

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

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[1]

2

## SECTION A

Write your answer to each question in the box provided.

1 Which of these contains all the four factors of production?

- A Capital, enterprise, labour, land
- B Capital, labour, profit, rent
- C Enterprise, interest, land, wages
- D Interest, profit, rent, wages

Your answer

[1]

2 What is the income elasticity of demand if a 10% increase in consumer income leads to a 40% decrease in quantity demanded?

- A -4.00
- B -0.25
- C +0.25
- D +4.00

Your answer

[1]

3 Which of these is an example of a normative statement?

- A Taxes on cigarettes provide the government with tax revenue
- B The government should raise taxes even higher on cigarettes
- C The tax on cigarettes accounts for 80% of the price of cigarettes
- D VAT is one of the taxes charged on cigarettes

Your answer

[1]

4 Opportunity cost is defined as the value of:

- A all alternative goods foregone
- B the cost of other goods and services
- C the cost imposed on a third party
- D the next best alternative foregone

Your answer

[1]

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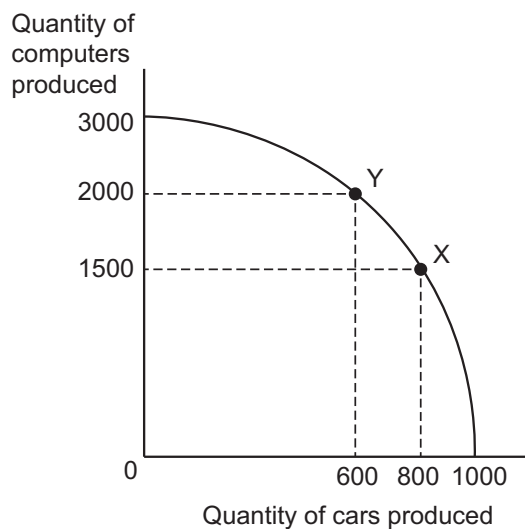
- 1 Which is a positive externality of a new factory being built in a town?

- A Air pollution
- B Employment
- C Noise
- D Traffic congestion

Your answer

[1]

- 2 The diagram shows the production possibility curve for a country that produces computers and cars.



The economy is currently producing at point X.

What would be the opportunity cost of moving to point Y?

- A 200 cars
- B 600 cars
- C 500 computers
- D 2000 computers

Your answer

[1]

3

3 Which of these is an example of a normative statement?

- A More people will use solar energy
- B Solar energy will be the only type of energy available
- C Solar energy is a natural source of energy
- D The UK government must subsidise solar energy

Your answer

☐

[1]

4 Which of these is **not** an example of a composite demand good?

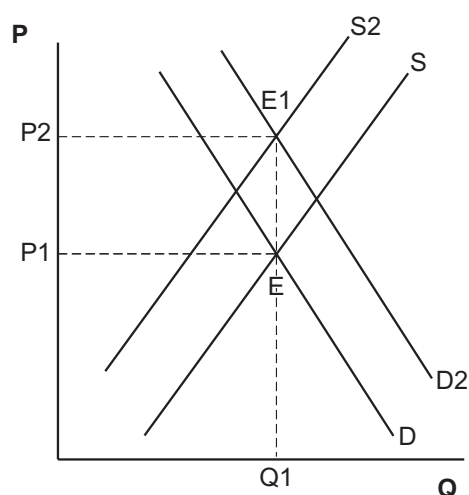
- A Chair
- B Milk
- C Oil
- D Wood

Your answer

☐

[1]

5 The diagram shows the demand and supply of oil.  
The market is initially in equilibrium at E.



What would be the **most** likely cause of the market equilibrium moving to E1?

- A Decrease of costs of oil production and decrease in air travel
- B Decrease of costs of oil production and increase in air travel
- C Increase of costs of oil production and decrease in air travel
- D Increase of costs of oil production and increase in air travel

Your answer

☐

[1]

4

6 Which of these is **not** an economic agent?

- A Countries
- B Firms
- C Governments
- D Households

Your answer

[1]

7 The table shows the quantity demanded and quantity supplied of a product at different prices.

| Price (£) | Quantity Demanded | Quantity Supplied |
|-----------|-------------------|-------------------|
| 10        | 90                | 5                 |
| 20        | 80                | 15                |
| 30        | 60                | 25                |
| 40        | 35                | 35                |
| 50        | 20                | 50                |

What is the state of the market for this product at a price of £30?

- A Excess demand of 35 units
- B Excess demand of 60 units
- C Excess supply of 25 units
- D Excess supply of 85 units

Your answer

[1]

8 Which is **not** a reward for a factor of production?

- A payment by a tenant of a house to its owner
- B return received by a person on their savings account
- C revenue received by a firm from its total sales
- D total income earned by a self-employed person

Your answer

[1]

9 The **best** description of a free good is

- A Consumers do not have to pay for the good
- B Scarce resources are not used in the production of the good
- C The production of the good is fully subsidised
- D The government provides the good to all consumers

Your answer

[1]

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Your answer

[1]

2

## SECTION A

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

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

**1** Which of the following solves the problem of what to produce in a planned economy?

- A** Consumers' tastes and preferences
- B** Government directives
- C** Profit maximising firms
- D** The operation of market forces

Your answer

[1]

**2** Which of the following is a benefit of division of labour?

- A** Each worker is skilled in a variety of tasks
- B** Firms spend more on training
- C** Goods are all very similar
- D** Production costs are lower

Your answer

[1]

**3** Which of the following statements would be described as a positive statement?

- A** Branded goods are better than non-branded goods
- B** Branded goods are more expensive than non-branded goods
- C** Branded goods do not represent value for money
- D** Branded goods should be taxed at a higher rate than non-branded goods

Your answer

[1]

5

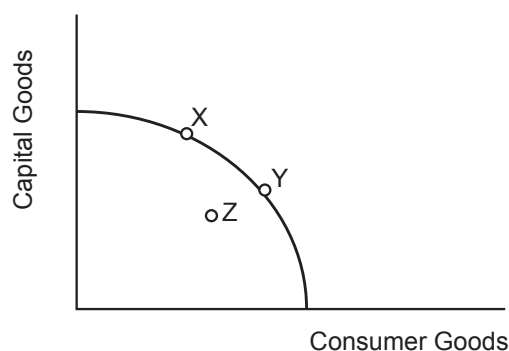
- 10 A firm adopts new technology that reduces the discharge of waste into the local river. Which of the following is **most** likely to fall?

- A Marginal external benefit
- B Marginal external cost
- C Marginal private benefit
- D Marginal private cost

Your answer

[1]

- 11 A country is not currently making full use of all its resources. It decides to produce more consumer goods. Which of the following movements on the diagram represents the effect of this decision?



- A X to Y
- B Y to Z
- C Z to X
- D Z to Y

Your answer

[1]

- 12 A government legislates to force producers of a good to put information on the packaging about the negative consumption externalities it causes. What would be the effects on the market for this good?

- |   | Demand curve       | Supply curve       | Quantity traded |
|---|--------------------|--------------------|-----------------|
| A | Shift to the left  | Shift to the left  | Fall            |
| B | Shift to the left  | Shift to the right | Uncertain       |
| C | Shift to the right | Shift to the left  | Uncertain       |
| D | Shift to the right | Shift to the right | Rise            |

Your answer

[1]

6

13 What is an inferior good?

- A One that represents less value for money than a close substitute
- B One where the price and quantity demanded are positively related
- C One with a cross elasticity of demand of less than one
- D One with a negative income elasticity of demand

Your answer ☐

[1]

14 Which of the following is a free good?

- A Health care
- B Street lighting
- C Sunlight
- D Three for two offers

Your answer ☐

[1]

15 Which of the following is a reward to a factor of production?

- A Free accommodation for a school caretaker
- B Loyalty cards for frequent purchases
- C Money received from the sale of a house
- D Pensions paid to retired employees

Your answer ☐

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Your answer

[1]

## 3-MARK QUESTIONS

1 question in this booklet

7

## SECTION B

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

**A Defence Controversy**

The UK budget deficit grew rapidly after the 2009 recession. In order to reduce the size of the budget deficit, the UK government has been trying to reduce its spending. This policy has included reduced spending on healthcare and education. However, the government has been reluctant to reduce spending on defence.

Many economists argue that defence needs to be provided by the state since it is a public good which, if left to the free market, would not be produced. A controversial aspect of the government's plans is spending on defence. In particular, whether or not to replace Britain's four existing Trident nuclear missile submarines with four new ones.

The Ministry of Defence has said it will cost £41bn to build the replacement system. Total (central) government spending in 2016 was £588.8 billion. (Fig. 1 shows the breakdown of this spending.) Those in favour of a nuclear deterrent argue that it is an essential part of Britain's defence strategy. The Prime Minister argued it would be "sheer madness" to give up the UK's nuclear weapons, because of the threat posed by other countries with a nuclear defence capability.

Opponents argue that the cost is too high and that the money would be better allocated to healthcare or education. One estimate suggests that the cost of Trident over 30 years will be £200bn and this would be enough to fully fund hospital accident and emergency services for 50 years, employ 200 000 new nurses, build 40 000 new primary schools, or cover tuition fees for 5 million students.

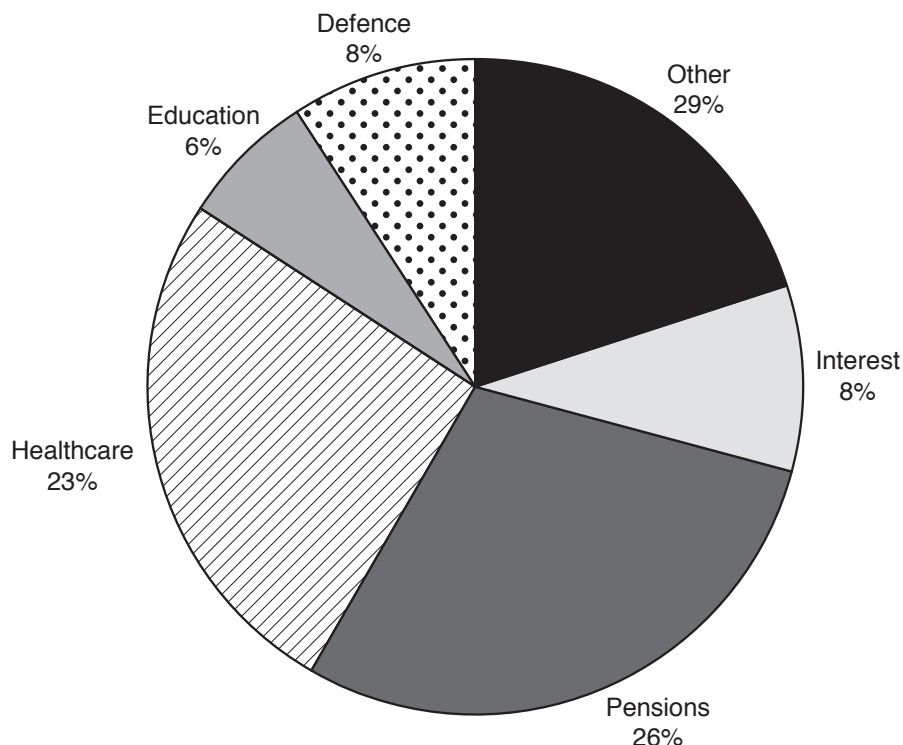


Fig. 1 UK Government spending by area in 2016

© OCR 2018

Turn over

8

- 16 (a) State one factor of production that might be used in the production of submarines.

.....  
..... [1]

- (b) State and explain two factors that might lead to an increase in the cost of replacing Trident.

.....  
.....  
.....  
.....  
.....  
..... [4]

- (c) Using defence as an example, explain two characteristics of a public good.

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.....  
.....  
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.....  
..... [4]

- (d) Using the concept of scarcity and the information in Fig. 1, explain the effect of increased government spending on defence.

.....  
.....  
.....  
..... [3]

- (e) Using information in the case study, calculate, in pounds, how much more the UK government spent on healthcare and education than on defence in 2016.

.....  
.....  
.....  
..... [3]

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## 20-MARK QUESTIONS

3 questions in this booklet

## SECTION C

**17\*** In the UK over 85% of healthcare is provided by the public sector.

[20]

**18\*** World oil prices are predicted to double by 2020.

[20]

[illegible]

**Turn over**



Handwriting practice area with horizontal dotted lines.

Handwriting practice area consisting of multiple horizontal dotted lines for writing.



## SECTION C

**17\*** Evaluate, using an appropriate diagram(s), the effectiveness of incentives in ensuring efficient resource allocation in an economy. **[20]**

**18\*** In Europe, farmers receive substantial financial support from the EU, through the common agricultural policy (CAP).

Evaluate, using an appropriate diagram(s), the effectiveness of government subsidies to encourage the production of goods such as agricultural products. [20]

This image shows a full page of white paper designed for handwriting practice. It features 18 evenly spaced, horizontal dotted lines extending across the entire width of the page. The lines are thin and light gray, providing a guide for letter height and placement without being distracting. There is no text or other markings on the page.

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Handwriting practice area consisting of 30 horizontal dotted lines.

Handwriting practice area consisting of 30 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

## SECTION C

**17\*** Evaluate, using an appropriate diagram(s), the effectiveness of incentives in ensuring efficient resource allocation in an economy. **[20]**

**18\*** In Europe, farmers receive substantial financial support from the EU, through the common agricultural policy (CAP).

Evaluate, using an appropriate diagram(s), the effectiveness of government subsidies to encourage the production of goods such as agricultural products. [20]

[illegible]

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Handwriting practice area with horizontal dotted lines.

Handwriting practice area consisting of 20 horizontal dotted lines.

Handwriting practice area consisting of multiple horizontal dotted lines for writing.

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# MARK SCHEMES

official OCR mark schemes

|    |   |                                                                                                                                                                                                                                                                                                                                                         |   |   |
|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|
| 14 | C | <b>Rationale</b><br><br>A.This is the opportunity cost of good Y in country A<br><br>B.This is the opportunity cost of good X in country B<br><br>C. <b>Correct:</b> The ratio of X to Y in Country A is 1:2. If country A gives up 2 units of Y it can produce an extra unit of X<br><br>D.This is the opportunity cost of 1.5 units of X in country A | 2 | x |
|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|

|   |   |                                                                                                                                                                                                         |   |  |
|---|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 5 | B | <b>Rationale</b><br><br>A.The payment to capital is interest<br><br>B. <b>Correct:</b> the payment to enterprise is profit<br><br>C.The payment to labour is wages<br><br>D.The payment to land is rent | 1 |  |
|---|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|   |   |                                                                                                                                                                                                                                              |   |  |
|---|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 2 | C | <b>Rationale</b><br>A. This is a means of allocating resources<br>B. This is when government intervention leads to a worse outcome<br>C. <b>Correct:</b> Insufficient factors of production to meet all human wants<br>D. Wants are infinite | 1 |  |
|---|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|    |   |                                                                                                                                                                                                                                                                                                                                                                                                                   |   |   |
|----|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|
| 11 | D | <b>Rationale</b><br><b>A.</b> Combination B is outside the PPC (i.e. not attainable, given current resources)<br><b>B.</b> Combination C represents less capital goods than A and D, and an inefficient allocation of resources<br><b>C.</b> Combination D represents more consumer goods and less capital goods than A<br><b>D. Correct: Combination A represents more capital goods and less consumer goods</b> | 2 | x |
|----|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|

| Question | Answer                                                                                          | Score | Academic Skills |
|----------|-------------------------------------------------------------------------------------------------|-------|-----------------|
| 1 A      | Rationale:<br>A <b>Correct:</b> Interest is reward for capital<br>B Profit<br>C Wages<br>D Rent | 1     |                 |

|    |   |                                                                                                                                                                                                                |   |  |
|----|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 11 | A | <p><del>D Correct: Productive efficiency</del></p> <p>Rationale:<br/>A <b>Correct:</b> Definition of ceteris paribus<br/>B Refers to normative statement<br/>C Factors of production<br/>D Planned economy</p> | 1 |  |
|----|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|    |   |                                                                                                                                                   |   |  |
|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 12 | D | <p>Unrained economy</p> <p>Rationale:</p> <p>A Economic good</p> <p>B Economic good</p> <p>C Economic good</p> <p>D <b>Correct:</b> Free good</p> | 1 |  |
|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|    |   |                                                                                                                                                                                                                                                                                                         |   |  |
|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 14 | D | <p>UNCORRECTED</p> <p>Rationale:</p> <p>A Describes private benefits</p> <p>B Describes private benefits</p> <p>C Describes private benefits</p> <p>D <b>Correct:</b> Describes social benefits. Positive externalities are benefits enjoyed by those affected by the economic activities of others</p> | 1 |  |
|----|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

| Question | Answer                                                                                                                             | MC | Assessive Skills |
|----------|------------------------------------------------------------------------------------------------------------------------------------|----|------------------|
| 15       | D<br>Rationale:<br>A Normative statement<br>B Normative statement<br>C Normative statement<br>D <b>Correct:</b> Positive statement | 2  |                  |

|   |   |                                                                                                                                                                              |   |  |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 1 | A | Rationale:<br>A <b>Correct:</b> Factors of production<br>B Only two are factors of production<br>C Only two are factors of production<br>D Rewards for factors of production | 1 |  |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|   |   |                                                                                     |   |  |
|---|---|-------------------------------------------------------------------------------------|---|--|
| 3 | B | Rationale:<br>A Positive<br>B <b>Correct:</b> Normative<br>C Positive<br>D Positive | 1 |  |
|---|---|-------------------------------------------------------------------------------------|---|--|

|   |   |                                                                                                              |   |  |
|---|---|--------------------------------------------------------------------------------------------------------------|---|--|
| 4 | D | <p>Rationale:<br/>A incorrect<br/>B: incorrect<br/>C External cost<br/>D <b>Correct</b> Opportunity cost</p> | 1 |  |
|---|---|--------------------------------------------------------------------------------------------------------------|---|--|

2. where they show relevance.
- Using 'best fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
- Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
  - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
  - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline', but they have only achieved some of the qualities in the band descriptors.

- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

**B: TOTAL MARKS**

|   |   |                                                                                                                                                                                                                                                                                                                        |   |  |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 6 | A | <p><del>Correct: countries are trading partners and not economic agents</del></p> <p>Rationale:<br/><b>A Correct:</b> countries are trading partners and not economic agents<br/>B firms are a type of economic agent<br/>C governments are a type of economic agent<br/>D households are a type of economic agent</p> | 1 |  |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|   |   |                                                                                                                                                                                                                                                                                                                                                                          |   |  |
|---|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 9 | B | <p>Rationale:</p> <p>A Whilst the consumer may not pay, scarce resources could have been used in production</p> <p><b>B Correct:</b> Scarce resources are not used in the production of free goods</p> <p>C This means the consumer does not pay but scarce resources may have been used</p> <p>D The consumer may not pay but scarce resources could have been used</p> | 1 |  |
|---|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|   |   |                                                                                                                                                                                                                                                               |   |  |
|---|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 1 | B | <p>Rationale</p> <p>A. This is a characteristic of a market economy</p> <p><b>B. Correct: This is a characteristic of a planned economy</b></p> <p>C. This is a characteristic of a market economy</p> <p>D. This is a characteristic of a market economy</p> | 1 |  |
|---|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

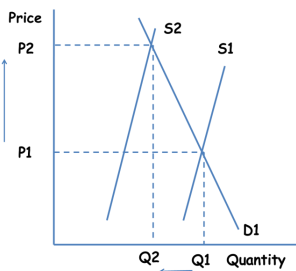
|    |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |   |   |
|----|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|
| 11 | D | <p>Rationale</p> <p>A This is a movement along the PPC when all resources are being used. It is not a movement from an initial position when not all resources are being used</p> <p>B This represents a fall and not an increase in the output of consumer goods</p> <p>C This does show an increase in the use of resources but a fall in the output of consumer goods</p> <p>D <b>Correct: This is a movement from inside the PPC which raises the output of consumer goods</b></p> | 2 | x |
|----|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|

|    |   |                                                                                                                                                                                                                                                                                                                          |   |  |
|----|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 14 | C | <p>Rationale</p> <p>A. Healthcare is 'free at point of use' but imposes an opportunity cost as it uses scarce resources</p> <p>B. Street lighting is a public good</p> <p><b>C. Correct: Sunlight is not scarce, and its use does not impose an opportunity cost</b></p> <p>D. This is a price reduction in a market</p> | 1 |  |
|----|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|    |   |                                                                                                                                                                                                                                                                                                                                         |   |  |
|----|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 15 | A | <p>Rationale</p> <p><b>A. Correct: This is part of the payment to labour for factor services</b></p> <p>B. This is a payment for the exchange of goods and services</p> <p>C. This way of creating brand loyalty</p> <p>D. This is not for labour services. Pensions are paid by the government or firms to workers who are retired</p> | 2 |  |
|----|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

|   |   |                                                                                                                                                                                                            |   |  |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|
| 3 | A | <p>Rationale</p> <p><b>A. Correct: This can be tested with objective evidence</b></p> <p>B. This is a subjective opinion</p> <p>C. This is a subjective opinion</p> <p>D. This is a subjective opinion</p> | 1 |  |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|

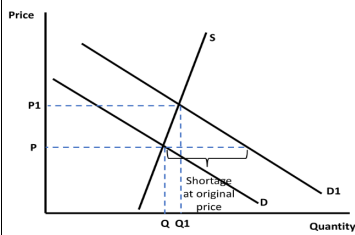
|    |     |                                                                                                                                       |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----|-----|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 16 | (d) | <b>Using the concept of scarcity and the information in figure 1, explain the effect of increased government spending on defence.</b> |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|    |     | Accept definition of scarcity (for 1 mark only)<br>Application in context required for additional two marks.                          | 3<br>(AO1x2<br>AO2x1) | Award one mark for explanation of scarcity / limited resources and up to two marks for making use of the information to show how this means that the government has to make a choice between defence and other areas of spending.<br>e.g. scarcity arises because of limited resources (1). The government has limited money/budget (e.g. from tax revenue) (1). If it spends more on defence it will have less to spend on pensions or welfare (1). |

|    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18 | <p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of an increase in costs of production on price and output.</p> <p><b>Strong</b> analysis of the effect on supply (i.e. higher costs of production), equilibrium price and quantity. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of the extent to which the predicted increase in world oil prices is <b>solely</b> due to a rise in costs of production and conclusion drawn weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of an increase in costs of production on supply.</p> <p><b>Good</b> analysis of the effect of the decrease in supply on (equilibrium) quantity (<math>Q_1</math> to <math>Q_2</math>). There is correct analysis in the form of developed links. These links are developed through a clear chain of reasoning which addresses the</p> | <p>20<br/>(AO1x3)<br/>(AO2x4)<br/>(AO3x6)<br/>(AO4x7)</p> <p>Candidates may argue that the effect of an increase in costs of production would be to reduce supply and, given both supply and demand for oil are price inelastic, this would cause a greater than proportional increase in price. However, other (supply or demand) factors may lead to a rise in price and/or the prediction may not be accurate.</p> <p>There should be a clear illustration of the mechanics of increasing costs of production, reducing supply, raising price and the consequent contraction in demand, leading to a lower output and higher prices, with some reference to PED or PES.</p> <p>Candidates can clearly illustrate on a diagram the effect of an increase in costs of production showing</p> <ul style="list-style-type: none"> <li>• Leftward shift in supply curve</li> <li>• Old and new market equilibrium</li> <li>• Relatively inelastic supply/demand curves with proportionately larger increase in price</li> </ul>  |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

17\* Evaluate, using an appropriate diagram(s) the effectiveness of incentives in ensuring efficient resource allocation in an economy

### Question 17 Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.



#### Knowledge and Understanding

- rational decision making
- objectives for economic agents – consumers/households, firms, and governments
- allocative efficiency producing the appropriate balance of goods and services (when  $P=MC$ )
- productive efficiency when operating at minimum cost ( $AR=AC$ )
- economic efficiency when productive and allocative efficiency are achieved

#### Application

- incentives in market, planned and mixed economies
- use of incentives in correcting market failure
- PPF efficient /inefficient allocations of resources
- consumer/producer surplus
- examples of government incentives such as subsidies

#### Analysis

- role of the price mechanism in signalling, incentivising and rationing resources
- rising price incentivises producers to increase supply due to the higher return on sales (rising producer surplus diagram)
- lower price acts as an incentive for households to increase consumption as cost has fallen relative to benefit (utility per pound spent rises) (rising consumer surplus diagram)

**18\*** Evaluate, using an appropriate diagram(s) the effectiveness of government subsidies to encourage the production of goods such as agricultural products.

#### Question 18 Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

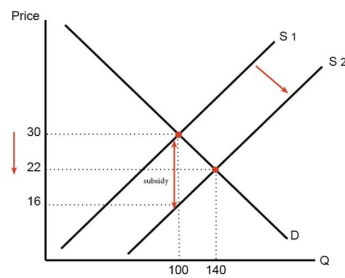
#### Knowledge and Understanding

- subsidies
- such policies are expensive and have an opportunity cost
- alternative policies such as minimum prices, buffer stock

#### Application

- demand and supply
- Common Agricultural Policy
- current issues with rising agricultural prices
- rising demand for plant-based foods

#### Analysis



- subsidy shifts supply from S1 to S2 and increases quantity consumed (100 to 140 units). Market price falls (£30 to £16) while farmers revenue increases
- increased revenue may encourage others to join the industry increasing supply leading to further falls in prices