AQA

Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____

I declare this is my own work.

GCSE
ECONOMICS

Paper 1 How Markets Work

Time allowed: 1 hour 45 minutes

Materials
You will need no other materials.
You may use a calculator.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions should be answered in continuous prose. You will be assessed on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

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Section A

Answer **all** questions in the spaces provided.

For questions with four responses, only **one** answer per question is allowed.

For each question, completely fill in the circle alongside the appropriate answer.

CORRECT METHOD 

WRONG METHODS 

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

0 1 Which of the following is a true statement about the economic sectors of the UK economy?

[1 mark]

A The manufacturing sector is the smallest sector. ⬭

B The primary sector is the largest sector. ⬭

C The services sector is the largest sector. ⬭

D The tertiary sector includes mining. ⬭

0 2 Which of the following would **not** be classed as a factor of production?

[1 mark]

A A bank account ⬭

B A furniture shop ⬭

C A second-hand tractor ⬭

D A teacher of History ⬭

Do not write outside the box

0 3 Which of the following could be a disadvantage of specialisation to a firm?

[1 mark]

A Increased competitiveness ⬭

B Increased cost of training workers ⬭

C Increased productivity of workers ⬭

D Reduced unit costs ⬭

0 4 Which of the following are examples of a factor market and a product market?

[1 mark]

	Factor market	**Product market**	
A	Chocolate bars	Computer games	⬭
B	Accountants	Traffic wardens	⬭
C	Commercial property	Soft drinks	⬭
D	Foreign currency	New businesses	⬭

Turn over for the next question

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0 5 Which of the following is a reason for diseconomies of scale?

[1 mark]

A Cheaper finance available to larger firms ⬭

B More layers of management in larger firms ⬭

C Spreading advertising costs over a greater output in larger firms ⬭

D The increased purchasing ability of larger firms ⬭

0 6 Which of the following would lead to a rightwards shift of the demand curve for paint?

[1 mark]

A A decrease in the price of paint ⬭

B An increase in demand for household decoration ⬭

C An increase in the number of firms producing paint ⬭

D An increase in the price of paintbrushes ⬭

0 7 Which one of the following is most likely to be a fixed cost for a business?

[1 mark]

A Heating ⬭

B Packaging ⬭

C Raw materials ⬭

D Wages ⬭

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0 8 Which of the following products has the most price inelastic supply?

[1 mark]

	Product	% change in price	% change in quantity supplied	
A	Crude oil	+6	+1	⬭
B	Potatoes	–55	–11	⬭
C	Strawberries	–28	–7	⬭
D	Wheat	+14	+2	⬭

0 9 Which of the following are most likely to be complementary goods?

[1 mark]

A A bucket and spade ⬭

B A train ticket and motor fuel ⬭

C Computer games and board games ⬭

D Tea and coffee ⬭

Turn over for the next question

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1 0 A clothes shop records the following T-shirt sales over a 2-week period:

	Number of T-shirts sold	**Price per T-shirt (£)**
Week 1	40	10
Week 2	20	16

What is the average revenue of the clothes shop?

[1 mark]

A £10 ⬭

B £12 ⬭

C £14 ⬭

D £16 ⬭

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1 1 State **two** characteristics of a competitive market.

[2 marks]

Characteristic 1 _____

_____

Characteristic 2 _____

_____

1 2 Explain **one** economy of scale.

[2 marks]

_____

_____

_____

_____

1 3 Explain **one** factor that may lead to an increase in the equilibrium price of carpets.

[2 marks]

_____

_____

_____

_____

Turn over for the next question

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1 4 . 1 A 20% increase in the price of lawnmowers leads to a fall in quantity demanded from 100 per week to 75 per week.

Calculate the price elasticity of demand for lawnmowers.

[2 marks]

1 4 . 2 Explain **one** possible factor affecting the price elasticity of demand for lawnmowers.

[2 marks]

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Figure 1 – The petrol station market in the UK

The petrol station market in the UK is dominated by a small number of large firms. As well as petrol, these firms sell other fuels such as diesel. The market shares of selected firms in the UK petrol station market are shown in **Table 1** below.

Table 1 – Market shares of UK petrol stations 2020 (%)

Name of firm	**Market share 2020 (%)**
Tesco	15.9
BP	14.5
Shell	13.8
Esso	12.4
Sainsbury's	10.2
Other	33.2

In the last 10 years, the number of petrol stations in the UK has fallen by 35% to just over 8000. Consumer groups have expressed concern on several occasions on what they consider consumer exploitation. For example, prices of petrol have not tended to fall at the same rate as falls in costs of crude oil. Firms in the market say that they give motorists choice and good customer service.

1 5 Using **Figure 1**, analyse the possible consequences for consumers of the UK petrol station market being dominated by a small number of large firms.

[6 marks]

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1 6 State **two** factors of production.

[2 marks]

Factor of production 1

Factor of production 2

1 7 Explain **one** opportunity cost a firm might face when making a decision about whether to buy a new machine.

[2 marks]

1 8 Explain **one** reason why an individual's wants may change over time.

[2 marks]

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1 9 **Table 2** shows data relating to a sandwich shop which has recently opened in a city centre.

Table 2

Fixed costs per week	£450
Variable costs per sandwich	£0.80

1 9 . 1 Using **Table 2**, calculate the average cost of making 300 sandwiches per week.

[2 marks]

Answer £ _____

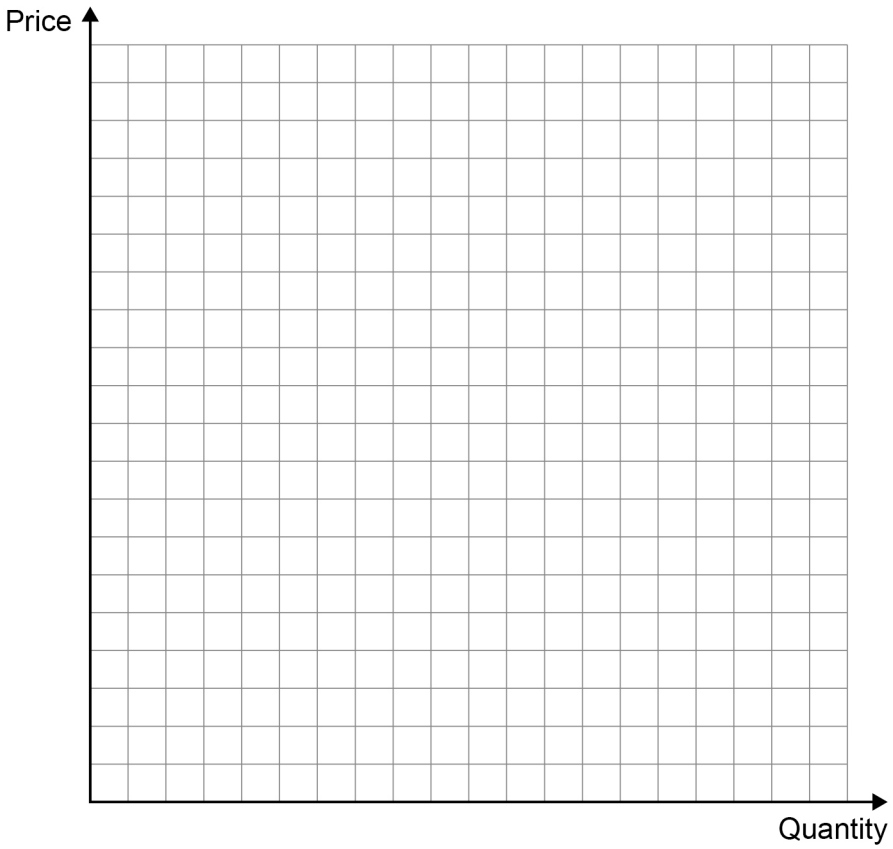
1 9 . 2 Explain **one** possible business objective that the owners of the sandwich shop may have.

[2 marks]

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2 0 Draw and label the effects on equilibrium price and quantity of an increase in wage costs within a market.

[3 marks]



Turn over for the next question

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Figure 2 – Palm oil production

Palm oil is used in the food industry, as a cooking oil and as an ingredient. It is a cheap alternative to other edible fats such as butter. Palm oil is also used in making soap, washing powder and biofuel.

Some people are concerned that the production of palm oil leads to environmental damage, as producers cut down forests in Asia to plant trees that produce palm oil. This has led to loss of habitats and an increased risk of flooding in local areas. Clearing land to grow palm oil trees is estimated to cause 2% of global fossil fuel emissions. Health officials are also worried that the fats in palm oil are unhealthy and may lead to problems such as obesity and heart disease.

Firms in the industry say that it is a cheap alternative to other cooking fats and food ingredients. Palm oil production also creates jobs and export revenues in countries which produce it. The global palm oil industry was estimated to generate $93 billion in 2021. It also employs over 12 million people in Malaysia and Indonesia, both directly and indirectly.

2 1 Using **Figure 2**, assess whether the costs of palm oil production outweigh the benefits.

[9 marks]

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48

Turn over for Section B

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Section B

Answer **all** questions in the spaces provided.

Item A – Inequality in the UK

Some people have expressed concern that income inequality in the UK is increasing. Inequality can be an example of market failure. According to a 2020 report published by The Equality Trust, the lowest fifth of income earners in the UK earned only 8% of total UK income, while the highest fifth of income earners in the UK earned 40% of the total. The highest 1% of income earners in the UK earned 13% of the total income. One cause of income inequality is wage differentials. Reasons for wage differentials include differences in skills, qualifications and work experience.

Consequences of significant wage differentials may include social tensions as low wage earners come to resent those who receive higher wages. Poverty may also increase.

Item B – Government policies to redistribute income and wealth

Governments have a range of policies that they can choose from to reduce the inequality caused by wage differentials. One option is to use a progressive income tax system such as the one currently used in the UK. **Table 3** shows the income tax bands and tax rates in the UK in 2020–2021.

Table 3 – Income tax bands and tax rates in the UK 2020–2021

Tax band (£)	Tax rate (%)
0–12 500	0
12 501–50 000	20
50 001–150 000	40
150 001+	45

Other policy options include setting or increasing a national minimum wage, increasing welfare benefits to the poorest in society and increasing provision of education and training.

Critics of government policies to reduce inequality argue that they can lead to negative consequences, such as reducing the incentives to work. Improving the delivery of welfare benefits to those that need this kind of support the most can also be expensive

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for governments. Education and training are also expensive and may take a long time for the positive impacts to feed through into better employment prospects for the poorest in society. Some economists argue that the market forces of supply and demand should be used to solve the problems of inequality. They say that the incomes of the highest earners in society can flow down to the poorest in society. This is because the highest earners are often entrepreneurs who create employment opportunities and are eligible to pay the highest rates of income tax.

2 2 Define the term 'wage differentials'.

[2 marks]

2 3 Using **Table 3**, calculate the income after tax received by somebody in the UK earning £32 300 in 2020–2021.

[3 marks]

Answer £ _____

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2 4 Using **Item A**, analyse the possible causes of wage differentials.

[6 marks]

Extra space

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2 5 Explain **two** methods the UK Government could use to reduce the inequality caused by wage differentials.

[6 marks]

Method 1

Method 2

Turn over for the next question

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2 6 Do you think the UK Government should do more to reduce the inequality caused by wage differentials?

Use **Items A and B** and your own economic knowledge to justify your view.

[15 marks]

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32

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