

Tom Furber - Economics Practice Papers

Practice Paper 1 Red

Suitable for those revising for or teaching:

- Paper 1 Edexcel A Economics: Markets and Business Behaviour.

About the test:

- Time available: 2 hours.
- For Section A and Section B, answer all questions.
- For Section C, answer one question only.
- Total marks available: 100.
 - Section A has 25 marks available.
 - Section B has 50 marks available.
 - Section C has 25 marks available.

This paper was written by Tom Furber, an [economics tutor](#).

You can find more economics resources on my website tfurber.com.

Section A

1. Building a house requires several different skills, from plumbing to bricklaying to electrical work. As a result, building a single home may require 10 to 20 workers with different skills.

(a) Referring to the information provided, explain **one** advantage of the division of labour.

(4 marks)

(b) Which **one** of the following options is most likely to lead to a fall in house prices?

(1 mark)

A Increased speculation that house prices are likely to rise in the future.

B Lower interest rates on mortgage loans to buy housing.

C Disposable incomes rising at a lower rate than food and energy prices.

D An increase in the shortage of construction workers.

2. The UK Government has removed the last £300 million in subsidies for electric cars. The Government has stated that previous subsidy reductions did not result in a significant fall in demand for electric cars.

Source: BBC

(a) Using a diagram, show the effect of a removal of electric car subsidies on the electric car market.

(4 marks)

(b) Which **one** of the following options is the likely effect of the reduction in electric car subsidies on the market for petrol?

(1 mark)

	Equilibrium price of petrol	Equilibrium quantity of petrol
A	Rises	Rises
B	Rises	Falls
C	Falls	Falls
D	Falls	Rises

3. With the success of taxes on sugary drinks in the UK and Mexico, should “health taxes” be extended to unhealthy food? Colombia’s “junk food law” is imposing a tax on highly processed food or food high in salt and saturated fat, including chocolate and crisps. The rate of the tax has started 10%, rising to 20% by 2025.

Source: *The Guardian*

(a) Explain how the incidence of a tax on highly processed food depends on the price elasticity of demand.

(4 marks)

Consider the following table for a demand curve for a firm selling large packets of crisps:

Price per unit (£)	Quantity demanded
5	500
4	600
3	700
2	800

(b) Which **one** of the following statements is true along the demand curve faced by this firm?

(1 mark)

As the quantity demanded increases:

- A The price elasticity of demand does not change.
 - B The price elasticity of demand becomes more inelastic.
 - C The price elasticity of demand becomes more elastic.
 - D Price rises.
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4. An area in California in the United States, nicknamed “Silicon Valley”, is home to a growing number of US technology companies. This includes Alphabet (Google), NVIDIA, Netflix, Intel and Meta (Facebook). As Silicon Valley has grown over time, the level of traffic and the cost of living in California have also increased. To retain workers, firms may need to raise salaries. Annual salaries in Silicon Valley are about three times the US average (median).

Sources: Vox, miscellaneous others

(a) Explain the effect of external diseconomies of scale on the costs of US technology companies.

(4 marks)

(b) Which of the following options is most likely to raise the rate of business growth?

(1 mark)

A Higher interest rates on financial loans to businesses.

B Firms change their objectives from sales maximisation to profit maximisation.

C Forecasts that household incomes are likely to fall further than expected in coming years.

D The removal of a price cap imposed by competition authorities.

5. The UK Government is the dominant employer of civil servants. In April 2023, the UK Government stated that it planned to raise civil servants' wages by an average of 4.5%. This was below the inflation rate of 10.4% in February 2023. Alongside this, the UK Government has a target to reduce frontline civil service staff numbers to 2019-20 levels by 2024-25.

Sources: BBC, The Guardian

a) Explain the likely effect of the change in civil servants' wages on the level of employment of civil servants.

(4 marks)

b) **One** non-monetary reason why some workers may prefer to supply labour to the public sector rather than the private sector is:

(1 marks)

- A Higher wages in the public sector versus the private sector.
 - B Firms in the private sector provide more childcare services for workers who are parents.
 - C More holiday time in the public sector compared with the private sector.
 - D More remote working options in the private sector compared to the public sector.
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Section B

Question 6

The clothing market

Figure 1: Average weekly household expenditure on clothing and footwear in the UK from 2007 to 2022.

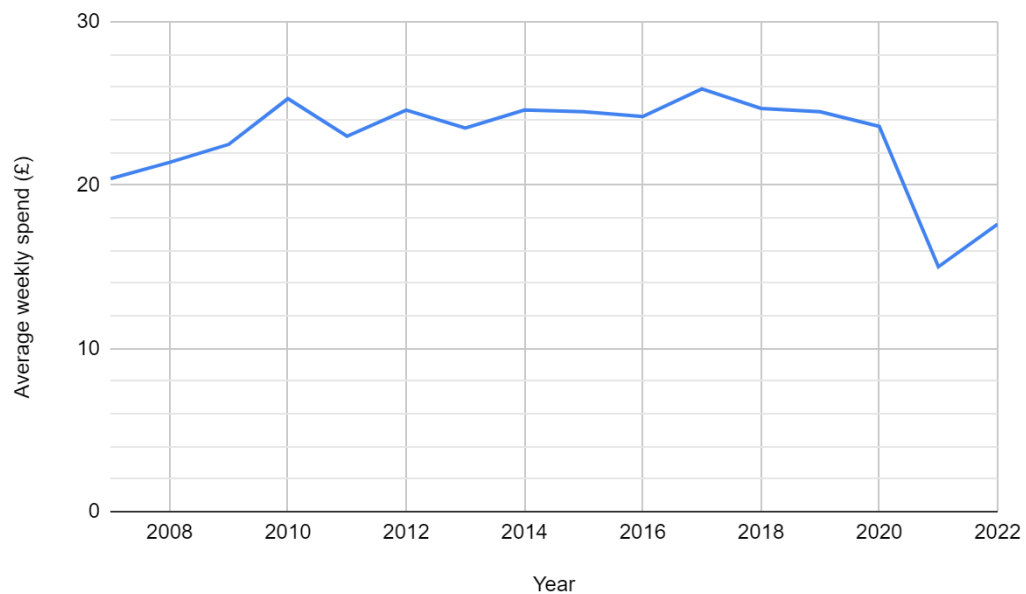


Figure 2: Data on clothing waste and clothing spending per person across several countries, 2018.

Country	Yearly clothing waste per person (kilograms)	Yearly spending on clothing per person (2018 £)
Austria	0.7	1080
UK	0.3	980
Belgium	1.5	810
Spain	0.2	580
Germany	0.5	780
France	0.3	570

Sources: ONS, Statista, LabFresh

Extract A: Changes in the clothing market

Online clothing makes up about 20% of all clothing sales globally. This figure is even higher, about 30%, in the UK. In a few industries including clothing, there is also less of a need to manage inventory or distribution - small sellers can start selling clothing without having to pre-order very large volumes or manage delivery. Moreover, digital advertising, including the use of online ads and influencers to promote products, also makes it easier to compete with existing TV and newspaper advertising.

This is a threat to existing physical stores. Where stores haven't invested in their online presence, this has placed pressure on profit margins and led, in some cases, to firm failure. Consider the failures of department stores BHS and Debenhams, for example. Experts claim Debenhams fell behind fashion trends, failed to adapt to online shopping and suffered from high rent and other running costs of its many large stores. Newer entrants include Primark, Boohoo and Asos and more recently, Shein.

Cheap clothes also raise concerns about working conditions in the country of production. For instance the health impacts of sweatshops, including working under high temperatures and long hours. There was also an allegation that some UK factories, such as factories in Leicester, were paying workers as low as £3.50 an hour, below the minimum wage. A new watchdog, a Garment Trade Adjudicator, could be launched to look into clothing supply chains and ensure workers' rights are protected.

Extract B: Competition and regulation in clothing

The Competition and Markets Authority found that Leicester City Football Club and JD Sports were colluding to break competition law in 2023. Leicester City FC had to pay a fine of £880,000. This was for breaking competition law in two ways. First, JD Sports agreed to stop online sales for the 2018/19 season, breaking "market sharing" rules. Market sharing means that if each firm can agree to monopolise separate markets, colluding firms would increase their profits. Secondly, JD Sports ensured they would not undercut Leicester City's online sales prices for 2019/20 season by making changes to their delivery offer. The CMA has called this "price fixing conduct".

Extract C: The environmental impact of the clothing industry

Fashion is responsible for 8-10% of global emissions. Clothing production makes use of cotton, which uses farmland; polyester which requires oil; dyes and lots of water. Fast fashion, the move towards cheaper, mass-produced clothing, has contributed to the emission problem and

created more waste. As of 2020, only 14% of polyester is produced from recycled inputs, such as used plastic bottles.

Consumers are increasingly caring about the eco-friendliness of their products. The CMA is also investigating whether the green claims of fashion brands, like ASOS, Boohoo and Asda, are true. These companies have created clothing ranges advertised as eco-friendly. But there are concerns from the CMA that the products may not always be as green as claimed. The European Union (EU) is calling for consumers to be better informed about clothing choices, including the regulation of green claims by clothing firms. In addition the EU proposes banning the destruction of unsold clothes.

Sources: BBC, CMA, European Parliament, miscellaneous others.

6 (a) Explain **one** likely reason for the trend in Figure 1 from 2007 up to and including 2020.

(5 marks)

(b) Using a revenue-cost diagram, assess the impact of new entrants into the clothing market on department stores. Refer to Extract A in your answer.

(10 marks)

(c) With reference to Extract A, examine the possible causes of alleged poor working conditions and pay in the clothing sector.

(8 marks)

(d) Using a game theory payoff matrix diagram, assess the effects on consumers of the actions of JD Sports and Leicester City FC. Refer to Extract B in your answer.

(12 marks)

(e) Evaluate the view that the UK clothing market is moving closer to the socially optimal outcome. Include an externality benefit-cost diagram in your answer and refer to Extract C in your answer.

(15 marks)

Section C

Choose one of the following two questions:

Either

7. Truck and taxi drivers are likely to see lower employment in the long run, as these sectors are likely to face automation. In the short run, artificial intelligence chatbots have also reduced monthly earnings and tasks for freelance writers and image creators. But it is also increasing writer productivity, particularly for writers with low ability levels.

Source: Voxeu

Evaluate the microeconomic effects of automation on labour markets **and** product markets.

(25 marks)

Or

8. Universities lose approximately £2,500 for every home undergraduate student per academic year (taking into account fees and government subsidies), which is projected to rise to £5,000 by 2029-30. At the same time, universities have faced strikes from staff. The UK Government has stated some university degrees may not provide value for money for students and taxpayers, not always leading to high-paid employment for some courses.

Source: Financial Times

Evaluate the possible reasons for government failure.

(25 marks)

End of the test.