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Practice Paper 3A

Suitable for students and teachers studying for or teaching:

- Paper 3 Edexcel A Economics: Microeconomics and Macroeconomics

About the test:

- Time available: 2 hours.
- There are two questions.
- For each question, you must answer parts a), b) and c), in addition to answering one question from either d) or e).
- Question 1 has 50 marks available
- Question 2 has 50 marks available.
- Total marks available: 100.

This paper was written by Tom Furber. I am not affiliated with any exam board. Practice questions should be used as extra practice and not as “predictions”.

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Trading blocs and integration in Europe

Figure 1 - Selected data from the balance of payments for the euro area, for 2023 and 2024, as a percentage of GDP.

The euro area includes all countries that use the euro as their currency.

Category	2023 (% of GDP)	2024 (% of GDP)
Current account	1.6	2.8
Net trade in goods	1.8	2.6
Net trade in services	0.8	1.1
Net primary income	0.2	0.2
Net secondary income	-1.2	-1.1

Extract A: European unemployment and the European Union

Wages in mainland Europe adjust more slowly to changing economic conditions. Collective bargaining between trade unions and employers can lock in wages for multiple years at a time. In Germany, Italy, Spain and the Netherlands, wage agreements are agreed for two years or more, with some agreements in Italy and Spain as long as five or six years. Workforces in some countries, such as Bulgaria lack the digital skills required in today's job market. There is free movement of labour within the European Union, but local ties, language differences and differences in the cost of living make it more difficult to relocate.

The European Union is a common market. In addition to the absence of trade barriers between countries, it also imposes a common external tariff, known as the Common Customs Tariff (CCT). The tariff rate varies by industry. While it is as high as 9.2% in agriculture, the CCT rate is 3% on average across all goods. Some particular product categories are singled out for even higher tariffs. Dairy products imported into the EU from outside face an average tariff rate of 42.2%.

Some French politicians have suggested a referendum on whether France should leave the European Union (EU). France is a net contributor to the EU's budget, contributing 9.3 billion euros more than it gets back from the EU in direct payments. This includes funds from the EU to support French farmers. However, the trade, security and mobility benefits of being in the EU are likely to be substantial. 63.6% of imports into France come from other EU member states,

including car brands from Germany such as Volkswagen. Similarly, 54% of France's exports go to other EU countries.

Extract B: Quantitative tightening and the euro area

The euro area includes countries that use the euro as their currency and share the European Central Bank (ECB) in charge of monetary policy. However, the European Union is a common market without trade barriers between member states. Some countries are members of the EU but not the euro area, such as Denmark and Poland.

The European Central Bank (ECB) sets monetary policy for all euro area countries. The ECB has engaged in quantitative tightening. This is the reverse of quantitative easing, where the central bank sells the bonds, mainly government bonds, that it once bought under quantitative easing. For example, the ECB was reducing its asset holdings by 15 billion euros a month from March to June 2023. Part of the rationale is to help bring down inflation from its peak in 2022. This could lead to tighter credit conditions in the euro area, making it more difficult for firms to fund capital expenditure and for consumers to purchase big-ticket items with financing. It could also cause an uptick in the unemployment rate, which stood at 6.4% in the euro area in May 2024.

Bulgaria is set to become the 21st member of the euro area in 2026. 45% of Bulgaria's exports go to euro area countries and 83% of imports into Bulgaria are paid for using euros. Bulgaria's exports include oil, wheat and copper and its imports also include oil, copper ores to be refined and cars. The Pirdop facility in Bulgaria is the largest copper refinery in South-Eastern Europe. Countries must meet conditions, referred to as the 'Maastricht criteria', to join the euro. Conditions include an average inflation rate no more than 1.5 percentage points above the rate of the best-performing three members of the euro area. There are also conditions on public finances, such as the planned or actual fiscal deficit should not exceed 3% of GDP.

Sources: European Commission, Euronews, European Generation, WTO, miscellaneous others.

Please turn over for the questions.

Questions:

1(a) Explain the difference between primary income and secondary income in the current account. Refer to Figure 1 in your answer. (5 marks)

(b) Referring to Extract A, paragraph 1, examine **two** causes of unemployment in mainland Europe. (8 marks)

(c) Using a diagram, discuss the effect of joining a common market, such as the European Union, on social welfare. Refer to Extract A in your answer. (12 marks)

Choose one from the following two 25 markers to answer:

(d) Evaluate the microeconomic and macroeconomic advantages for a country of joining a monetary union. (25 marks)

(e) Evaluate the microeconomic and macroeconomic consequences of quantitative tightening. (25 marks)

Question 2: CEOs, working from home and sandwich shops.

Figure 2: Gross annual pay of the average CEO and the median full-time worker in the UK for 2023/24 and 2024/25.

Category	2023/24	2024/25
CEOs	£4.29 million	£4.58 million
Median full-time worker	£37,439	£39,039

(Source: High Pay Centre)

Extract C: Are Chief Executive Officers (CEOs) paid too much?

In 2025, the CEO of Centrica, the owner of British Gas, faced a shareholder rebellion. Close to 40% of shareholders voted against plans for the CEO's basic pay to rise by 29%. There were concerns that the CEO's pay rise was above that given to the rest of the workforce. Centrica's market value had grown by 250% over five years, however there was a short term fall in the share price due to an expected fall in profits in the first quarter of 2025.

Why are CEOs paid highly? If CEO pay is driven by market forces, then high pay could simply reflect a small pool of qualified leaders. With companies increasingly operating in multiple jurisdictions, the ability of a good CEO may matter more than ever in managing increasingly complex organisations. A global competition for talent could make attracting CEOs more challenging without pay rises. Particularly for those workers close to the rank of CEO, there is evidence that high CEO pay could motivate workers to work harder. However, hiring a CEO may be based on connections, rather than skills. Paying a CEO more could also come at the expense of paying other workers in the company.

The High Pay Centre is calling for a maximum 10:1 pay ratio between bosses and the lowest paid workers in the company. This is in effect a maximum wage for CEOs, tied to the lowest pay rate of employees. This could directly reduce income inequality, forcing CEOs to raise the wages of their lowest paid workers. However, if the pay ratio is achieved by cuts to CEO pay, this could simply redistribute income from CEOs to shareholders. Alternatively, firms may choose to hire fewer workers. CEOs and businesses may decide to set up abroad to avoid this pay cap, so coordination between governments may be required.

Extract D: Sandwich shops in city centres

Sandwich shops in city centres face challenges. Higher energy and food costs are squeezing margins. The director of the British Sandwich Association explained that with supply chain problems, it can be difficult for businesses to get their hands on key ingredients some days. In the year from April 2022 to April 2023, the average price of white bread across major supermarkets increased from £0.58 per 800g to £0.84 per 800g. This does depend on the particular item. Tomatoes only increased in price by 2% over the same period.

With workers spending more days at home and fewer days in the office compared to before the Covid-19 pandemic, sandwich shops in London may not have the trade they once had, according to Springboard Research.

Extract E: How CEOs are paid and working from home

The chief executive officer (CEO), as the highest-ranking executive in the firm, is in charge of running the company, setting its strategic direction and reporting to the company board. 84% of CEOs in the FTSE 100 are paid a Long Term Incentive Payment. These are rewards often paid out in company shares, that are received after achieving targets over an extended period.

A survey of CEOs in the UK at the end of 2024 revealed that 84% of CEOs expected all staff to return to the office within the next three years. Research from KPMG highlights a widening gap between CEO and employee expectations, with workers expecting greater flexibility in where they can work.

Between November 2024 and January 2025, university graduates in the UK worked 1.8 days a week from home, the highest among the European countries surveyed. According to evidence across Europe, the US and Asia, the value of working from home to workers is equivalent to 8% of their salary. This includes the benefits of saving commuting time and train fares. Working from home may reduce the need for office space, which can be repurposed for housing. The International Monetary Fund suggests the impact on productivity is flat. While exhausting commutes are removed and the work environment may be quieter, it may be more difficult for employees to learn, innovate and communicate. The effect of working from home depends on how companies manage the transition and the particular work activity.

Meanwhile, working from home may enable workers to look for work who otherwise could not. This includes some carers, parents and people with certain people with disabilities. It could also enable workers to spread out across the country, which could distribute consumption more evenly throughout the UK.

(Sources: High Pay Centre, KPMG, Harvard Business School, The Guardian, FT, Caselli (2025), IMF, BBC, miscellaneous others.)

Questions:

2(a) Referring to Extract C, paragraph 1, explain **one** impact of a divorce of ownership from control. (5 marks)

(b) Examine **two** possible reasons why a maximum wage for CEOs could lead to government failure. Refer to Extract C in your answer. (8 marks)

(c) Using a supply and demand diagram, assess the impact of higher input costs for sandwich shops on consumer surplus and producer surplus. Refer to Extract D in your answer. (12 marks)

Choose one from the following two 25 markers to answer:

(d) Evaluate the microeconomic and macroeconomic factors leading to pay gaps between CEOs and other workers. (25 marks)

(e) Evaluate the microeconomic and macroeconomic consequences of more workers working from home. (25 marks)

End of test.