Candidate Marks Report

Series : 6 2018

This candidate's script has been assessed using On-Screen Marking. The marks are therefore not shown on the script itself, but are summarised in the table below.

Centre No :	Assessment Code :	H460
Candidate No :	Component Code :	03
Candidate Name :		

Total Marks :   **73 / 80**

In the table below 'Total Mark' records the mark scored by this candidate.
'Max Mark' records the Maximum Mark available for the question.

Paper:	H460/03
Paper Total:	73 / 80

Question	Total Mark / Max Mark
1	1 / 1
2	1 / 1
3	1 / 1
4	0 / 1
5	1 / 1
6	1 / 1
7	1 / 1
8	1 / 1
9	1 / 1
10	1 / 1
11	1 / 1
12	0 / 1
13	1 / 1
14	1 / 1
15	1 / 1
16	1 / 1
17	1 / 1
18	1 / 1
19	1 / 1
20	0 / 1
21	1 / 1
22	1 / 1
23	1 / 1
24	1 / 1
25	1 / 1
26	0 / 1
27	1 / 1
28	1 / 1
29	1 / 1
30	1 / 1
31	3 / 4

32	8 / 8
33	2 / 2
34	14 / 15
35	4 / 4
36	1 / 2
37	15 / 15

SECTION A

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

Write your answer for each question in the box provided.

1   What is a free good?

A.   A good that is available with no opportunity cost

B   A good that is non-excludable and non-rival

C.   A good that is provided by the government

D   A good that is scarce

Your answer | A | ✔   [1]

2   Which of the following is a component of the Human Development Index?

A   Air quality

B   Cost of crime

C   Income inequality

D   Life expectancy at birth

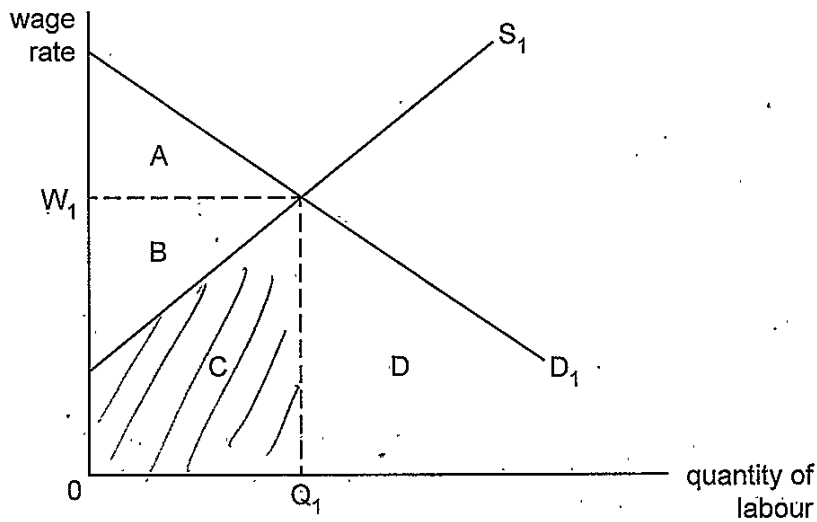Your answer | D | ✔   [1]

3 In the diagram below, which area represents transfer earnings?

A   Area A

B   Area B

C   Area C

D   Area D

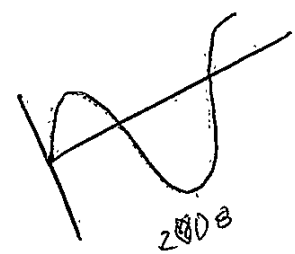Your answer | C | [1]

4 Which of the following identifies the stages of the economic cycle experienced by the UK economy between 1998 and 2016?

	1998–2007	2008–2009	2010–2014	2015–2016
A	Boom	Recession	Recovery	Slowdown
B	Recession	Recovery	Boom	Slowdown
C	Recovery	Recession	Boom	Slowdown
D	Slowdown	Recession	Recovery	Boom

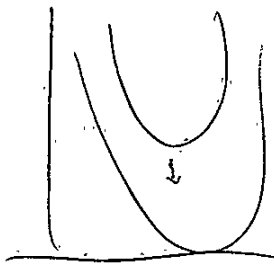Your answer | D | ✗   [1]

5   A firm could lower its average costs whilst keeping its output the same. What type of inefficiency is occurring?

    A   Allocative inefficiency

    B   Dynamic inefficiency

    C   Productive inefficiency

    D   X-inefficiency

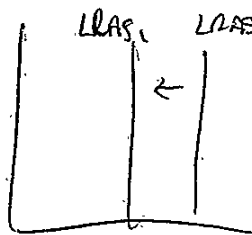   Your answer   D   [1]

6   In which of the following cases will the natural rate of unemployment increase?

    A   Regional house price differentials increase

    B   The demand for labour falls

    C   The school leaving age increases → LRAS ↑

    D   Unemployment benefits decrease

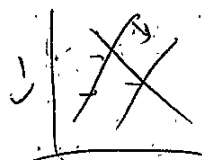   Your answer   A   [1]

7   In August 2016 the Bank of England's Monetary Policy Committee announced it was cutting the base rate of interest from 0.5% to 0.25% and extending its programme of quantitative easing. What is likely to happen as a result of this decision?

    A   Decrease in government tax revenue

    B   Decrease in inflationary pressures

    C   Exchange rate depreciation

    D   Increase in marginal propensity to save

    Your answer   C   [1]

8 Danielle has just been appointed to manage a large public limited company that has a range of stakeholders, including shareholders, employees and customers. Which business objective is Danielle most likely to pursue?

A Profit maximisation

B Profit satisficing
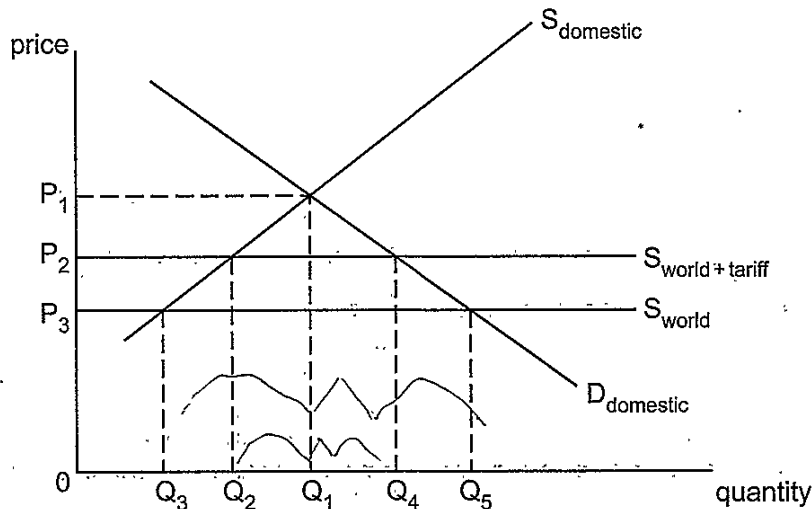
C Revenue maximisation

D Utility maximisation

Your answer B ✔   [1]

9

In the diagram above, what is the new level of imports if a tariff is removed?

A $Q_2 - Q_3$

B $Q_4 - Q_2$

C $Q_5 - Q_3$

D $Q_5 - Q_4$

Your answer C [1]

* 0009544258505 *

10 Using the Fisher equation of exchange, what is the money supply in an economy where real GDP is £400bn, the price level is 3 and the velocity of circulation of money is 4?

A £300bn

B £400bn

C £533bn

D £1200bn

Your answer   [A]

$MV = PQ$

$M(4) = 3(400)$

$M = 300$

[1]

11 600 units of a good are demanded at a price of £8. If the price elasticity of demand is −0.75, what is the level of demand when the price falls by £3?

A 431

B 769

C 870

D 881

Your answer   [B]

New: 5

$\dfrac{\% \, \Delta QD}{\% \, \Delta P}$

$\% \, \Delta P = \dfrac{5-8}{8} \times 100 =$

$PED = -0.75$

$-0.75 = \dfrac{\% \, \Delta QD}{-37.5}$

$\therefore \% \, \Delta QD = 28.1252$

$\left(\dfrac{100 + 28.125}{100}\right) \times 600 = 768.75$

[1]

12 The proportion of the working age population in the labour force increased from 76.8% to 78.4% between 2006 and 2016 in the UK. What would have increased as a result of this change?

A Dependency ratio

B Employment rate

C Participation rate

D Replacement ratio

Your answer   [B]

Working age population ↑

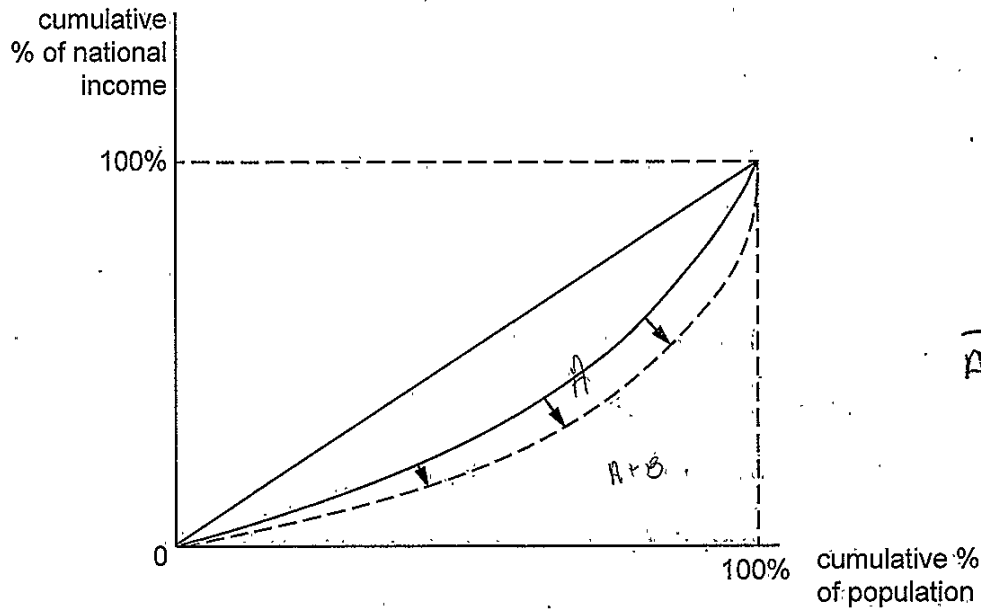$\dfrac{Employment}{labour\ force}$

$\dfrac{labour\ force}{Working\ age}$ Part.

[1]

$LB = WA (E+U) \rightarrow \therefore LF \uparrow$

13 The initial distribution of income in a country is shown by the continuous line in the diagram. It then changes and the new distribution is shown by the dotted line. Which one of the following statements describes this change?

A Absolute poverty has increased

(B) Income inequality has increased

C Relative poverty has decreased

D The Gini coefficient has decreased

Your answer [B]   [1]

14 Which one of the following is a defining characteristic of a contestable market?

A Collusion

B Long run supernormal profits

C Many small buyers and sellers

D No barriers to entry or exit

Your answer [D]   [1]

Turn over

15 In which of the following cases is the interest rate charged on borrowing likely to be lowest?

    A   High risk and high security

    B   High risk and low security

    C   (Low)risk and high security

    D   (Low)risk and low security

Your answer |C| ✔   [1]

16 What is meant by the term 'negative output gap'?

    A   Actual GDP is below potential GDP

    B   Negative externalities resulting in over-production

    C   The economy is operating beyond its production possibility frontier

    D   Two consecutive quarters of negative economic growth

Your answer |A| ✔   [1]

17 In August 2016 scientists published a report indicating that eating red meat resulted in an increased risk of death. Prior to this report being published, what was likely to be the initial cause of this market failure?

    A   Overconsumption   Over-cons.

    B   Overproduction
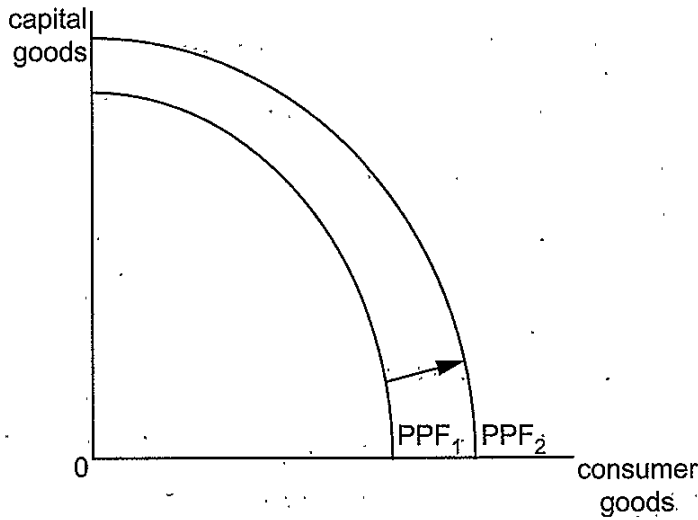
    C   Underconsumption

    D   Underproduction

Your answer |A| ✔   [1]

18 Which of the following could have caused the shift from PPF_1 to PPF_2 illustrated in the diagram below?

LRAS ↑

A   A decrease in unemployment

B   A natural disaster

C   An increase in immigration   → Q/Q of FOP ↑

D   A reallocation of resources from the production of capital goods to consumer goods

Your answer   C   ✓   [1]

19 Which of the following identifies the components of aggregate demand that are likely to be affected by an increase in household income?   → C↑, I↑, Taxes ↑ So G↑, M↑.

	Consumption	Investment	Government spending	Net exports
A	/			
B	/	/		
C	/	/	/	
D	/	/	/	/

Your answer   D   ✓   [1]

20 What is an advantage of EU membership?

A Member states have tariff free trade with the rest of the world

B Member states have control over fiscal and monetary policy → *Eurozone*

All FTAs ← **C** There are no trade barriers between member states → *All FTAs*

Not just EU

D The same currency is shared by all members

Your answer [B] ❌ [1]

21 What does the environmental Kuznets curve illustrate?

A Environmental degradation is negatively correlated with economic growth

B Environmental degradation is positively correlated with economic growth

C The correlation between environmental degradation and economic growth changes from negative to positive as a country develops

D The correlation between environmental degradation and economic growth changes from positive to negative as a country develops ✅

Your answer [D] [1]

22 An economy has three leakages from its circular flow of income – savings, tax and imports. Its national income multiplier rose from 2 to 2.5 between 2015 and 2018. Over this period its marginal propensity to save fell from 0.14 to 0.02 and its marginal rate of tax increased from 0.17 to 0.22. What was the change in the country's marginal propensity to import over this time period?

A A fall from (0.19) to (0.16)

B A fall from 0.50 to 0.40

C A rise from 0.69 to 0.76

D A rise from 1.69 to 2.26 ✅

Your answer [A] [1]

$Multiplier = 2.5$

$\frac{1}{MPW} = 2.5$

$\therefore MPW = 0.4$
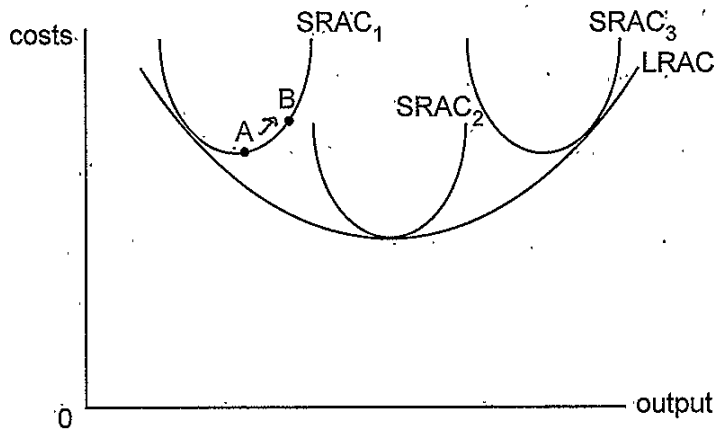
$MPM = 0.4 - 0.02 - 0.22 = 0.16$

23 Which of the following concepts is represented by the movement from A to B in the diagram below?

A   Allocative inefficiency

B   Diminishing returns

C   Diseconomies of scale

D   Economies of scale   ✓

Your answer β [1]

24 Which of the following is a <u>disadvantage</u> of the division of labour for a firm?

A   Firms are more reliant on individual workers

B   Less time wasted switching between tasks

C   Repetition improves productivity

D   Quality increases as a result of more skilled workers

Your answer A ✓   [1]

25 What is a consequence of the market failure caused by <u>positive externalities of production</u>?

A   Marginal private benefit exceeds marginal social benefit

B   Marginal private cost exceeds marginal social cost

C   Marginal social benefit exceeds marginal private benefit

D   Marginal social cost exceeds marginal private cost

$SMC < PMC$
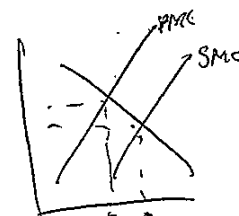
Your answer β ✓   [1]

Turn over

26 What is the relationship between the UK government and the Bank of England?

A The Bank of England sets the inflation target and interest rate independently of the government

B The Bank of England sets the inflation target and the government sets the interest rate

C The government and the Bank of England work together to set the inflation target and the interest rate

D The government sets the inflation target and the Bank of England sets the interest rate

✗ Your answer | A | [1]

27 If the aim of an indirect tax is to reduce consumption, which of the following elasticities of demand represents the situation in which the tax will be most effective?

A Elastic

B Inelastic

C Perfectly inelastic

D Unit elastic
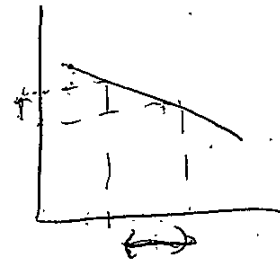
Your answer | A | ✓   [1]

28 Which of the following identifies a difference between the neo-classical and Keynesian approach to macroeconomic thinking?

	neo-classical	Keynesian
A	Aggregate supply is perfectly inelastic in the long run	There is an elastic section of the aggregate supply curve
B	Fiscal policy can affect real output in the economy	Fiscal policy cannot affect real output in the economy
C	Prices and wages are not always flexible	Prices and wages are always flexible
D	Unemployment is caused by demand side factors	Unemployment is caused by supply side factors

Your answer | A | ✓   [1]

29 A country's nominal GDP in 2013 was £800bn. The nominal growth rate in 2014 was 5%. Using the price index below, what is real GDP in 2014 at 2010 prices?

Year	2010	2011	2012	2013	2014	2015
Price index	100	105	112	116	120	127

A £700bn

B £720bn

C £812bn

D £840bn ✓

Your answer A

£800bn

∴ 2014 GDP = £840

$$\frac{840 \times 100}{120} = 700$$

[1]

30 In the diagram below, price is initially set at P_1 with 20 consumers purchasing Q_1 amount. The price is then reduced to P_2. The initial 20 consumers continue to purchase Q_1 amount. The lower price attracts 15 new consumers, causing the total quantity demanded to rise to Q_2. What is the area of consumer surplus enjoyed by the new consumers?

Existing

New
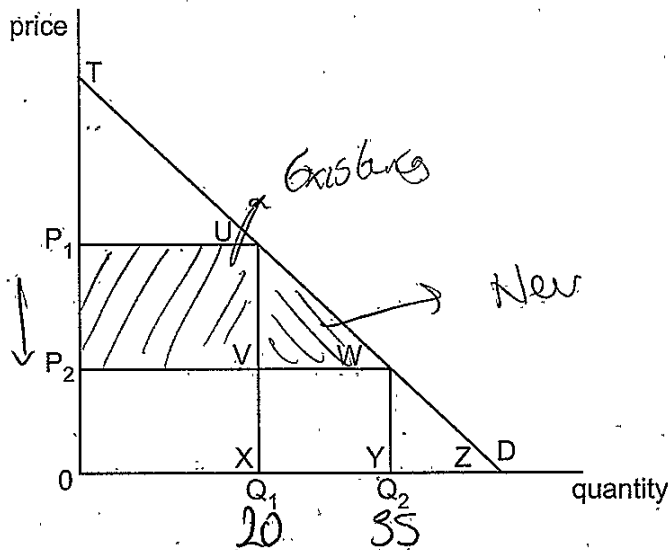
A P_1UWP_2

B VUW

C XVWY ✓

D YWZ

Your answer B

[1]

* 0009544258513 *

SECTION B

Read the following extracts and answer all questions which follow.

Extract 1 – Is hosting the Olympic Games a profitable business?

In the build up to the 2016 Rio Olympic Games, Brazilians were divided over the merits of hosting the world's largest sporting event in their country. With the economy in recession for the second year running and costs spiralling 50% over budget, many argued that the $4.6bn could have been better spent in this developing nation. Such critics point to the loss made by the majority of previous host cities as evidence of wasteful expenditure.

Fig. 1.1 summarises the financial implications for Vancouver and London, hosts of the 2010 Winter and 2012 Summer Olympics respectively. A significant proportion of Olympics revenue goes to the International Olympic Committee (IOC); the figures detailed in Fig. 1.1 reflect what was kept by the host nations.

Fig. 1.1 – Vancouver 2010 & London 2012 Olympic Games Costs & Revenues

	Vancouver 2010 ($ millions, USD)	London 2012 ($ millions, USD)
Costs		
General infrastructure	3,497	5,970
Sporting infrastructure	715	1,790
Other	+ 3,344	+ 3,641
	7556	11401
Revenues		
Broadcasting rights	414	713
Sponsorship	863	1,450
Ticketing	250	988
Licensing	+ 51	+ 119
	1578	3270

However, those in favour of hosting the Olympic Games argue that these statistics significantly underestimate the benefits, many of which will be felt for generations to come. Improvements in the transport infrastructure can enhance productivity, whilst the regeneration of East London in 2012 provided tangible benefits to local residents.

Critics question whether the long run benefits from the Olympics are better than those which would have resulted from alternative infrastructure projects. For example, significant investment to meet a three week period of peak demand may result in severe overcapacity once the event is over, illustrated by the now weed infested cycling racetrack used for the Beijing Olympics.

Recognising that many potential hosts were being put off by the rising costs of hosting an Olympics, the IOC published its Olympic Agenda 2020 in December 2014. At the centre of the agenda is a desire to include sustainability in all aspects of the Olympic Games, in doing so improving the economic viability of hosting the spectacle.

## Extract 2 – The Olympic Games as a macroeconomic stimulus

Despite the significant costs involved governments around the world remain attracted to bid for the Olympic Games because of the wider macroeconomic stimulus hosting the event can provide. The Bank of Japan has estimated that the Japanese economy could be boosted by up to $249bn as a result of hosting the next games in Tokyo.

In many ways expenditure on the Olympic Games can be seen as an example of expansionary fiscal policy, generating thousands of jobs in construction in the build up and a significant amount of tourist expenditure. Economists estimate the multiplier effect of Olympics expenditure to be approximately 1.7; this wider economic effect is used to argue that in the long run hosting the Olympics more than pays for itself. Indeed, the macroeconomic stimulus proved particularly timely for the UK, which was in the midst of recovering from the global financial crisis when the 2012 London Games took place.

However, the size of the injection into the economy from hosting the Games is generally overstated. This is in part because it ignores the substitution effect: money spent on the Olympics by local residents is money that would have been spent on other goods and services had the Olympics not taken place. Projected increases in tourism also fail to take into account the number of people who choose not to come to the country during the Olympics, with holiday or business travellers put off from coming to the country because of the crowds associated with the Olympics. In both Beijing and London tourist numbers during 2008 and 2012 were actually lower in total than in the previous year. Moreover, whilst the employment gains are particularly beneficial during a period of recession, this will only ever occur by chance rather than design, given the Games need to be bid for seven years in advance. When the Olympics takes place in a country during the boom phase of the economic cycle the gains from employment are limited, workers simply switch from alternative employment towards Olympics related employment.

Fig. 2.1 compares historical growth rates with the rate of economic growth experienced by countries in the five year period during which they hosted the Olympic Games.

Fig. 2.1 – Economic growth rates of Olympic hosts
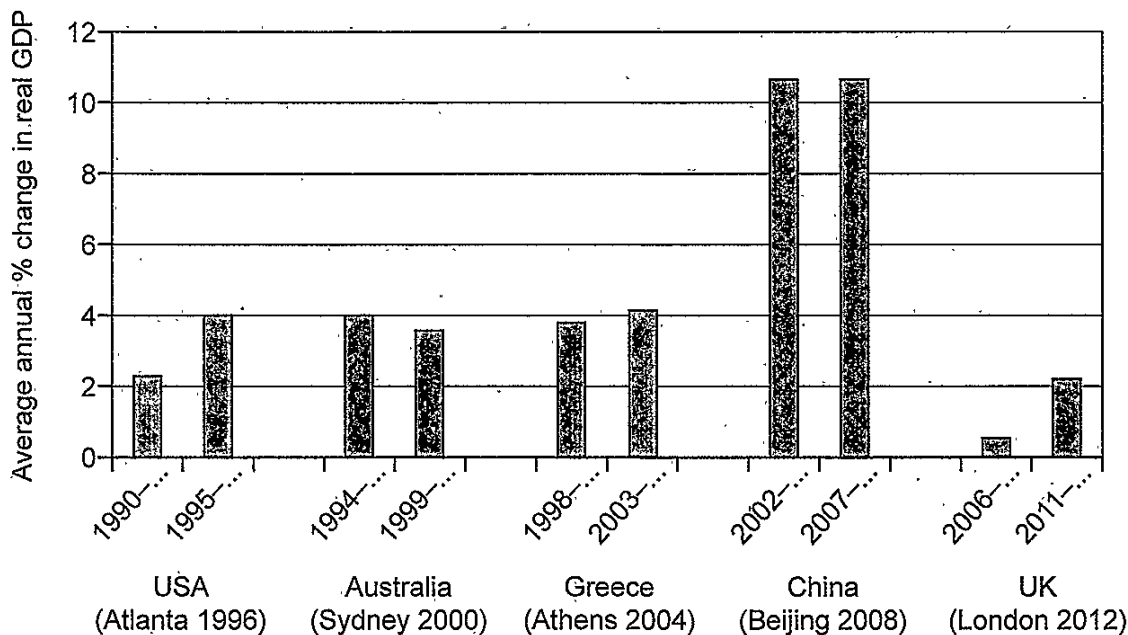
The long run consequences of hosting an Olympics are just as debatable. Some argue that the legacy of hosting the event has a powerful long term impact as a result of improved infrastructure and urban regeneration. Shortly after the 2012 Olympics a BBC survey found evidence of a 'feel good effect', with 80% of people saying they felt proud to be British. This could have an impact on confidence and therefore the propensity to consume.

Ultimately, the gains from tourism depend on the nature of the host city prior to the Olympics taking place. Whilst Barcelona and Salt Lake City saw a sustained increase in tourist numbers after hosting; this is largely attributed to them being destinations that were not popular before. Cities such as London clearly stand to gain less given London was already the world's most visited tourist destination before hosting the games.

The Olympics is also thought to have a positive impact on a country's balance of payments, with short run increases in tourist expenditure and long run increases in foreign direct investment as a result of companies becoming more familiar with the country. Fig. 2.2 outlines the impact on the exchange rates of host countries through use of the 'Olympics index'. This is constructed by following the host country's exchange rate in the four years prior to the Olympics taking place – for example, between 2004 and 2008 the Chinese Yuan is used for the index in the build up to the Beijing Olympic Games.

Fig. 2.2 – Exchange rate changes of Olympic hosts compared to other currencies, 1980–2012

Currency	Exchange Rate Change 1980–2012 (%)
Australian Dollar	19.78
British Pound	−21.52
Indian Rupees	−45.11
Japanese Yen	53.72
Olympics Index	89.27
US Dollar	4.46

Extract 3 – Growth of the UK bicycle market

Gold medal winning performances by British cyclists has contributed to the rapid growth seen in the bicycle market. The increase in popularity of the sport has coincided with large scale infrastructure investment in cycle networks around the UK. This has been driven by a desire to ease traffic congestion, reduce pollution and improve the health of the population. Fig. 3.1 illustrates how the price of cycling has changed over time in the UK.

Fig. 3.1 – Bike prices & inflation in the UK 2007–2015
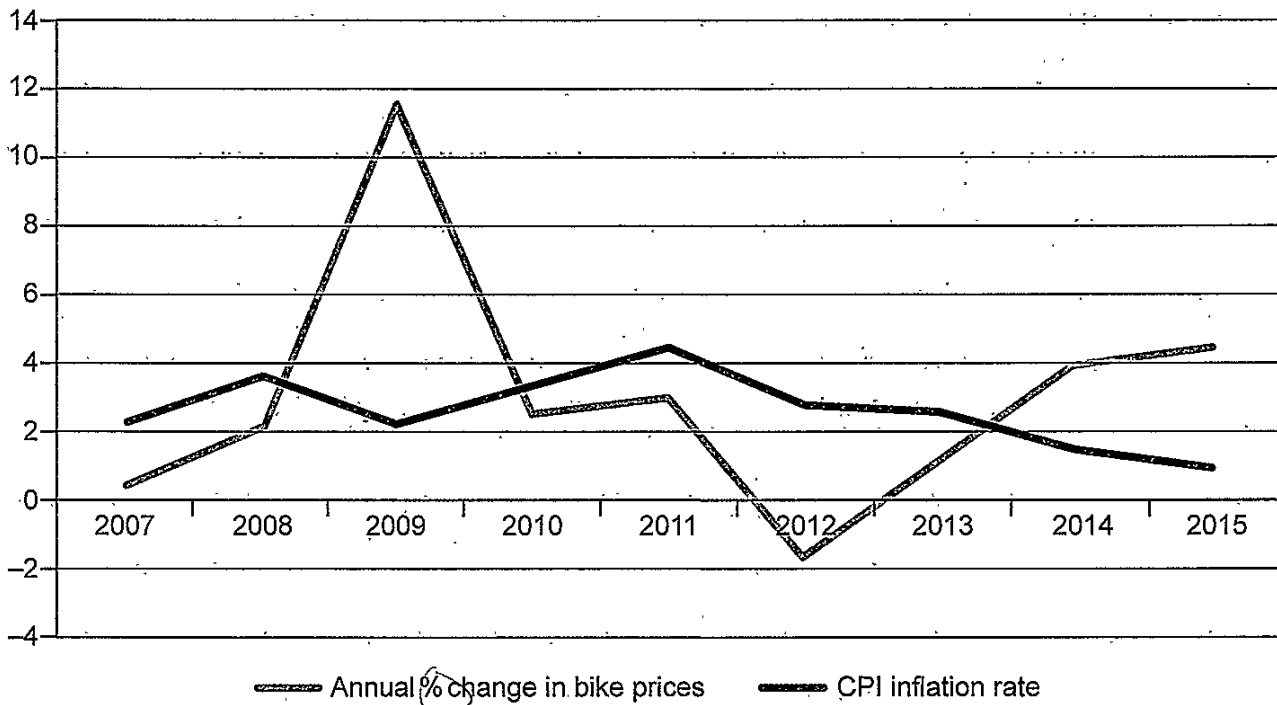
With £12,000 bikes now available to, and purchased by, consumers, some blame the rising cost of cycling on the lack of competition in the bicycle market. Evans Cycles, Halfords and Wiggle dominate the market, accounting for over 50% of market share between them, with Wiggle's recent takeover of rival Chain Reaction further increasing the collective power of these three retailers.

An alternative explanation for the rising price of bicycles is the fact that bicycle equipment has improved dramatically over the years. Innovations such as electronic gears and carbon fibre mean modern day bicycles are incomparable with those on sale 20 years ago. With the number of independently owned bike shops increasing by more than 10% over the past decade, it is clear firms are looking to take advantage of this ever expanding market.

31 Using Fig. 1.1, compare the profitability of hosting the Vancouver and London Olympic Games.

The total costs of the Vancouver Olympic games was: $7556m, while the total revenue was: $1578m. This presents a profit of: -$5978m, showing that there was negative profit, a loss. The total costs of the London Olympic games was: $11401m, while the total revenue was: $3270m. This presents a profit of: $-8131m. Similarly, both of these Olympic Games seem to lack profitability, because both have incurred a loss. The profitability can be compared through a cost : revenue ratio. The revenue : cost ratio for Vancouver was: $\left(\frac{1578}{7556} \right) = 0.21$, while [4] the London's ratio was: $\left(\frac{3270}{11401} \right) = 0.29$. This shows that despite the loss both these countries faced, the profitability was greater for London, they received $0.29 for every dollar spent, while Vancouver only received $0.21.

Y   A   E   M
→ Towist ↑ → Better spend on
→ Jobs ↑   → Waste, not not used
Multiplier ↑   (Beijing velodrome?)

Cs depends on time
of good
↓
Chance
↓
Gap sorted

32 Evaluate, using the information in Extract 1, whether expenditure on the Olympic Games represents sustainable investment.

Olympic Games expenditure can be hugely beneficial in terms of it's sustainability. For example, major transport infrastructure investment is need to facilitate all the additional tourists. In the long run, this presents better transport links around the country and allow for greater geographical mobility. This can mean formerly unemployed workers can now join the labour market, as they are able to access new job opportunities. This can mean those who were previously structurally unemployed may now be able to find work, reducing the rate of natural unemployment. This shows sustainability as greater employment allows for more resource allocation and so the future generation's wants and needs can be met. The spending required for hosting the games is particularly targetted to capital goods (such as infrastructural improvements and better machinery) which will boost labour productivity in the long run. As a result, many more benefits are derived in the long run than if investment was into consumer goods, a showing (Page 26)   [8]
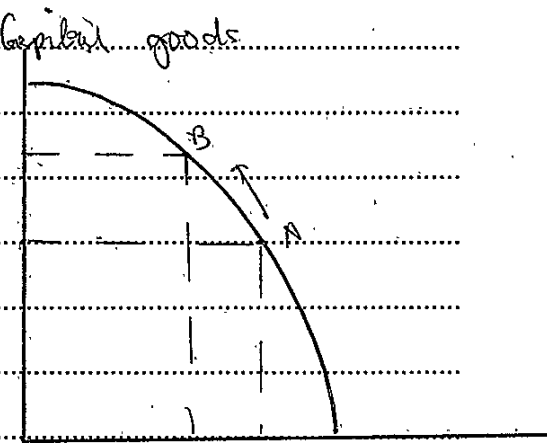
KU

KU AN

KU

AN

AN

AN

Capital goods

Consumer goods.

33 Using the data in Extract 2, explain what is meant by the multiplier effect of Olympics expenditure.

A multiplier effect shows how much greater the final rise in GDP is compared to the initial injection. This can occur if the government spends £100m, and in doing so, increases consumption due to high confidence, which rises by £100m, so the final rise is £200m. Using the 1.7 multiplier an initial injection of £200m would see a greater final rise in GDP of: (200 × 1.7) = £340 m.

[2]

see a

34 Evaluate, using the information in Extract 2, the extent to which hosting an Olympic Games has a positive impact on the government's macroeconomic policy objectives. **[15]**

Hosting an Olympic g Games poses huge benefits to an economy. Firstly, the large level of infrastructure required to host the games means the derived demand for labour will rise due to the creation of many jobs. This can cause a large fall in our unemployment, and this already benefits the g Macroeconomy, as unemployment is lowered. As jo the number of people in employment rises, they will have much more real disposable income now, as and they can consume more due to their greater purchasing power. Since consumption is a large component of AD, the level of AD in the economy will rise from $AD_1 \rightarrow AD_2$, bringing large economic growth as output rises from $Y_1 \rightarrow Y_2$. As seen in the extract, a

SEEN

Price level

Diagram 1:

AS

PL_3

PL_2

PL_1

AD_3

AD_2

AD_1

$Y_1 \rightarrow Y_2 Y_3$

Real GDP
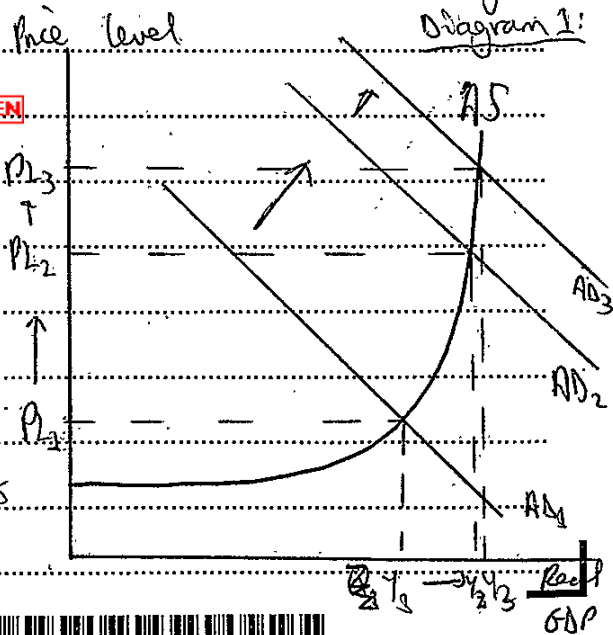
multiplier can be created, through higher investment as confidence rises, further boosting AD and therefore growth, allowing the government to meet another policy. Often, these employed to construct these infrastructural projects were either unemployed or in low quality employment before. This means

AN

as their incomes rise, the level of inequality in the economy will fall, shifting
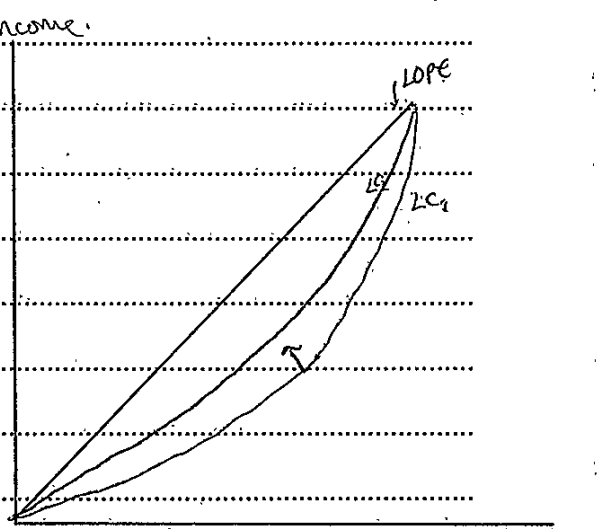
KU

the Lorenz curve inwards towards the line of perfect equality, as there's more income distribution

% Income.

On the other hand, a large problem can be caused through this large AD growth, which is a huge increase in inflation. This is seen in diagram 1,

EVAL

because as there is an overall rise in AD, from $AD_1 \to AD_2$, there's also a huge rise in price level from $PL_1 \to PL_3$. This causes the goods produced by the country to be less internationally competitive and so they may see a fall in their demand for exports. As this falls,

EVAL

their net exports position will worsen, and a fall in AD can result

Price level

(page 27)

Turn over
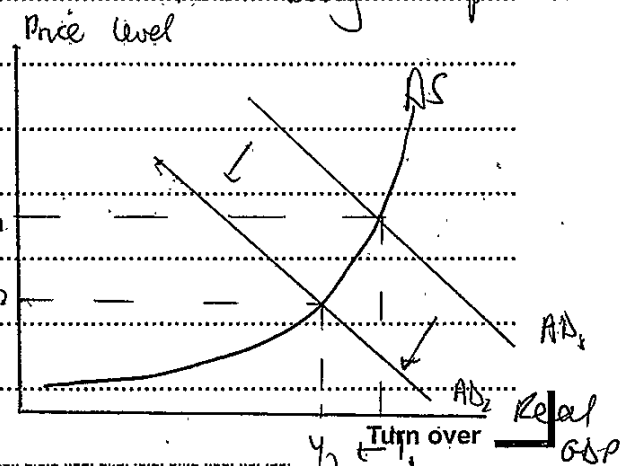
(On page 27 ...) du

35 Explain, using an appropriate diagram, why the changes in the Olympics index, illustrated in Fig. 2.2, may occur as a result of a country hosting the Olympic Games.

As tourists arrive in the host currency, they need to buy the domestic currency in order to pay, so demand for the currency rises. Similarly, foreign firms may want to invest into the host country, but to do so they require the domestic currency. Both of these cases cause a large rise in the demand for the domestic currency, so there is a large rise in the value of the exchange rate, from $ER_1 \to ER_2$. This large appreciation explains the high Olympic Index from Fig 2.2.
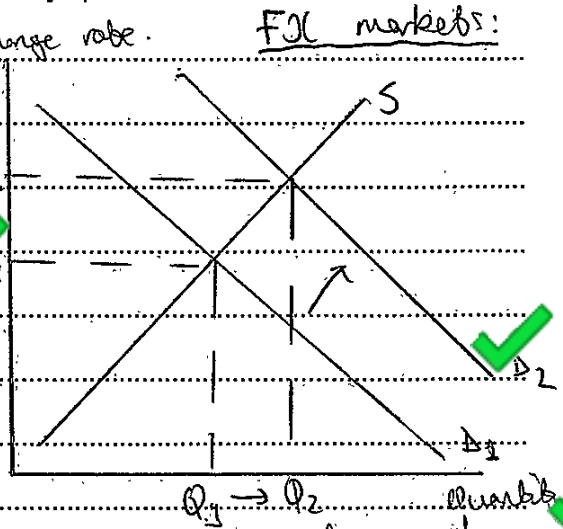
Exchange rate.   FX markets:

[4]

36 Using Fig. 3.1, describe what happened to bicycle prices in the period 2007–2015.

Generally, over the entire time period, the ~~costs~~ price of bicycles increased as the annual % in price was largely positive. However, there was a small fall in prices occurred in 2012 since the % in bike prices was negative. So the overall price between 2007 – 2015 increased despite fluctuations. **[2]**

37 Evaluate, using an appropriate diagram, the extent to which consumer welfare is harmed as a result of the bicycle industry being an oligopoly. **[15]**

Oligopolies are likely to collude with other large firms to enhance their joint welfare. They will all agree to set output at Q_1, and price as P_1 through a tacit collusion. The shape of the kinked demand curve can explain why they are likely to stick to this price. If a firm increases price above P_1 then other firms will not follow in order to steal market share, so the change in quantity demanded will be large. Since the change in quantity demanded is greater than proportional to the change in price, this section of the AR curve is elastic, so a rise in price causes revenue to fall. On the other hand, if a firm decides to reduce price below P_1, other firms will follow in order to protect their market share, so the change in quantity demanded will

cost/revenue

P_1

$AR = \Delta$

Q_1 output

large many consumers switch to substitutes.

KU

KU

SEEN

Turn over

be small, from their rise in demand from new entrants. Since the change in quantity demanded is less than proportional to a change in price, this section of the demand curve is inelastic, so a fall in price causes a fall in revenue. So, it makes sense for firms to stick to the collusion price. This collusion price is often very high at P_1, and so consumers will suffer from little to no consumer surplus. Additionally, in order for this interdepence between firms to exist, they mu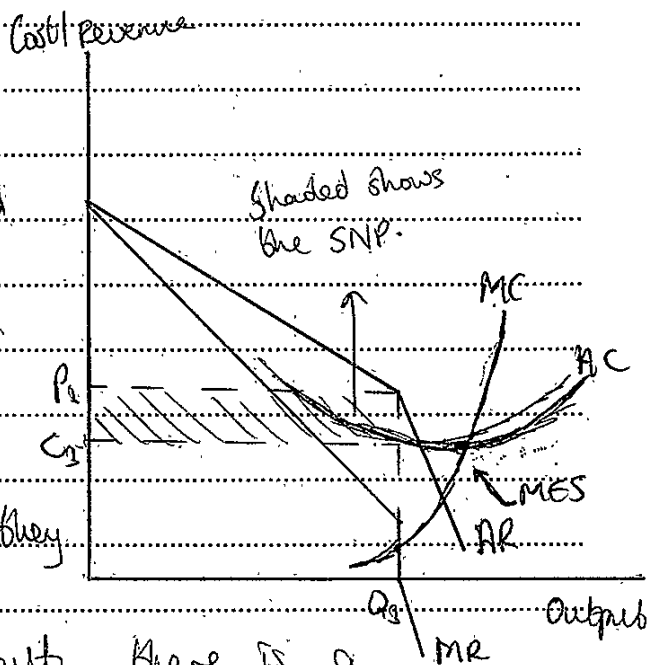st all produce fairly similar goods. As a result, there is a lack of product differentiation, further harming y consumer welfare due to a lack of ~~dlllll~~ real choice. The high price ($P > mc$) also means that a lot of consumers are priced out of the market due to the oligopoly's allocative inefficiency.

However, despite these high prices and lack of choice, consumers can ~~dlll~~ actually benefit. This comes through the investments of oligopolies, who are dynamically efficient and use their large supernormal profit (SNP) to invest into research and development. They do this to engage in

non-price competition, so that they can gain some market share by differentiating their goods/ ~~this~~ service. This can come in the form of loyalty schemes where members are eligible for some rewards or better quality deliveries, longer delivery windows and faster deliveries are greatly convenient to consumers. ~~As~~ This

EVAL all ensures the quality of the good/service received by consumers is very high, massively increasing their welfare. This non-price competition occurs due to a reluctance to change prices. Another benefit of this price rigidity comes when oligopolies experience a rise in costs. As AC and MC rise, oligopolies are unlikely to increase their price in accordance, due to the damage to
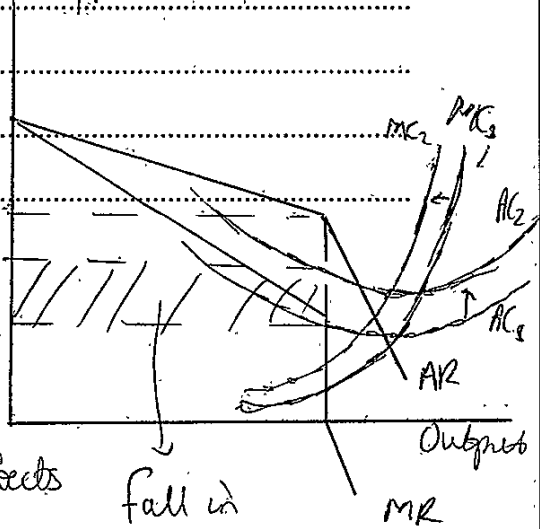
END OF QUESTION PAPER

their ~~expon~~ revenue, so they are likely to seek to cap through a fall in SNP. This price rigidity protects

EVAL consumers when costs are rising, and ~~also~~ allows them to budget as prices are stable.

Also, a collusion is unlikely to hold in the long run, this is because there is an incentive to cheat. Suppose

KU Evans and Halfords agree to collude

SEEN at high prices, they will both (Spare paper)

Cost/revenue

fall in SNP.

Evans

Halfords		High	Low
	High	£50m, £50m	£10, £80m
	Low	£80m, £10	£25m, £25m

These figures show total revenue.

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

Q3.2) Sustainability:

However, whether the investment is sustainable is wholly dependant on where the investment is targetted. For example, the Beijing Olympics race track is now weed-infested and barely used. This shows a misallocation of resources, as the construction of this track was extremely short term, as only peak demand was met for a small time period, but there is now over-capacity. This presents unsustainable investment, as a lot of short term benefits were experienced from this track, but is now ~~obliterated~~ obselete in the long run, as a result, the investment ensured the temporary fulfillment of the current generation's wants and needs at the expense of the future generation's ~~old~~ ability to meet their own. This money could have been better spent elsewhere, in education and training schemes for example to allow for greater future labour productivity, which would increase allocative efficiency and better tackle the basic economic problem. To conclude, for an investment to be sustainable ~~t~~ it must derive benefits even in the long run, this could be better

achieved through capital investment by accumulating better capital, to boost long run growth, rather than Olympic Games investment into stadiums and race tracks

EVAL

Q34)

(a) Since net exports is a component of AD. This can be noticably harmful if the majority of the country's growth is export-led, and can even offset the initial proposed rises in AD.

EVAL

Additionally, the type of employment created can also be questioned. It is often unsustainable, as the workers are only required until ~~the~~ the preparations are complete, and after that, the workers are let go. This type of employment will not benefit the economy in the long term, and while allowing some demand - ~~lea~~ side growth it can be detrimental due to the higher inflation caused. Moreover, this type of employment may be 'employment switching' where there is no real increase in employment but workers just switch occupation. As a result, incomes will only rise by an insignificant amount, and so the rise in AD may only be small, presenting small increases in growth then ~~it~~ can be
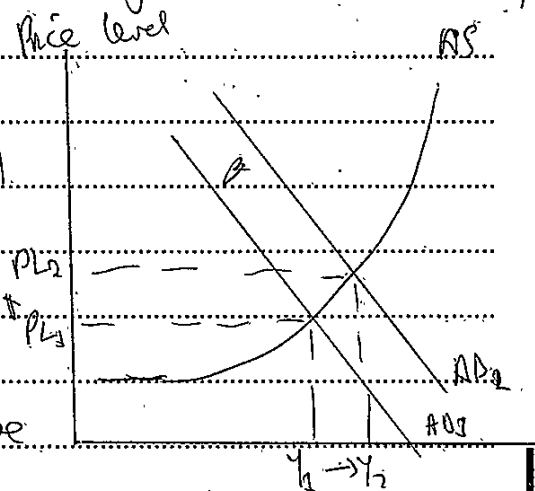
is significant.

In the conclusion, the timing of the games is crucial because as seen this with London, hosting the games during a period of recovery massively improved the level of growth and allowed the economy to experience a boom. This means that when in the recovery phase, hosting the Olympics is extremely beneficial, however when in a boom, the limited amount of unemployed labour available can make the employments purely 'employment-switching'

4 PAGE CONTINUATION BOOKLET

Write the information required clearly in the boxes above using capital letters.

Question	Part	
Q37)		maximise joint welfare, at £80m revenue each. The incentive to cheat comes from the potential to steal market share and gain a total revenue of £80m if the other firm holds a high price. As a result, the average revenue when colluding is £30m, but when cheating, it is £52.5m. As a result, the dominant strategy is to cheat the collusion, and this leads to both firms going low, low, settling at the Nash equilibrium. Consequently, in the long run collusions are likely to break down, so the firms can engage in price wars. This allows consumers to greatly benefit, because they will experience very low prices and high quality, improving their welfare. (→)

This document consists of 4 pages

Question | Part

In conclusion, the ~~to~~ exploitation of ~~cost~~
consumers is short-lived, as collusions are
unlikely to occur due to a rise in the
market contestability. This is seen as
there are more and more bike shops being
~~so~~ owned and so the fear of big firms
is that these ~~a~~ new entrants can join the
market and steal ~~the~~ market share. This
fear of hit-and-run ~~comp~~ strategy from the
potential competition means that a collusion
EVAL is unlikely to occur, as firms produce at
MC=AR to protect themselves, so consumers can
benefit.

BP

Question	Part	

Question	Part	