

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross \boxtimes . If you change your mind about an answer, put a line through the box \boxtimes and then mark your new answer with a cross \boxtimes .

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** Between 2016 and 2017 the average price of new build houses in the UK rose by an estimated 5.4%.

Year	Quantity of UK new house builds
2016	134 612
2017	162 880

(Source: <http://www.telegraph.co.uk/business/2017/05/25/number-new-homes-built-hits-highest-level-since-financial-crisis/>)

- (a) With reference to the data provided, calculate the price elasticity of supply for new house builds between 2016 and 2017. You are advised to show your workings.

(2)

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- (b) A 2.5% increase in new build house prices in one region of the UK causes a 10% increase in the number of houses built. *Ceteris paribus*, this suggests that supply of new house builds is:

(1)

- A** perfectly price elastic
- B** perfectly price inelastic
- C** relatively price elastic
- D** relatively price inelastic

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(c) Explain **one** factor that is likely to determine the price elasticity of supply of new house builds.

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(Total for Question 1 = 5 marks)

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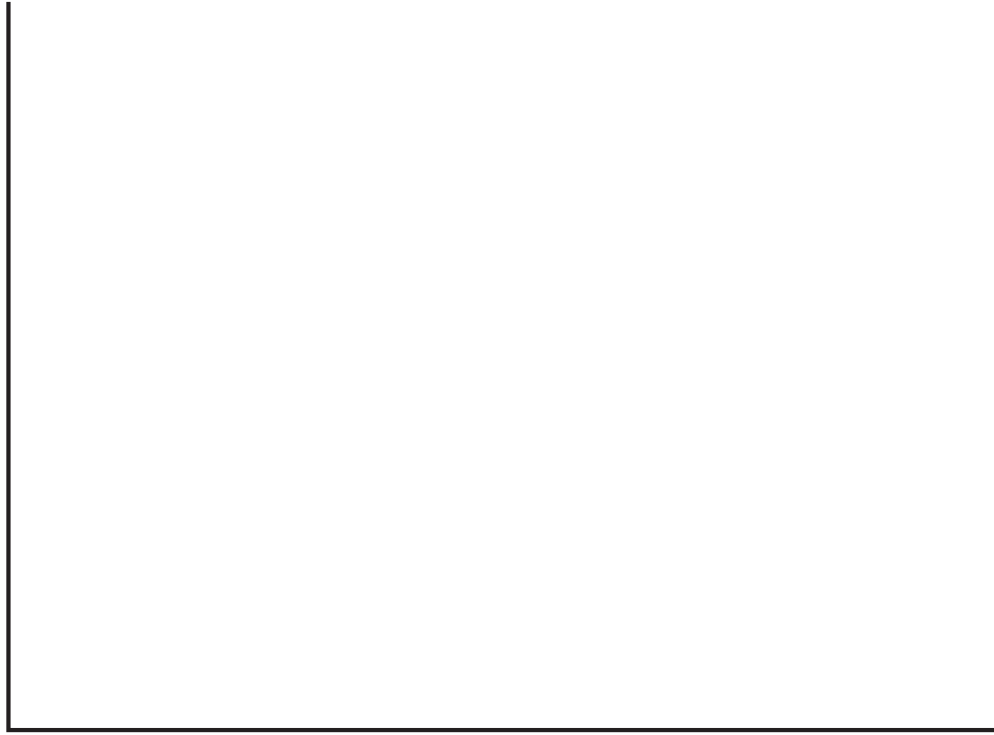
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2 In August 2017 Hurricane Harvey caused the closure of nearly a quarter of the oil production capacity in the United States.

(a) Draw a supply and demand diagram to show the likely microeconomic effects of the hurricane on the US oil market.

(4)



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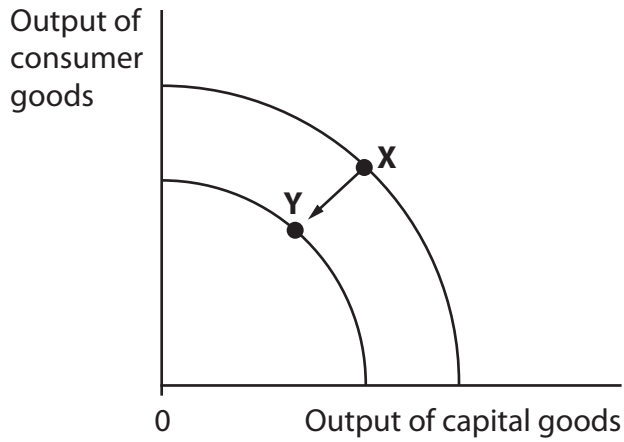
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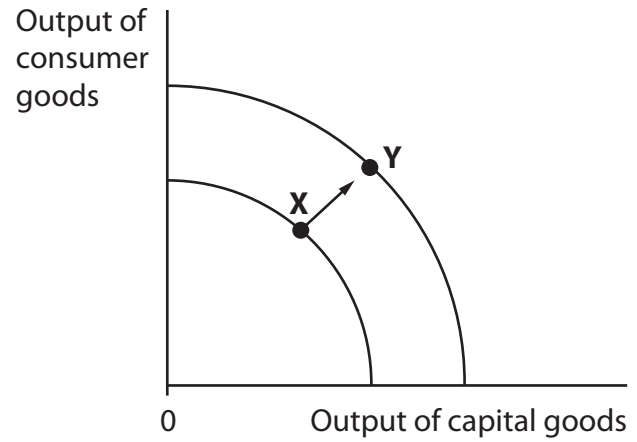
(b) The diagrams show movements from position X to Y on production possibility frontiers. In which **one** of the diagrams does the movement from X to Y illustrate the most likely impact on the US economy of a natural disaster such as Hurricane Harvey?

(1)

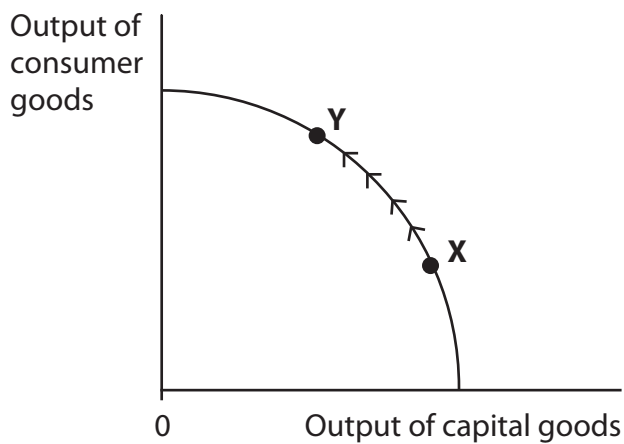
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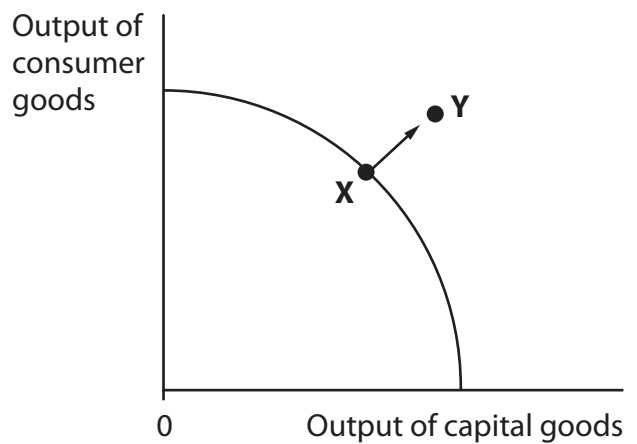
B



C



D



(Total for Question 2 = 5 marks)



P 5 7 1 9 0 A 0 5 3 2

3 According to the Royal Mail, more hair and beauty salons opened on UK high streets last year than any other type of independent business, with a net increase of 10%, representing 626 new salons.

(Source: adapted from <https://www.theguardian.com/small-business-network/2016/nov/18/beauty-boom-or-bust-uk-too-many-salons>)

(a) The UK hair and beauty industry is an example of monopolistic competition because:

(1)

- A firms spend nothing on advertising and research
- B the industry is dominated by a few large firms
- C the products are homogenous
- D there are low barriers to entry and exit

(b) Draw a cost and revenue diagram to show the **long-run** equilibrium of a firm in monopolistic competition.

(4)



(Total for Question 3 = 5 marks)

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4 In 2016, the insurance group Esure undertook a demerger with its GoCompare price comparison website.

(a) The most likely reason for this demerger was to:

(1)

- A benefit from external economies of scale
- B benefit from internal economies of scale
- C focus more on its core business
- D increase its market share

Following the demerger, GoCompare announced in 2017 a profit of £17.5 million, up 21.5% on 2016. Total revenue in 2017 was £75.8 million, up 4.1% on 2016.

(Source: adapted from <https://www.insuranceage.co.uk/insurer/3107496/profits-up-at-go-compare>)

(b) Calculate, using the information provided, the total costs of GoCompare in **2016**.

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(Total for Question 4 = 5 marks)



5 Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(a) Explain how resources are allocated in a free market economy.

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(b) Which **one** of the following statements is true?

(1)

- A** Friedrich Hayek believed that the government should subsidise inefficient firms
- B** Friedrich Hayek was a key advocate of command economies as a way of allocating resources
- C** Karl Marx advocated allocating resources via the free market
- D** Karl Marx criticised the private ownership of factors of production

Adam Smith described the benefits of specialisation and the division of labour.

(c) Explain **one** advantage to a firm of using division of labour when organising its production process.

(2)

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(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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