



Rewarding Learning

ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
2024

Centre Number

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Candidate Number

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# Economics

Assessment Unit AS 1

*assessing*

Markets and Market Failure

**MV18**

**[SEC11]**

**MONDAY 13 MAY, MORNING**

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## Time

1 hour 30 minutes, plus your additional time allowance.

## Instructions to Candidates

Write your Centre Number and Candidate Number in the spaces provided at the top of this page. Answer **all** questions in Sections **A** and **B**, and **one** question in Section **C**.

You are permitted to use a calculator in this paper.

**You must answer the questions in the spaces provided.**

**Do not write on blank pages.**

Complete in black ink only.

## Information for Candidates

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed at the end of each question indicate the marks awarded to each question or part question. This paper is accompanied by a Case Study Booklet.

### **Advice to Candidates**

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings.

Quality of written communication will be assessed in Questions **5**, **6(b)**, **(c)** and **(d)**, **7** and **8**.

Quantitative skills will be assessed where appropriate.

# Section A

## Answer all questions

- 1 The table below shows the monthly production possibilities for a small-scale carpentry firm which produces just two products: garden sheds and garden benches.

Garden sheds	Garden benches
0	500
10	450
20	382
30	271
40	140
50	0

- (a) With reference to the table above, calculate the opportunity cost to the firm of increasing the production of garden sheds from 20 per month to 40 per month.  
[2 marks]

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- (b)** The firm is considering purchasing a piece of capital equipment that can be used in the production of garden benches. The firm estimates that productivity in garden benches will increase by 20% if it purchases the new equipment.

With the aid of a diagram, explain the likely impact on these production possibilities if the firm purchased this new piece of machinery and used it to produce garden benches. [4 marks]

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- 2** Kim's Kebabs is a fast-food business operating in a small town. Kim has been advised that the income elasticity of demand for her kebabs is 1.3.

With reference to the information above, calculate the likely percentage change in sales if the income of Kim's customers increased by 8%. [3 marks]

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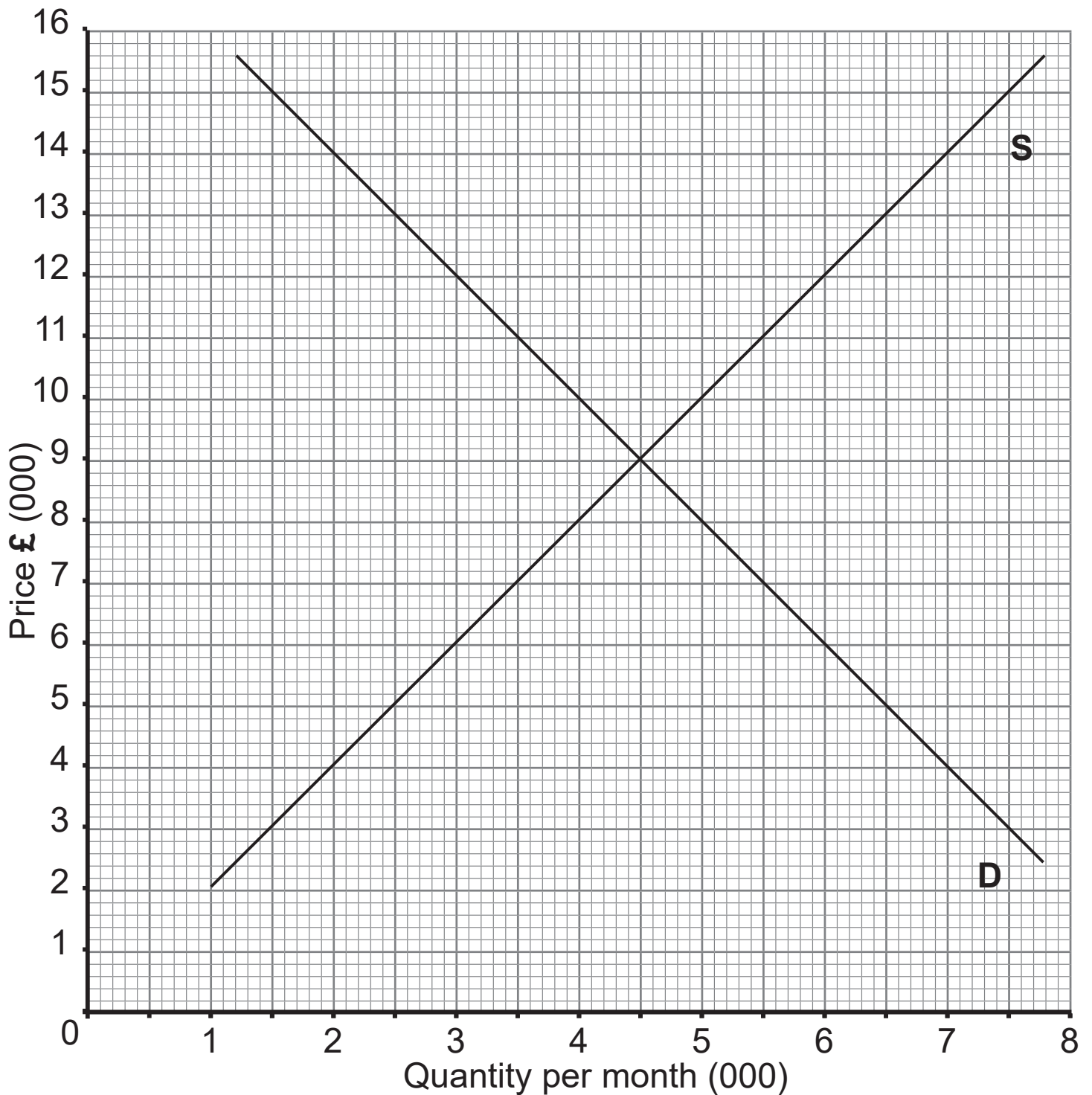
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3 The chart below shows the monthly demand and supply schedules for a particular brand of electric car.



**(a)** Using the information in the diagram opposite, calculate the total monthly revenue the firm will make at the equilibrium price. [2 marks]

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**(b)** In an attempt to increase the sales of electric cars, the government offers a £4,000 production subsidy for each car produced.

Using the information in the diagram opposite, calculate the monthly cost to the government of introducing this subsidy. [4 marks]

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- 4 According to the Joseph Rowntree Foundation, over 13 million people in the UK are living on incomes that are less than 60% of the median UK income, and at the same time almost 2.5 million people could not afford adequate food or shelter.

Using the information above, explain the difference between absolute and relative poverty. [4 marks]

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**(Questions continue overleaf)**

- 5** In the UK in 2021, the company boss-to-worker pay ratio stood at a staggering 167 to one. In other words, the average company boss will earn more in three months than the average person will earn over a lifetime.

With the aid of an appropriate diagram, explain how free market economists would explain the wage differential between company bosses and the average full-time employee. [6 marks]

Quality of written communication will be assessed in this question.

Lined area for writing the answer, consisting of 20 horizontal lines.

# Section B (Case Study)

Answer all questions

Read the information in the Case Study Booklet and answer the questions below.

- 6 (a) Using the information in Fig. 1, describe the trend in oil prices between May 2021 and May 2022. [5 marks]

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A series of 22 horizontal lines providing space for writing.

(d) Critically examine the impact of **falling** oil prices on consumers, producers and the wider economy.  
[15 marks]

**Quality of written communication will be assessed in this question.**

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## Section C

Answer **either** question 7 **or** question 8

**Quality of written communication will be assessed in these questions.**

- 7 A recently published report suggests that government spending on free nursery places for three-year-olds has not produced any educational or economic benefits despite having cost more than £7 bn. At the same time a report into the government's scheme to build 300 000 new starter homes has found that not one single home was built despite the scheme costing almost £200 million. This has led to some suggesting that government intervention in markets is a complete waste of time, effort and money.

Critically examine the view that government intervention in markets often does little to improve economic welfare.  
[20 marks]

**or**

- 8 Since 2016, the Northern Ireland Department for the Environment has issued sixteen licences which allow companies to mine for gold. These new licences have been issued despite concerns about potential environmental and health impacts such projects could have on local communities.

Critically examine the range of policies the government could use to reduce the negative externalities associated with gold mining. [20 marks]



Lined writing area with horizontal lines for text.





A series of 25 horizontal lines for writing, spaced evenly down the page.



For Examiner's use only	
Question Number	Marks
<b>Section A</b>	
1	
2	
3	
4	
5	
<b>Section B</b>	
6	
<b>Section c</b>	
7	
8	
<b>Total Marks</b>	

Examiner Number

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# **Economics**

Assessment Unit AS 1

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Markets and Market Failure

**MV18**

**[SEC11]**

**MONDAY 13 MAY, MORNING**

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**Case Study Booklet**

**For use with Section B**

The following article was written in May 2022.

## Oil price volatility

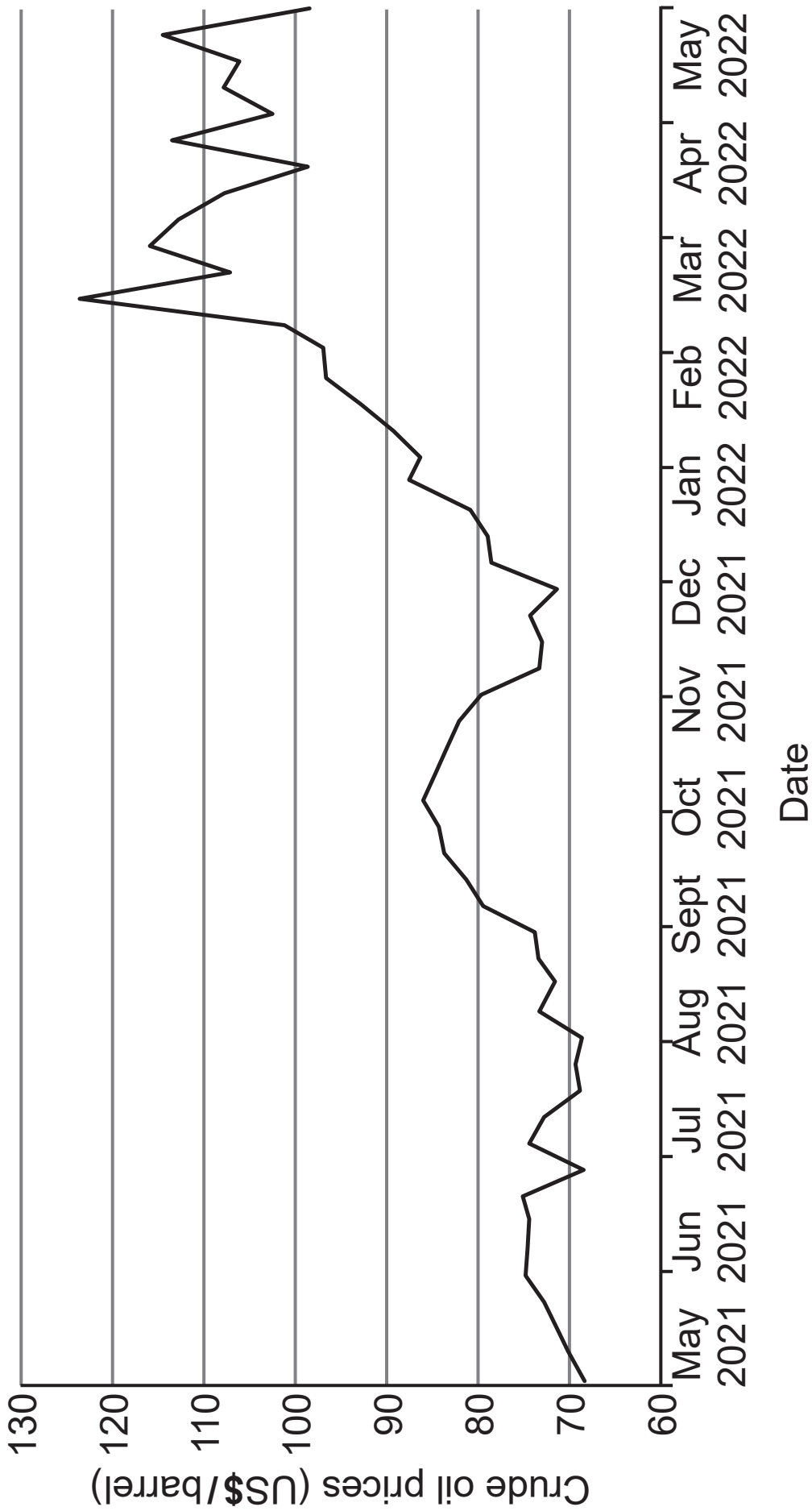
In a turnaround so sharp that it could cause whiplash, oil dropped below the \$100 a barrel benchmark only weeks after analysts had suggested it could reach \$200 a barrel. Oil prices were on an upward trajectory over most of the period illustrated in **Fig. 1** opposite, with prices peaking at \$123 a barrel in March 2022. This increase was driven by growth in global demand and by supply disruptions caused by the Russian invasion of Ukraine. 1

However, concerns about the prospects for the world economy and increased investment in oil production conspired to push oil prices lower. Oil market analyst Steven Stewart stated: “There is an old saying in commodity markets that the best cure for high oil prices is high oil prices! High energy prices are reducing disposable incomes and hence reducing the demand for oil, while at the same time the huge profits available to oil producers have encouraged new investment in production outside of Russia.” 2

Oil price volatility is nothing new, as the price elasticities of demand and supply of oil make large fluctuations in oil prices more likely. As Steven Stewart stated, “the fact that demand is price inelastic means even small changes to supply can cause significant price variations. Likewise, the relatively low price elasticity of supply means that small changes in demand will have similar effects”. 3

**Fig.1**

**Crude oil prices (US\$) 24th May 2021 to 23rd May 2022**



Falling oil prices were welcomed by consumers, businesses and governments in the UK, the USA and the EU, who had been hit with a cost-of-living crisis, just as they had started to recover from the Covid-19 pandemic. Consumer advocate Mike Dean stated: “The rapid rise in oil prices since the beginning of last year has had a devastating impact on consumers and businesses. Just when we thought things were finally getting better after Covid-19, we have been hit with another economic shock in the form of soaring prices. The recent news that oil prices have started to fall back to more normal levels will provide some comfort to hard-pressed families and businesses who are struggling to heat their homes and fill their cars with fuel.”

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However, not everyone sees falling oil prices as a good thing. Environmental campaigner Linda Doyle claimed that, “whilst falling oil prices may provide some short-term benefit to consumers’ pockets, they are bad for the economy, the environment and society as a whole since they encourage consumption of possibly the dirtiest form of energy known to mankind. Oil production and consumption have significant environmental impacts that are not reflected in the price. Rather than celebrating falling oil prices, the UK government needs to use the tax system to ensure that prices remain high so that we can finally wean ourselves off these damaging forms of energy”.

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**This is the end of the case study booklet**

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