Name: ____________________

A-Level Economics — Practice Exam

Instructions: Answer all questions in the spaces provided. Show your working — method marks are awarded even when the final answer is wrong. The answer key with worked solutions is available at examtex.com/free-exams.

Time Limit: 60 minutes

Multiple Choice (6 questions)

[1 point] 1. A bus company raises its single fare from 2.00 pounds to 2.50 pounds. Weekly passenger journeys fall from 40,000 to 34,000. Over this range, the price elasticity of demand for bus journeys is:

A. −0.6, so demand is price inelastic
B. −1.67, so demand is price elastic
C. −12,000, so demand is price elastic
D. −0.6, so demand is price elastic

[1 point] 2. An economy producing only capital goods and consumer goods is operating on its production possibility frontier. It moves along the frontier to a point with more capital goods and fewer consumer goods. This movement illustrates:

A. economic growth, because more capital goods are produced
B. unemployment of some factors of production
C. the opportunity cost of capital goods in terms of consumer goods forgone
D. productive inefficiency, because consumer good output has fallen

[1 point] 3. Consumers systematically underestimate the long-term health damage caused by regularly consuming energy drinks. In a free market, this information gap means energy drinks are most likely to be:

A. under-consumed, because they are a merit good
B. under-provided, because non-payers cannot be excluded from consuming them
C. consumed at the socially optimal level, provided no third parties are affected
D. over-consumed, because perceived marginal private benefit exceeds the true marginal private benefit

[1 point] 4. In the aggregate demand identity $AD = C + I + G + (X - M)$, which of the following is recorded as investment (I)?

A. a household buying newly issued shares in a housebuilding company
B. a supermarket chain building a new distribution warehouse
C. a household buying a new car for private use
D. the government building a new hospital

[1 point] 5. In an economy, the marginal propensity to consume out of additional income is 0.75. The government increases its spending by 2 billion pounds, with no change in taxation. Using the multiplier, the eventual total increase in national income is:

A. 1.5 billion pounds
B. 2.67 billion pounds
C. 6 billion pounds
D. 8 billion pounds

[1 point] 6. The pound sterling depreciates significantly against the currencies of the UK's main trading partners. Assuming the Marshall–Lerner condition holds, the most likely effect is that:

A. export volumes rise and import volumes fall, improving the current account position
B. cost-push inflation falls because imported raw materials become cheaper
C. export revenue falls because UK goods now sell at lower foreign-currency prices
D. aggregate demand contracts because net exports decrease

Short Answer (1 question)

[20 points] 7. The UK housing market. Read Extract A and answer all parts of the question. Extract A: The average price of a UK home rose from 240,000 pounds in 2020 to 288,000 pounds in 2024, taking the ratio of average house prices to average annual earnings from 7.2 to 8.6 over the same period. Housebuilders completed only 220,000 new homes in 2024, well short of the government's target of 300,000 per year, and blame a restrictive planning system in which fewer than half of large applications are approved within the statutory time limit. Successive governments have instead intervened on the demand side: the Help to Buy scheme offered first-time buyers an equity loan of up to 20 per cent of the price of a new-build home (40 per cent in London). Critics argue that subsidising the buyers of a good in inelastic supply chiefly bids up its price.

[2 points] (a) Define the term "subsidy" (Extract A).

[2 points] (b) Using the data in Extract A, calculate the percentage change in the average UK house price between 2020 and 2024.

[6 points] (c) With the aid of a supply and demand diagram, explain how a restrictive planning system affects the equilibrium price of housing.

[10 points] (d) Using Extract A and your own knowledge, assess whether demand-side subsidies such as Help to Buy are an effective way of making housing more affordable.

Essay Questions (1 question)

[25 points] 8. Evaluate the view that an increase in the national minimum wage will reduce employment.