AQA

Please write clearly in block capitals.

Centre number ☐☐☐☐☐ Candidate number ☐☐☐☐

Surname ______________________________

Forename(s) ______________________________

Candidate signature ______________________________
I declare this is my own work.

A-level
ECONOMICS

Paper 3 Economic Principles and Issues

Time allowed: 2 hours

Materials
For this paper you must have:
- the Insert
- a calculator.

Instructions
- Answer **all** questions.
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- You will need to refer to the Insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this answer book. Cross through any work that you do not want to be marked.

Information
- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Section A

Answer **all** questions in this section.

Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD   WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1 A positive statement

[1 mark]

A does not take into account irrational behaviour.

B enables accurate forecasts to be made.

C includes a value judgement.

D may be true or false.

0 2 Which one of the following is a nudge technique that could be used to encourage healthy eating?

[1 mark]

A Banning supermarkets from selling high-calorie energy drinks

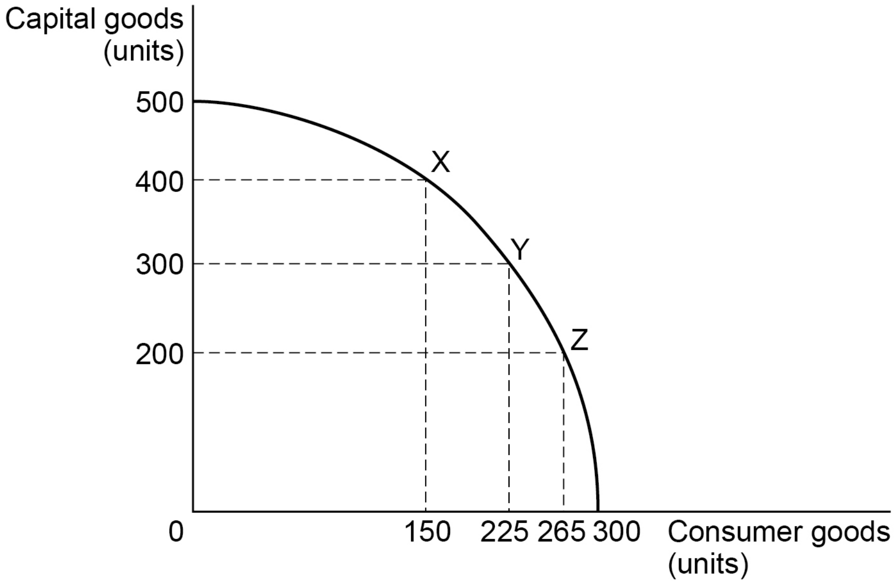
B Increasing taxes on high-fat products to raise their price

C Moving products with a high sugar content away from supermarket checkouts

D Subsidising fruit and vegetables to reduce their prices

0 3 **Figure 1** shows the production possibility diagram for an economy producing capital goods and consumer goods.

Figure 1



The opportunity cost of producing an additional unit of capital goods is

[1 mark]

A greater at X than Y.

B greater at Z than Y.

C the same at X, Y and Z.

D zero when 300 units of consumer goods are produced.

Turn over for the next question

0 4 **Table 1** shows the individual price indices and the weightings of the three goods that make up a price index.

Table 1

Good	Weighting	Price Index in April 2022 (April 2021=100)
X	0.1	102
Y	0.4	104
Z	0.5	103

What was the percentage increase in the overall price index between April 2021 to April 2022?

[1 mark]

A 1.1%

B 3%

C 3.3%

D 9%

0 5 When using data to make international comparisons of the standard of living, purchasing power parity (PPP) exchange rates are more useful than market exchange rates.

This is because PPP exchange rates take into account differences in countries'

[1 mark]

A distribution of income.

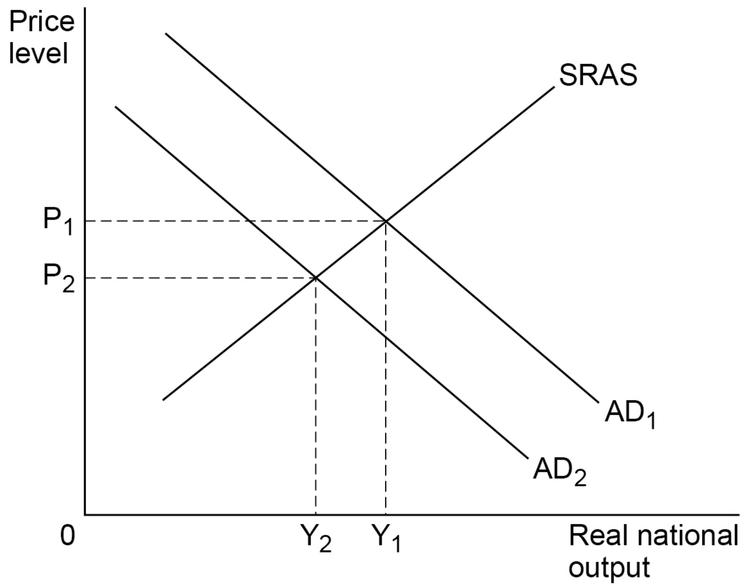
B levels of taxation.

C price levels.

D rates of population growth.

0 6 **Figure 2** shows two aggregate demand (**AD_1** and **AD_2**) curves and the short-run aggregate supply (**SRAS**) curve for an economy.

Figure 2



Which one of the following is the government most likely to increase if it wishes to use fiscal policy to reduce national output from **Y_1** to **Y_2**?

[1 mark]

A Infrastructure expenditure ⬭

B Interest rates ⬭

C Rates of income tax ⬭

D The budget deficit ⬭

Turn over for the next question

0 7 Which one of the following is a reason why the extension of property rights is likely to reduce market failure?

[1 mark]

A Merit goods will no longer be underconsumed in a free market.

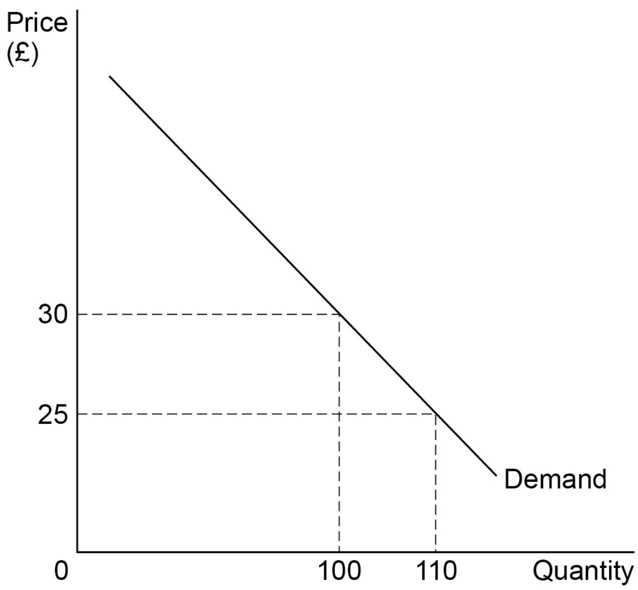
B Producers will be more likely to have to pay compensation for pollution.

C Public goods will no longer be subject to the free-rider problem.

D The inequality in the distribution of income and wealth will be reduced.

0 8 **Figure 3** shows the demand curve for a firm's scarves.

Figure 3



Which one of the following statements is true when the price of scarves is reduced from £30 to £25?

[1 mark]

A Demand for scarves is price elastic.

B Price elasticity of demand is –0.5.

C The firm's total revenue falls.

D The firm's total revenue increases.

0 9 A firm charging different customers different prices for the same product is practising

[1 mark]

A limit pricing.

B marginal cost pricing.

C price discrimination.

D price leadership.

1 0 In an economy, an index showing the change in the money supply multiplied by the velocity of circulation increases from 100 to 115.5. At the same time, the final output produced by the economy increases from 100 to 110.

According to Fisher's equation of exchange, the price level will increase by

[1 mark]

A 5%

B 5.5%

C 10%

D 15.5%

1 1 Systemic risk is most likely to occur in financial systems when

[1 mark]

A investment banks have low capital-output ratios.

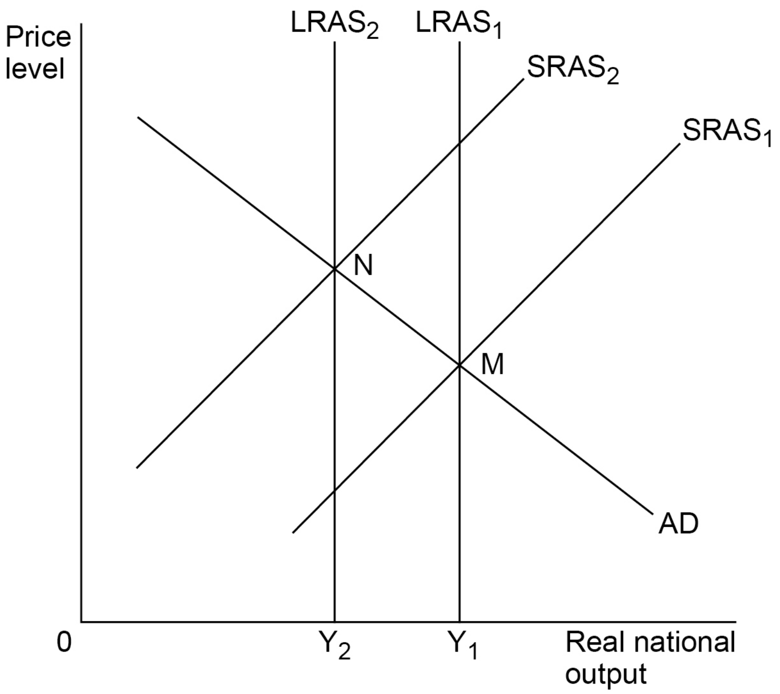
B most banks carry out both commercial and investment banking activities.

C the central bank acts as lender of last resort to financial institutions.

D the commercial banks have high liquidity ratios.

1 2 **Figure 4** shows the aggregate demand (**AD**) curve, the short-run aggregate supply (**SRAS$_1$** and **SRAS$_2$**) curves and the long-run aggregate supply (**LRAS$_1$** and **LRAS$_2$**) curves for an economy.

Figure 4



All other things being equal, which one of the following is most likely to move the economy from point **M** to point **N**?

[1 mark]

A A decrease in the natural rate of unemployment ⬭

B A loss of consumer and producer confidence ⬭

C A natural disaster, damaging productive capacity ⬭

D A rise in factor prices, resulting in cost-push inflation ⬭

1 3 Which one of the following is a role of the World Trade Organisation?

[1 mark]

A Helping countries settle disputes over tariffs and quotas

B Lending money to countries with balance of payments problems

C Monitoring the stability of the international monetary system

D Providing loans at low rates of interest to low-income countries

1 4 Which one of the following is a reason why the supply of cars is likely to be price elastic in the short run when the price of cars increases?

[1 mark]

A Car manufacturers' stocks of unsold cars are low

B The demand for cars is also price elastic

C The marginal cost of producing cars increases significantly with output

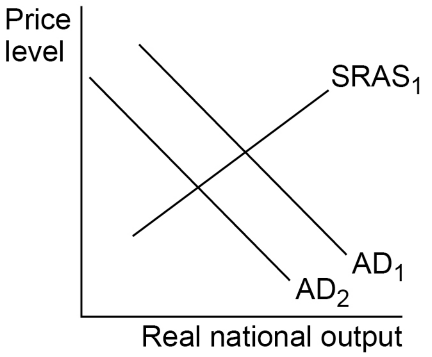
D There is considerable spare capacity in the car industry

Turn over for the next question

1 5 Which one of the following diagrams, **A**, **B**, **C** or **D**, shows the most likely short-run impact on an economy of an improvement in technology in the production process?

[1 mark]

A



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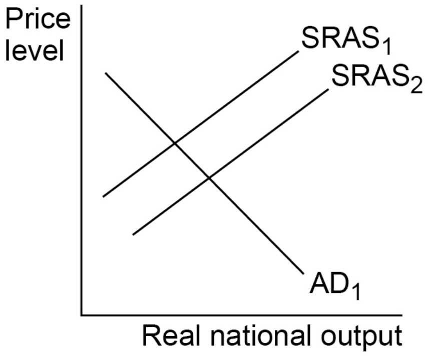

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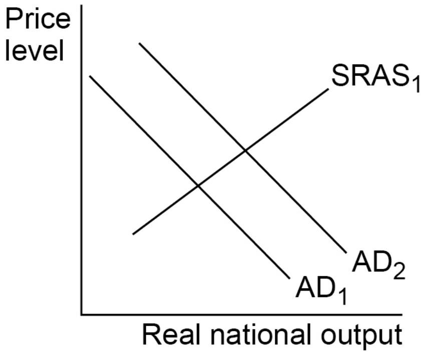
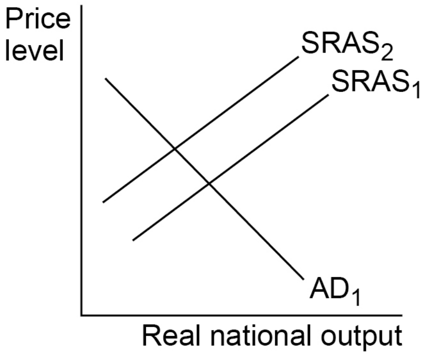


D



1 6 Which one of the following best explains the existence of relative poverty?

[1 mark]

A Some households have to pay more in income tax than other households.

B The Gini coefficient in some countries is low.

C The income of some households is significantly less than the median household income.

D The prices of items that are essential for life differ between countries.

1 7 **Table 2** shows the amount paid in tax by individuals at different levels of income.

Table 2

Income (£)	Tax paid (£)
20 000	4 000
30 000	5 400
40 000	6 400
50 000	7 000

This tax is an example of a

[1 mark]

A lump sum tax.

B progressive tax.

C proportional tax.

D regressive tax.

1 8 Which one of the following is a supply-side policy aimed at reducing the natural rate of unemployment?

[1 mark]

A Government retraining schemes for structurally unemployed workers

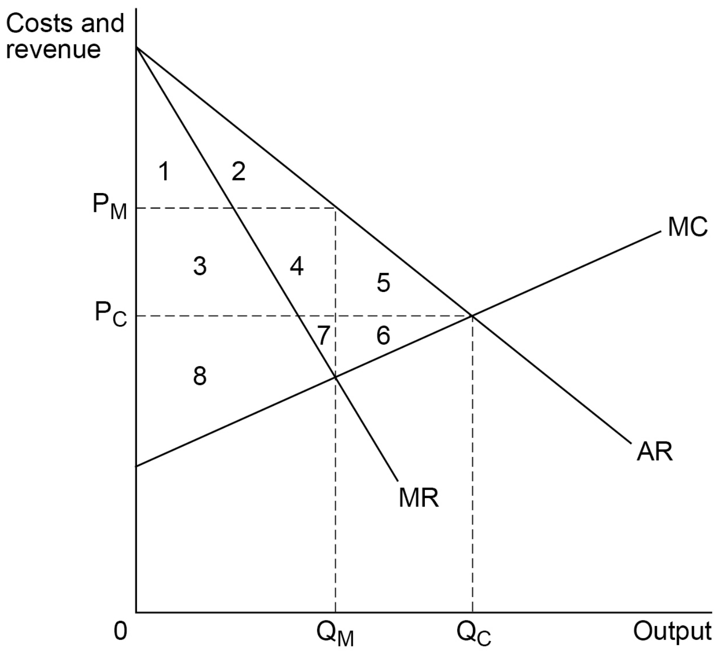
B Increasing legal protection against unfair dismissal for employees

C Increasing the real value of the national minimum wage

D New government subsidies for developers of artificial intelligence

1 9 **Figure 5** shows the average revenue (**AR**), marginal revenue (**MR**) and marginal cost (**MC**) curves for an industry which was perfectly competitive but is now a monopoly. The cost and revenue curves remain unchanged.

Figure 5



Which of the following areas shows the total deadweight loss of consumer and producer surplus resulting from the structure of the industry changing from perfect competition to monopoly?

[1 mark]

A 1 + 2

B 3 + 4

C 5 + 6

D 7 + 8

2 0 There is a reduction in the market demand for the product supplied by firms operating in a perfectly competitive industry.

All other things being equal, which one of the following will happen to firms' average and marginal revenue as a result of this change?

[1 mark]

A Average revenue and marginal revenue will both fall.

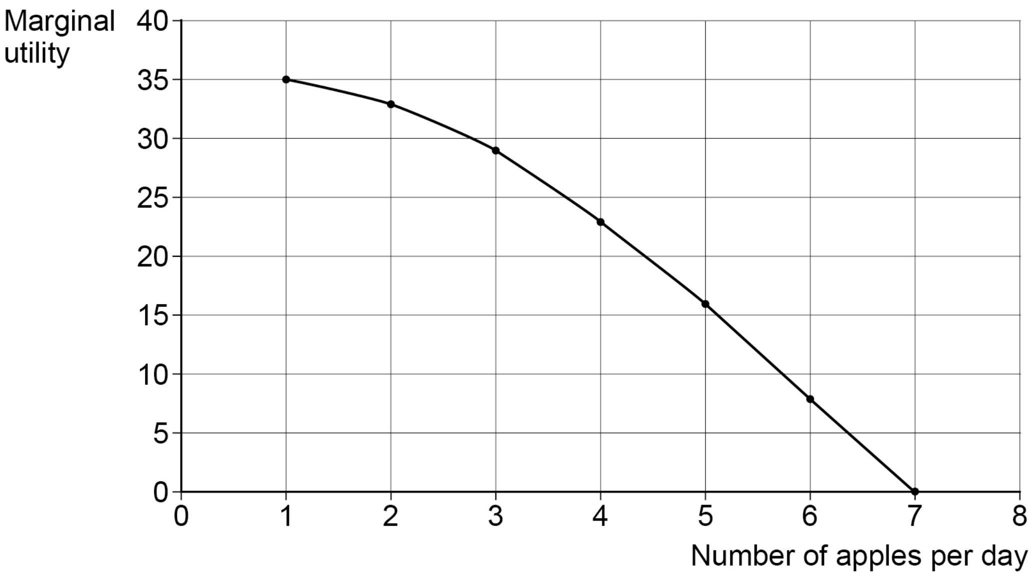
B Average revenue and marginal revenue will not change.

C Average revenue will fall and marginal revenue will increase.

D Average revenue will increase and marginal revenue will fall.

2 1 **Figure 6** shows the marginal utility that a consumer gains from eating apples.

Figure 6



When 7 apples per day are consumed

[1 mark]

A average utility is maximised.

B marginal utility is maximised.

C opportunity cost is minimised.

D total utility is maximised.

2 2 **Table 3** shows different combinations of performance for three macroeconomic indicators.

Which one of the combinations, **A**, **B**, **C** or **D**, is most likely to indicate an economy experiencing an economic boom?

[1 mark]

Table 3

	Imports	Price level	Job vacancies	
A	Decreasing	Increasing	Decreasing	⬭
B	Decreasing	Decreasing	Increasing	⬭
C	Increasing	Increasing	Increasing	⬭
D	Increasing	Decreasing	Decreasing	⬭

2 3 **Table 4** shows the values of nominal GDP and a price index in two different years.

Table 4

Year	**2015**	**2019**
Nominal GDP (£ billions)	250	290
Price index	100	110

What was the value of real GDP in 2019, to the nearest £ billion, expressed in 2015 prices?

[1 mark]

A £227 billion ⬭

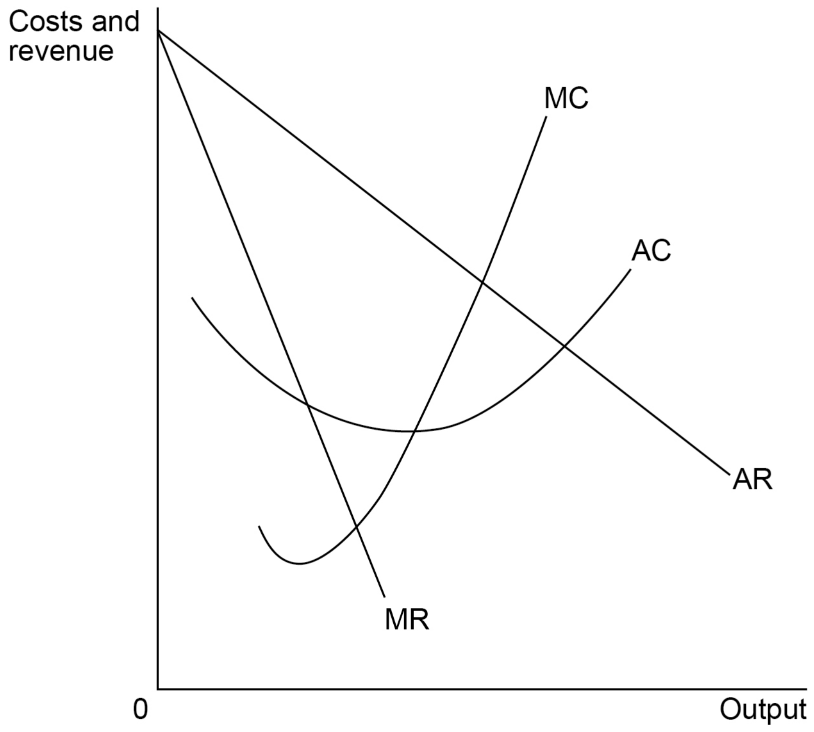
B £261 billion ⬭

C £264 billion ⬭

D £319 billion ⬭

2 4 **Figure 7** shows the average revenue and marginal revenue (**AR** and **MR**) curves and the average cost and marginal cost (**AC** and **MC**) curves for a firm in monopolistic competition in the short run.

Figure 7



At the profit maximising price and output the firm will

[1 mark]

A make supernormal profits. ⬭

B produce the allocatively efficient output. ⬭

C produce where average revenue = average cost. ⬭

D set price equal to minimum average costs. ⬭

Turn over for the next question

2 5 The price of a government bond was £10 000 when it was issued. The bond does not have a maturity date and the government is not intending to buy back the bond. The bond pays £200 per year to the bond holder and has a market price of £8 000.

Which one of the following fractions represents the yield on the bond?

[1 mark]

A $\frac{1}{50}$ ○

B $\frac{1}{40}$ ○

C $\frac{1}{5}$ ○

D $\frac{4}{5}$ ○

2 6 **Table 5** contains figures from the balance sheet of a commercial bank.

Table 5

Item	**Value (£ bn)**
Cash	45
Share capital	100
Loans advanced	135
Fixed assets	115
Long-term liabilities	85
Investments	50
Reserves (retained profit)	30
Balances at the central bank	25
Deposits and other liabilities	185
Other liquid assets	30

What is the value of this bank's total liquid assets?

[1 mark]

A £70 bn

B £100 bn

C £130 bn

D £175 bn

Turn over for the next question

2 7 Changing patterns of consumption have meant that summer holidays at UK seaside towns have become less popular. As a result, UK seaside holiday towns are affected by seasonal unemployment and increasing structural unemployment.

Which one of the following is the most likely consequence of this change in the pattern of consumption?

[1 mark]

A Occupational immobility of labour will help to reduce structural unemployment.

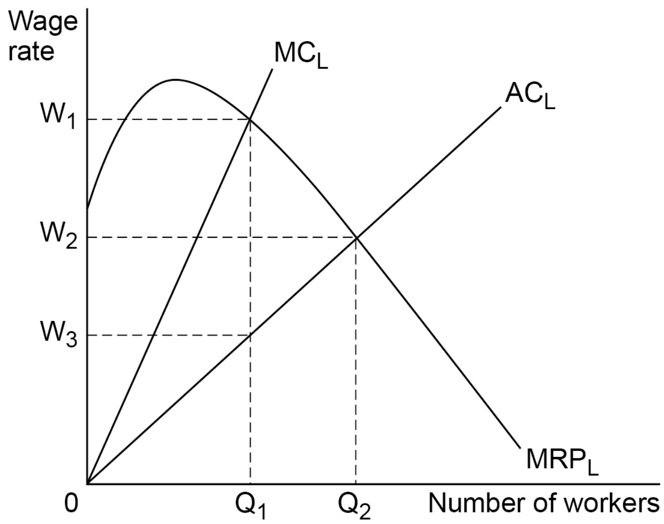
B The cost of living for people who live in UK seaside towns will fall.

C Unemployment is likely to be higher in the summer than the winter.

D Wages in UK seaside towns will rise because firms want to retain workers.

2 8 **Figure 8** shows the marginal cost (**MC_L**), average cost (**AC_L**) and marginal revenue product (**MRP_L**) curves for labour in a specialised computer programming industry.

Figure 8



Following a series of mergers between firms in this industry, a single large firm remains as a monopsony employer.

Which one of the following is the most likely to result from a competitive labour market being replaced by a monopsony employer?

[1 mark]

A The total amount paid in wages will fall from ($W_2 \times Q_2$) to ($W_3 \times Q_1$).

B The total amount paid in wages will increase from ($W_3 \times Q_1$) to ($W_1 \times Q_1$).

C The wage rate will fall from W_1 to W_2.

D The wage rate will increase from W_3 to W_2.

2 9 **Table 6** shows the value of the UK's Human Development Index (HDI) over the period 2015 to 2019.

Table 6

Year	**2015**	**2016**	**2017**	**2018**	**2019**
UK HDI Value	0.916	0.918	0.919	0.920	0.932

All other things being equal, which one of the following is most likely to explain the trend shown in **Table 6**?

[1 mark]

A A fall in the sterling exchange rate

B Falling emissions of greenhouse gases

C Increasing life expectancy at birth

D Reductions in income inequality

3 0 Unemployed workers in the south of a country are unable to take up jobs in the north of the country due to higher housing costs. This is an example of

[1 mark]

A cyclical unemployment.

B frictional unemployment.

C geographical immobility of labour.

D occupational immobility of labour.

30

Turn over for Section B

Section B

Answer **all** questions in this section.

Refer to the Insert for Extracts A, B, C and D.

Total for this Investigation: 50 marks

The commercial aircraft manufacturing industry

INVESTIGATION

Scenario

You are an economist working for an organisation that is investigating the commercial aircraft manufacturing industry.

You have been asked to review the changes to the industry that have taken place since 2014.

As part of this investigation, you are to provide answers to three questions.

Referring to the Insert, study **Extracts A**, **B** and **C**, and then use these and your knowledge of economics to help you answer Questions 31 and 32. There is also a news report, **Extract D**, which is to be used with the other extracts to help you answer Question 33.

3 1 To what extent do the data support the view that Boeing has been more successful than Airbus since 2014? You must use the data in **Extract B** to support your assessment.
[10 marks]

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3 2 Explain the factors that a commercial aircraft manufacturer, such as Boeing or Airbus, should consider when forecasting the future sales of its aircraft.

[15 marks]

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3 3 After considering **Extract D**, and the original evidence in **Extracts A**, **B** and **C**, would you recommend that the UK government provides financial and other support to companies involved in the production of commercial aircraft? Justify your recommendation.

[25 marks]

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50

END OF QUESTIONS

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ANSWER IN THE SPACES PROVIDED

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