



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education

Economics

Assessment Unit AS 1
assessing
Markets and Market Failure



SEC11

[SEC11] Assessment

TIME

1 hour 30 minutes.

Assessment Level of Control:

Tick the relevant box (✓)

Controlled Conditions	
Other	

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Sections **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

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 down the right-hand side of pages indicate the marks awarded to each question or part question.

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 **4(b)**, **5(b)**, **(c)** and **(d)**, **6** and **7**. Quantitative skills will be assessed where appropriate.

Section A (25 marks)

Answer all questions

- 1 In August 2017, car giant Skoda announced that it had manufactured and sold six million Octavia models in the 20 years since the car was launched. The Octavia model has long been a favourite of the nation's taxi drivers as well as being popular with families because of its space and reliability.

With reference to the passage above, explain how a Skoda Octavia could be described as both a consumer good and a capital good. [4]

- 2 The table below shows estimates for the share of total income and wealth by quintile group in the UK in 2017.

Quintile group	Percentage share of income	Percentage share of wealth
1	5	0
2	11	4
3	16	12
4	22	22
5	46	62

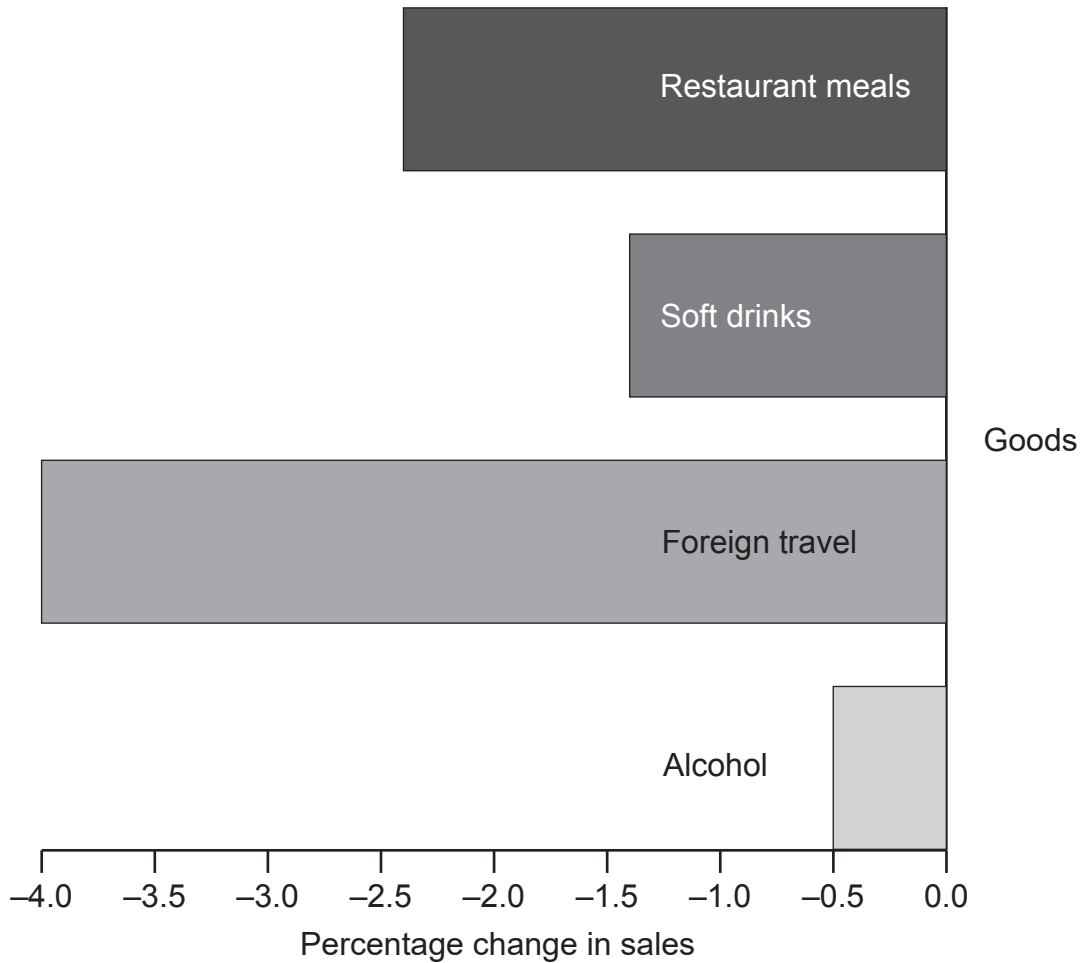
- (a) With the aid of appropriate examples, explain the difference between income and wealth. [4]
- (b) Using the information in the table above, compare the distribution of income with the distribution of wealth in the UK in 2017. [4]

- 3 Economists have discovered that consumers often take more time and trouble trying to save £5 on a £25 jumper than they take trying to save £5 on a £500 leather jacket.

With reference to the passage above, explain why consumers can sometimes act irrationally.

[4]

- 4 The chart below shows the estimated change in sales associated with a 5% increase in price for selected categories of goods.



- (a) Using the information in the chart above, calculate the price elasticity of demand for restaurant meals. [3]

- (b) With the aid of an appropriate diagram, analyse how, all other things being equal, the burden of a specific tax on alcohol is likely to be split between the producer and the consumer. [6]

Section B (35 marks)

Answer all questions

The following passage was written in August 2018. Read it carefully and answer the questions which follow.

5 “Fat-cat” pay on the rise

A report published by the High Pay Centre has noted that pay for chief executive officers (CEOs) at Britain’s biggest listed companies rose more than six times faster than wages in the wider workforce last year, as the average boss’s pay packet hit a staggering £3.9 million!

The average pay of chief executive officers in UK companies surged 11% on a median basis in 2017, while average worker earnings failed to keep pace with inflation, rising just 1.7% over the course of the year. This means that a worker on a median salary of £23,474 would have to work 167 years to earn the median annual pay of the average CEO.

The chart below shows how the pay of CEOs has soared since 2000 compared to the average pay of a full-time worker.

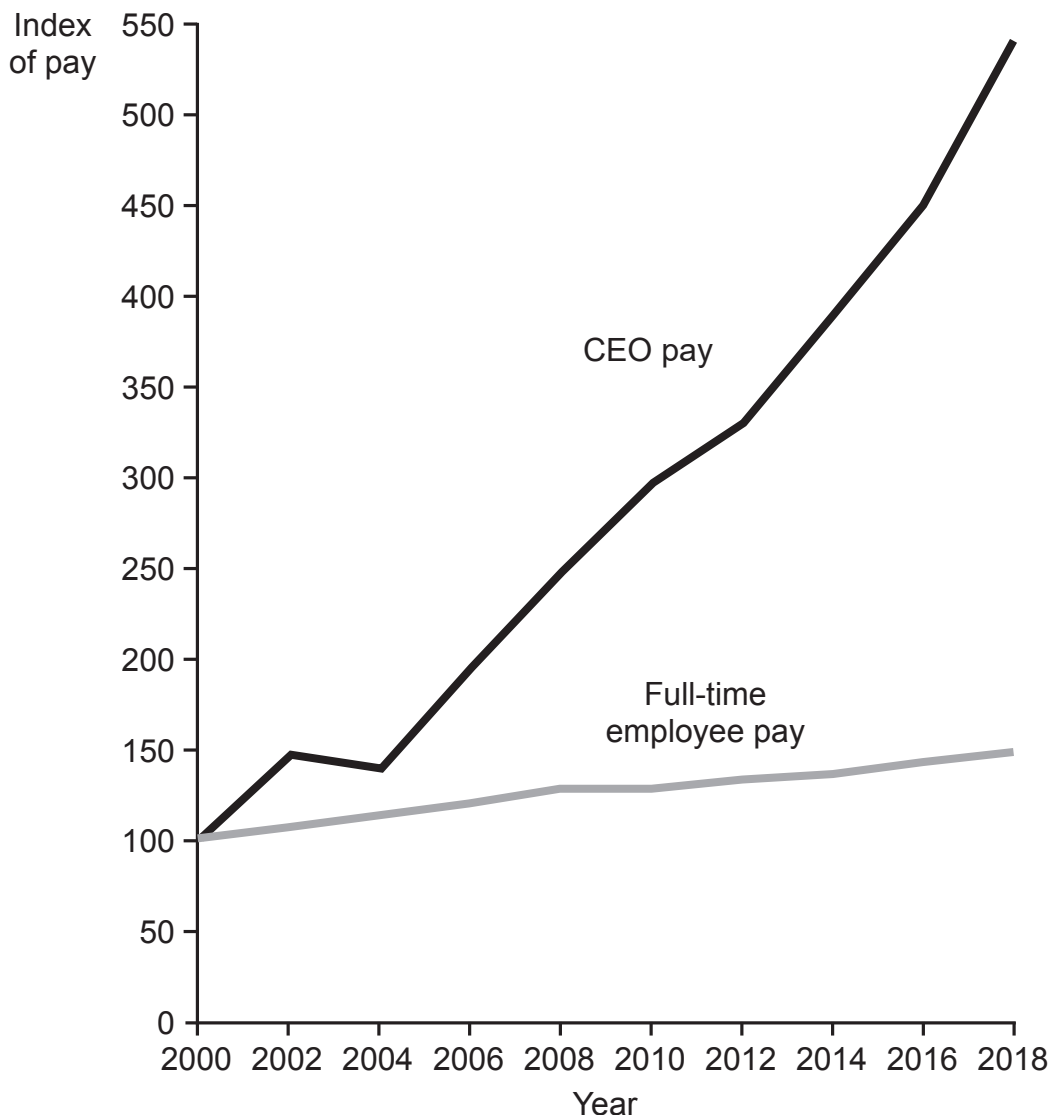


Fig. 1: Chief executive officer pay and full-time employee pay UK 2000–2018 (2000 = 100)

Responding to the report, Damien Savage, employment expert, stated that “it is right that those who work hard, generate wealth and create jobs are rewarded appropriately. Having a skill that is in short supply but in high demand has always been well rewarded in the marketplace. In recent years this marketplace has become genuinely global, so it is not surprising that the rewards to those at the top have increased”.

However, not everyone sees this widening pay gap as either inevitable or beneficial. Prime Minister Theresa May stated that “there is an irrational, unhealthy and growing gap between what these companies pay their workers and what they pay their bosses”.

The widening gap in pay has prompted some to call for the introduction of maximum pay legislation which would limit the pay of CEOs to some multiple of average pay. Michael Williams, of the Fair Pay Institute, stated that “20 years ago we introduced a National Minimum Wage, and contrary to the predictions of those on the political right, it has proven to be a huge success. Surely now is the time to introduce a National Maximum Wage”.

Damien Savage, however, has cautioned against any moves to regulate executive pay, claiming that maximum wages are the least effective policy for reducing pay inequality. “Introducing executive pay restrictions in the UK that are not matched by other countries will simply drive the best talent out of the UK in search of greater returns elsewhere. If the Prime Minister is so concerned about the pay gap, she would be better focusing on alternative policies such as increasing the pay of those at the bottom rather than penalising those who generate huge profits for shareholders, not to mention tax revenues for governments.”

- (a) Using the information in **Fig. 1**, compare the growth in CEO pay with that of the average full-time employee between 2000 and 2018. [5]
- (b) With the aid of an appropriate diagram, analyse how free market economists would explain the wage differentials between company bosses and the average full-time employee. [6]
- (c) Analyse the likely impact of a maximum wage on the economic rent of CEOs. [9]
- (d) Critically examine the view that a maximum wage is the least effective policy that the government could introduce to reduce pay inequality in the UK. [15]

Section C (20 marks)

Answer one question

- 6 Dalradian Resources (a Canadian mining company) has plans to invest £750 million into a gold mine in County Tyrone. If approved, the mine would create up to 800 full-time jobs. However, local residents are concerned about the negative externalities associated with the use of cyanide to remove the gold from the ore.

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

- 7 Recent studies in Europe have attempted to measure the price elasticity of demand for cigarettes. The studies have estimated that it lies somewhere between -0.27 and -0.89 . Critics have questioned the figures and pointed out that they are so far apart as to make the estimates ineffective for any practical use.

Critically examine the view that attempts to estimate price elasticity of demand are a waste of time and effort. [20]

THIS IS THE END OF THE QUESTION PAPER

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