

Level 3 International Foundation Diploma for Higher Education Studies

Ofqual Number: 603/0080/2 Quartz ID: 1125 / 1207

Component ID: 2370

Introductory Economics

SAMPLE EXAMINATION

This specimen assessment material is devised from previous past papers to reflect the single examination assessment approach now taken for this unit in the Level 3 International Foundation Diploma for Higher Education Studies.

Time allowed: 2 hours

Instructions:

- Answer **ALL** questions.
- Clearly cross out surplus answers.
- Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

Information:

- The maximum mark for this paper is 100.
- Graph paper will be provided by the centre.
- **You may use a scientific calculator during this examination.**
- Note: Scientific calculators permitted in the exam should not be able to carry out algebraic manipulation, differentiation or integration, language translation or communication with other devices of the internet. They should not have a QWERTY keyboard. There should not be retrievable information stored in the calculator, for example databanks, dictionaries, mathematical formulas or text.

Answer ALL questions

Marks

Question 1

- | | | |
|-----------|---|----------|
| a) | Define the term "opportunity cost" and explain its significance in economics. | 3 |
| b) | List and explain the THREE (3) fundamental economic questions all societies must address. | 3 |
| c) | Distinguish between positive and normative economics. Provide ONE (1) example of each. | 4 |
| d) | Using a simple production possibility frontier (PPF), explain the concept of economic efficiency. Illustrate how opportunity cost is reflected along the PPF. | 6 |
| e) | Define the term "marginal analysis" and explain how it is used in decision making. | 4 |

Total 20 Marks

Question 2

- a) Define the *price elasticity of demand* and state how it is calculated. **2**
- b) The price of good X rises from \$10 to \$12, and as a result the quantity demanded falls from 100 units to 90 units.
- i) Calculate the price elasticity of demand for good X over this price change. **2**
- ii) Based on your answer in part i), determine whether the demand for good X is elastic, inelastic, or unit-elastic, and briefly explain why. **1**
- c) Based on your calculation above, what happens to the firm's total revenue when the price of good X increases from \$10 to \$12? Explain briefly. **2**
- d) When the price of a normal good decreases, what is the substitution effect and income effect on the quantity consumed of that good? **2**
- e) Explain the difference between a normal good and an inferior good. What would you expect to happen to the demand for each type of good if consumers' incomes rise? Give an example of each type of good. **4**
- f) Assume the price of a complementary good for good Y falls. How will this affect the demand for good Y? Explain briefly. **2**
- g) Suppose the government imposes a price ceiling (maximum price) on a product that is below the market equilibrium price. **5**
- Illustrate with a supply-demand diagram and explain the effects on the market: specifically, discuss the outcome in terms of quantity demanded, quantity supplied, any resulting shortage or surplus, and the impacts on consumers and producers (including any deadweight loss).

Total 20 Marks

Marks**Question 3**

- a) Distinguish between fixed and variable costs with examples. **4**
- b) Define and explain the law of diminishing marginal returns. Provide a numerical example. **4**
- c) Explain the difference between accounting profit and economic profit. **3**
- d) A firm's total cost of producing 50 units is \$500. The marginal cost of the 51st unit is \$15. The price per unit is \$12. **4**
- Should the firm produce the 51st unit? Justify your answer.
- e) Briefly explain economies of scale and diseconomies of scale with examples. **5**

Total 20 Marks

Question 4

- a) Define and differentiate between frictional, structural and cyclical unemployment. For each type of unemployment, briefly describe its cause or provide an example. **6**
- b) In an economy, the total population is 50 million. Of these, 27 million people are employed and 3 million are unemployed. **2**
- Calculate the unemployment rate for this economy.
- c) As an economy begins to recover from a recession, previously discouraged jobseekers begin looking for work again at the same time that firms are starting to hire. **3**
- Explain how the unemployment rate might behave in the short term during this early recovery phase, and why.
- d) After several years of expansion, an economy starts to experience declining industrial output and rising unemployment. **5**
- Identify the phase of the business cycle the economy is likely entering **and** discuss the likely implications of this phase for businesses and policymakers (e.g. effects on profits, employment and possible policy responses).
- e) Explain how inflation can affect savers, borrowers and workers differently. Provide ONE (1) example for each group. **4**

Total 20 Marks

Question 5

- a)** A manufacturing company incurs a monthly rent of \$50,000 for its factory and spends \$2 on raw materials for each unit of product produced. **2**

Identify which of these costs is fixed and which is variable and briefly explain your reasoning.

- b)** The information below shows the output of a factory as the number of workers increases: **5**
- 1 worker produces 12 units
 - 2 workers produce 28 units
 - 3 workers produce 50 units
 - 4 workers produce 60 units
 - 5 workers produce 65 units

Calculate the marginal product of labour for each additional worker hired (for the 2nd through 5th workers). At what point does diminishing marginal returns set in?

- c)** A firm currently produces ONE HUNDRED (100) units of output using TEN (10) workers and FIVE (5) machines. The firm is said to experience increasing returns to scale. **3**

If the firm doubles both inputs to TWENTY (20) workers and TEN (10) machines, what would you expect to happen to the firm's output? Explain briefly.

- d)** Two countries, Country C and Country D, each produce grain and cars. Country C can produce grain more efficiently than Country D, while Country D can produce cars more efficiently than Country C. **4**

Explain, using the concept of comparative advantage, how these TWO (2) countries can both gain from trade with each other.

- e)** Briefly explain how the circular flow of income and expenditure demonstrates that total output, total income and total spending are equal in a closed economy. **3**

- f)** Identify TWO (2) common measures of inflation. In particular, name an index that measures consumer prices and an index that measures inflation from a producer or business perspective and briefly describe the focus of each index. **3**

Total 20 Marks

End of paper