

A-level ECONOMICS

Paper 3 Economic Principles and Issues

Insert

DO NOT WRITE ANY ANSWERS IN THIS INSERT. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

The economic performance of Sri Lanka

Questions 31 to 33

- **Extract A:** The economy of Sri Lanka
- **Extract B:** Selected economic indicators for Bangladesh, Pakistan and Sri Lanka
- **Extract C:** The market for tea
- **Extract D:** The rising level of Sri Lanka's government debt is a cause for concern

There are no sources printed on this page

Extract A: The economy of Sri Lanka

Sri Lanka is one of the main economies in South Asia. Others include Bangladesh, India and Pakistan. South Asia has almost a quarter of the world's population, it is densely populated and experienced rapid economic growth between 2013 and 2019.

Figure 1: Population and population density for selected countries in South Asia

	Population (millions)	Population density (people per square kilometer)
Bangladesh	164.7	1265
India	1380.0	464
Pakistan	220.9	287
Sri Lanka	21.9	354

Source: World Bank, accessed February 2022

Sri Lanka is a lower-middle-income country with a GDP per head of US\$3,852 in 2019. In the decade up to 2019, its average rate of growth of real GDP was 5.25%. The service sector makes up nearly 60% of the country's economy, the industrial sector makes up over 25% and agriculture accounts for just under 10%. Tourism is one of the main industries in Sri Lanka. The pandemic meant that the revenue earned by the industry fell dramatically but is expected to recover. Sri Lanka is the world's fourth largest producer and the third largest exporter of tea. Textiles is another important industry, accounting for over a third of the country's merchandise export revenue.

Source: News reports, February 2022

Turn over for the next Extract

Turn over ►

Extract B: Selected economic indicators for Bangladesh, Pakistan and Sri Lanka

Bangladesh, Pakistan and Sri Lanka are all classified as lower-middle-income countries by the World Bank. Nevertheless, during the past decade these countries have experienced different rates of economic growth and are at different stages in their economic development.

Figure 2: National income

	GDP (\$ billion), 2020	GDP per capita (\$), 2020	Economic growth (mean annual % change in real GDP 2010–2019)
Bangladesh	323.1	1961.7	6.76%
Pakistan	262.6	1188.8	3.96%
Sri Lanka	80.7	3684.9	5.25%

Source: World Bank and Macrotrends, accessed February 2022

Figure 3: Inequality and poverty

	Gini index	Income share of the poorest 40% of the population	International poverty rate (less than \$1.90 a day) % of the population	Lower-middle- income poverty rate (less than \$3.20 a day) % of the population
Bangladesh	32.4	21.0%	14.3%	52.3%
Pakistan	31.6	21.1%	4.4%	35.7%
Sri Lanka	39.3	17.7%	0.9%	11.0%

Source: World Bank, accessed February 2022

Note: Figure 3 shows the most recent values (Bangladesh and Sri Lanka – 2016, Pakistan – 2010)

Figure 4: Health and education

	Life expectancy at birth, years	Infant mortality rate, per thousand live births	Mean years of schooling	Adult literacy rate (%)
Bangladesh	72.6	25.1	6.2	73.9%
Pakistan	67.3	57.2	5.2	59.1%
Sri Lanka	77.0	6.4	10.6	91.7%

Source: World Bank and United Nations Development Programme (UNDP), accessed February 2022

Figure 5: Other economic indicators

	Human Development Index (HDI)	Labour force participation rate (%)	Capital investment (% of GDP)	CO₂ emissions per capita (tonnes per annum)
Bangladesh	0.632	59.0%	31.6%	0.5
Pakistan	0.557	52.6%	15.6%	1.1
Sri Lanka	0.782	53.9%	27.4%	1.1

Source: World Bank and UNDP, accessed February 2022

Turn over for the next Extract**Turn over ►**

Extract C: The market for tea

According to the Food and Agricultural Organisation (FAO), there are around 400 000 small-scale farmers involved in the production of tea in Sri Lanka. The industry supports over two million people, about one tenth of the country's population.

Changes in the world market price of tea can have a significant impact on those who depend on growing tea for their livelihood. In real terms, the FAO estimates that tea prices, in 2022, are less than 28% of their 2017 level. Increased production in some major producing countries and the slow growth in the consumption of tea, especially in more developed economies, help to explain this large fall. With increasing incomes, per capita demand for tea is increasing in many developing and emerging economies, including China and India. However, in more mature markets, such as Europe, per capita consumption has declined due to competition from other beverages.

International tea prices, like those of many other agricultural commodities, are volatile and affected by speculation. Figure 6 below, illustrates the fluctuations in the world market price of tea between June 2012 and June 2021.

Figure 6 not reproduced here due to third party copyright restrictions.

The tea plant is highly sensitive to changes in growing conditions. Weather and natural disasters can affect the crop and hence the price of tea. The world market price is also affected by developments in the macroeconomy, including changes in the price of energy and in the value of the currencies of tea-producing countries.

It is estimated that the price elasticity of supply of tea is 0.25; investing in a tea orchard is a long-term commitment and growers have to be confident that the investment is worthwhile. The demand for tea is also price inelastic, with estimates varying between -0.32 and -0.98 . When supply and demand are inelastic, market prices tend to fluctuate significantly.

Source: News reports, February 2022

Extract D: The rising level of Sri Lanka's government debt is a cause for concern

Government spending can help to promote economic development by providing merit and public goods and supporting people on very low incomes. Sri Lankan government spending has financed education and training and has helped to provide essential infrastructure such as roads, bridges, water supply and irrigation systems. Welfare expenditure has included spending on healthcare and nutrition, and safety net programmes to help the most vulnerable.	5
However, in 2021, government and government-guaranteed debt was over 115% of GDP and was expected to rise further. Much of the debt is in foreign currency. The Sri Lankan rupee depreciated by 6.8% against the US dollar between January and September 2021 and some fear that Sri Lanka could 'go bankrupt' as the country struggles to repay its overseas debts. Its foreign exchange reserves are at their lowest level for a decade. The pandemic has hit the country's tourist industry which usually contributes more than 10% of GDP and is a vital source of foreign exchange. To protect foreign exchange reserves, the government banned the import of cars and imposed other restrictions on imports.	10
Inflation reached 14.2% in January 2022 and appears to be accelerating. As a result, basic necessities are unaffordable for many, and some are struggling to feed their families. The large budget deficit, financed by the government printing money, has fuelled inflation. Rising oil prices and the fall in the exchange rate have added to inflationary pressures. The depreciating currency has helped the country's exporters, including clothing manufacturers and tea growers, but has made servicing overseas debt more costly.	15
The International Monetary Fund (IMF) is an organisation that provides loans to countries with balance of payments problems. However, the present government of Sri Lanka is against approaching the IMF for help. It considers that conditions imposed in return for an IMF loan represent unacceptable interference in the country's affairs and are likely to include cuts in government spending. The current recovery in the economy should increase tax revenue and improve the government's finances, but will it be enough?	20 25

Source: News reports, February 2022

END OF EXTRACTS

There are no sources printed on this page

Copyright information

For confidentiality purposes, all acknowledgements of third-party copyright material are published in a separate booklet. This booklet is published after each live examination series and is available for free download from www.aqa.org.uk

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team.

Copyright © 2023 AQA and its licensors. All rights reserved.





Please write clearly in block capitals.

Centre number

--	--	--	--	--

Candidate number

--	--	--	--

Surname

Forename(s)

Candidate signature

I declare this is my own work.

A-level ECONOMICS

Paper 3 Economic Principles and Issues

Monday 5 June 2023

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- the Insert
- a calculator.

Instructions

- Answer **all** questions.
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- You will need to refer to the Insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or 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 answer book. Cross through any work that you do not want to be marked.

Information

- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	



J U N 2 3 7 1 3 6 3 0 1

Section AAnswer **all** questions in this section.Only **one** answer per question is allowed.

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

CORRECT METHOD



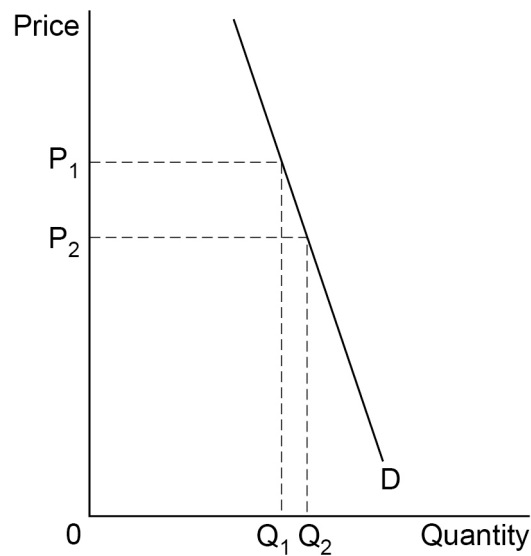
WRONG METHODS



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** **Figure 1** shows the demand for lemons.**Figure 1**

The fall in price and increase in the quantity demanded of lemons could have been caused by

[1 mark]**A** a fall in the price of a substitute for lemons, oranges.**B** a rise in the price of lemonade.**C** a reduction in the price of a complement for lemons, fish.**D** favourable weather leading to a record harvest.

0 2

The environment is a scarce resource. A consequence of this is that

[1 mark]

- A** all natural resources have a market price.
- B** all natural resources will eventually be used up.
- C** the environment has an opportunity cost.
- D** the environment is a pure public good.

0 3

Table 1 shows the price of a packet of peanuts and the number of packets of cashew nuts sold in a shop in one month. The price of a packet of cashew nuts is unchanged.

Table 1

Price of a packet of peanuts	Number of packets of cashew nuts purchased per month
£0.80	20 000
£0.84	32 500

When the price of a packet of peanuts rises from £0.80 to £0.84, the cross elasticity of demand for cashew nuts with respect to the price of peanuts is

[1 mark]

- A** -12.5
- B** -0.08
- C** +0.08
- D** +12.5

0 4

The change in nominal national income per head is an unsatisfactory indicator of the change in the living standards of a country's citizens over a period of time.

The main reason is that nominal national income per head does not take into account

[1 mark]

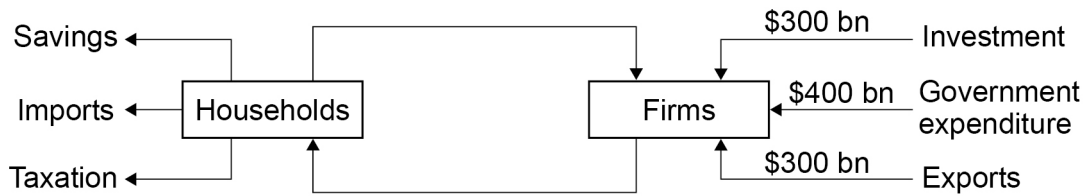
- A** consumer expenditure at market prices.
- B** the output produced by different sectors of the economy.
- C** the rate of inflation.
- D** the size of the population.

Turn over ►



0 5

Figure 2 shows the injections into and withdrawals from the circular flow of income of an economy which is in macroeconomic equilibrium.

Figure 2

In the economy, net exports are $-\$50\text{bn}$. Which one of the combinations, **A, B, C** or **D**, shows the levels of savings, taxation and imports?

[1 mark]

	Savings (\$bn)	Taxation (\$bn)	Imports (\$bn)	
A	300	350	350	<input type="radio"/>
B	350	400	250	<input type="radio"/>
C	350	250	350	<input type="radio"/>
D	450	300	250	<input type="radio"/>

0 6

A central bank has raised interest rates as part of monetary policy.

Which one of the following policy objectives is this most likely to assist the government in achieving?

[1 mark]

- A** A more equitable distribution of income
- B** Bringing down the rate of inflation
- C** Increasing the rate of economic growth
- D** Minimising the rate of unemployment



0 7

Following flooding, described by the Environment Agency as a 'once in a century event', there is a sharp increase in the number of residents of a large town who buy additional flood insurance.

Which one of these combinations of biases in decision making are the residents most likely to have experienced?

[1 mark]

A Anchoring and framing bias

B Availability bias and social norms

C Rules of thumb and anchoring

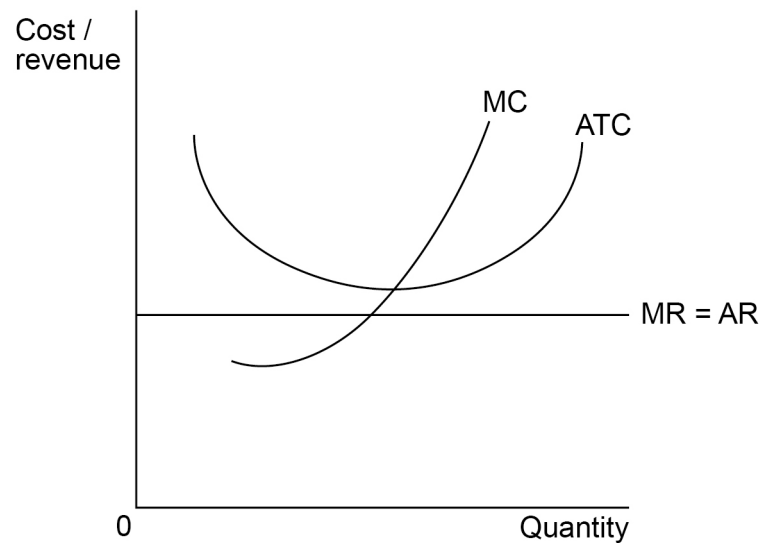
D Social norms and rules of thumb

0 8

Figure 3 shows the marginal cost (MC) and average total cost (ATC) curves for a firm in the short run in a perfectly competitive market.

It also shows the firm's marginal revenue (MR) and average revenue (AR) curves.

Figure 3



What changes can be expected as the market moves into the long run?

[1 mark]

A New firms will enter the market, increasing supply

B Some firms will leave the market and the price will rise

C The firm will reduce its output to reduce its average total cost

D The firm will reduce its price to increase its market share

Turn over ►



0 9

In 2020, the market leader sold around three times as many vacuum cleaners in the UK as its closest rival. The market leader's dominance was built on technical innovation, protected by legal patents.

However, rivals have developed their own designs and are now challenging the market leader.

What feature of competitive markets does this illustrate?

[1 mark]

- A** Collusive oligopoly
- B** Creative destruction
- C** Hit and run competition
- D** Static efficiency

1 0

A £2 billion rise in government spending has led to an increase of £5 billion in national income.

All other things being equal, what is the value of the marginal propensity to consume?

[1 mark]

- A** 0.4
- B** 0.6
- C** 2.5
- D** 3.0

1 1

An economy operating at its long-run productive capacity at the start of 2020 has a trend rate of growth of 6% per year. Real GDP increases by 2% in 2021 and 10% in 2022.

Which one of the following accurately describes the position of the economy at the end of each year?

[1 mark]

	2021	2022	
A	Negative output gap	Negative output gap	<input type="radio"/>
B	Negative output gap	No output gap	<input type="radio"/>
C	Positive output gap	No output gap	<input type="radio"/>
D	Positive output gap	Positive output gap	<input type="radio"/>



1 2

The quantity theory of money can be explained using Irving Fisher's equation of exchange, $MV=PQ$. Monetarist economists believe that the theory helps to explain inflation because some parts of the equation are normally stable.

Which parts of the equation do monetarist economists normally consider to be stable?

[1 mark]

A M and P

B M and V

C P and Q

D V and Q

1 3

Table 2 shows the relationship between the number of workers employed by a firm and the total output of a product. The amount of other factors of production employed remains the same.

Table 2

Number of workers	Total output
1	8
2	28
3	54
4	82
5	103
6	103
7	99

For this firm, diminishing marginal returns to labour occur when the

[1 mark]

A 4th worker is employed.

B 5th worker is employed.

C 6th worker is employed.

D 7th worker is employed.

Turn over ►



1 4

A firm faces a downward sloping demand curve. The firm discovers that any increase or decrease from its current level of output leads to a fall in total revenue. This means that at its current output marginal revenue is

[1 mark]

A equal to average revenue.

B negative.

C positive.

D zero.

1 5

Which one of the following is the most likely result of a divorce of ownership from control in an organisation?

[1 mark]

A Profits are maximised

B Shareholders make all organisational decisions

C The adoption of satisficing behaviour

D The free-rider problem

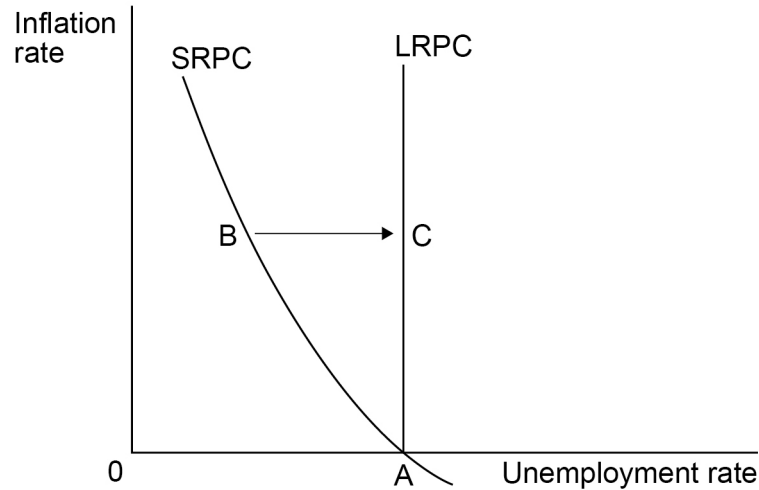


1 6

Figure 4 shows a short-run Phillips curve (SRPC) and a long-run Phillips curve (LRPC).

Government intervention moves the economy from position A to position B and then the economy moves from position B to position C.

Figure 4



Which one of the following is most likely to explain the movement from position B to position C?

[1 mark]

- A** Demand for exports has risen as a result of the intervention
- B** Economic agents have higher inflation expectations due to the intervention
- C** The government cut taxes to reduce unemployment
- D** The intervention has increased the natural rate of unemployment

1 7

Which one of the following is a role of the UK's Office for Budget Responsibility?

[1 mark]

- A** Deciding how much public funding is given to each government department
- B** Enabling the government to run a budget deficit by issuing government bonds
- C** Evaluating the government's performance against its own fiscal targets
- D** Making recommendations to the government on how to reduce its budget deficit

Turn over ►



1 8

Which one of the following is a policy that the Bank of England is most likely to undertake if it wants to increase the money supply?

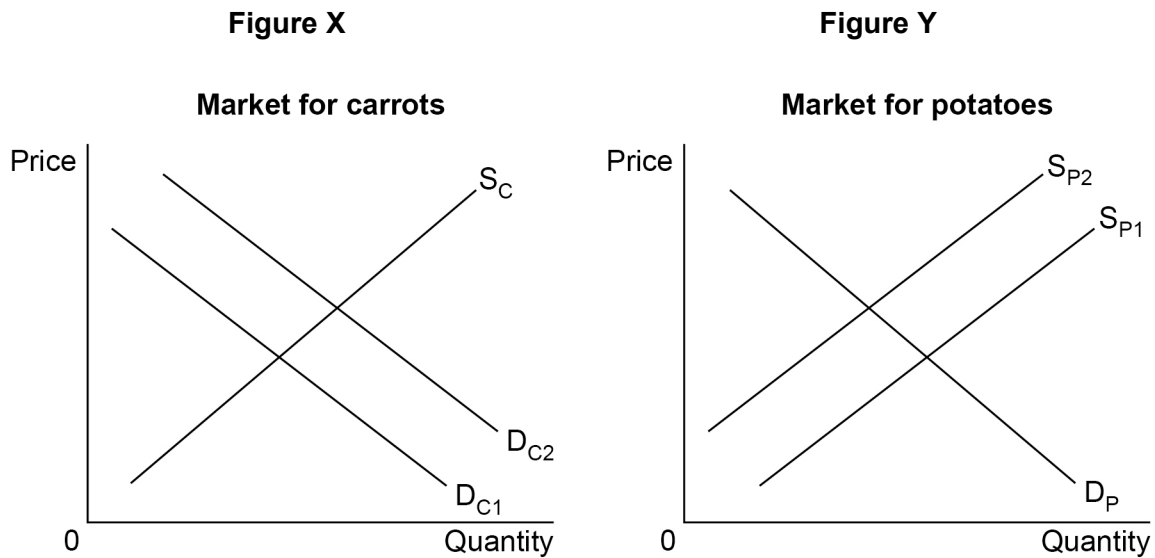
[1 mark]

- A** Increase its purchases of government securities
- B** Increase market interest rates by increasing Bank Rate
- C** Increase the capital ratio required of commercial banks
- D** Increase the liquidity ratio required of commercial banks



1 9

Carrots and potatoes are grown using the same factors of production. **Figure X** shows the demand (D_C) and supply (S_C) curves for carrots. **Figure Y** shows the demand (D_P) and supply (S_P) curves for potatoes. A change in people's preferences shifts the demand for carrots from D_{C1} to D_{C2} . As a result, the supply of potatoes shifts from S_{P1} to S_{P2} .



Which one of the following statements correctly explains the changes shown in **Figures X and Y**?

[1 mark]

- A** The demand curve for carrots shifts due to the rationing function of prices
- B** The price of carrots increases because carrots and potatoes are in derived demand
- C** The price of potatoes increases because potatoes and carrots are in joint supply
- D** The supply curve for potatoes shifts due to the incentive function of prices

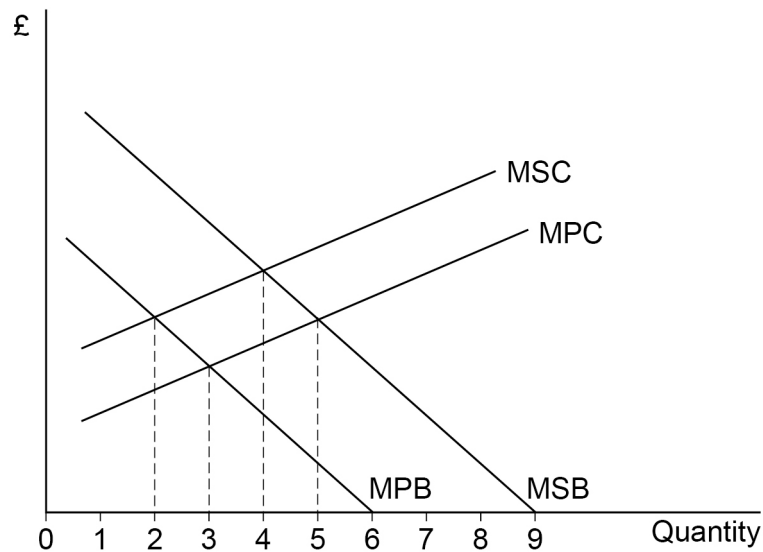
Turn over for the next question

Turn over ►



2 0

Figure 5 shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves for a product.

Figure 5

The socially optimal level of output for this product is

[1 mark]

- A** 2 units
B 3 units
C 4 units
D 5 units

2 1

Which one of the following would be classified as a debit item in the secondary income section of the current account of the UK balance of payments?

[1 mark]

- A** Dividends paid to overseas owners of shares in UK companies
B Emergency aid provided to another country following a natural disaster
C Investment in building a factory abroad by a UK firm
D Premiums paid by UK based organisations to foreign insurance companies



2 2

Table 3 below shows the amount of coffee or tea that two countries can produce with a given amount of resources.

Table 3

	Coffee (tonnes)	Tea (tonnes)
Country X	80 000	100 000
Country Y	50 000	75 000

Which one of the following statements is supported by the data in **Table 3**?

[1 mark]

- A** Country X has a comparative advantage in the production of both coffee and tea
- B** Country X has a comparative advantage in the production of coffee and has an absolute advantage in the production of tea
- C** The opportunity cost of producing both coffee and tea is higher in Country X than in Country Y
- D** The opportunity cost of producing tea in Country X is lower than the opportunity cost of producing tea in Country Y

Turn over for the next question

Turn over ►



2 3

Table 4 shows the value of the pound sterling in euros and Canadian dollars at the beginning of 2021 and 2022.

Table 4

	2021	2022
Value of £1 in euros	1.11	1.19
Value of £1 in Canadian dollars	1.76	1.71

According to the data in **Table 4**, between the beginning of 2021 and the beginning of 2022, the Canadian dollar

[1 mark]

- A** strengthened against the pound sterling and strengthened against the euro.
- B** strengthened against the pound sterling and weakened against the euro.
- C** weakened against the pound sterling and strengthened against the euro.
- D** weakened against the pound sterling and weakened against the euro.

2 4

Regulatory capture describes a situation in which

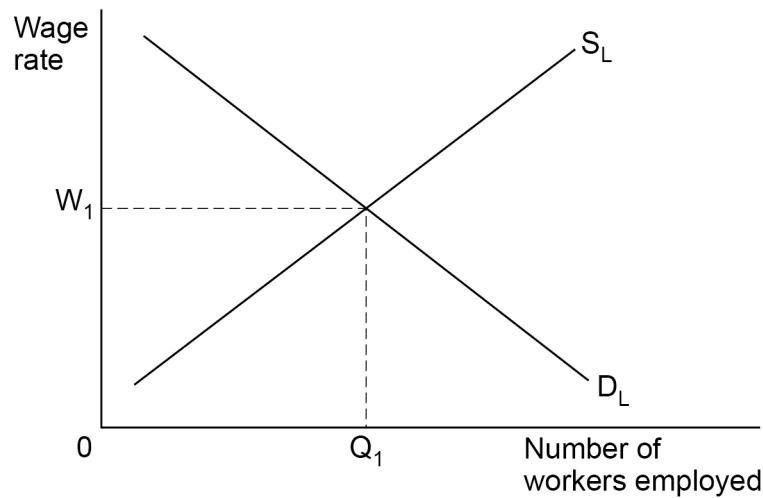
[1 mark]

- A** firms suffer a fall in supernormal profit due to the actions of regulators.
- B** government regulations reduce the impact of monopoly power.
- C** government removes regulations that have been acting as a barrier to entry.
- D** industry regulators grow too close to the firms they are regulating.



2 5

Figure 6 shows the supply of labour (S_L) and demand for labour (D_L) in a perfectly competitive labour market.

Figure 6

All other things being equal, which one of the following combinations would mean that wages in this labour market are likely to increase from W_1 ?

[1 mark]

- A** A fall in the demand for the final product and a rise in the number of workers training to enter this labour market
- B** A fall in wages in a labour market with similar skill requirements and a fall in the price of a substitute for the output produced
- C** An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced
- D** An increase in the unemployment rate across the economy and firms substituting capital for labour in the production process

2 6

Which one of the following is most likely to affect the elasticity of demand for labour in a particular occupation?

[1 mark]

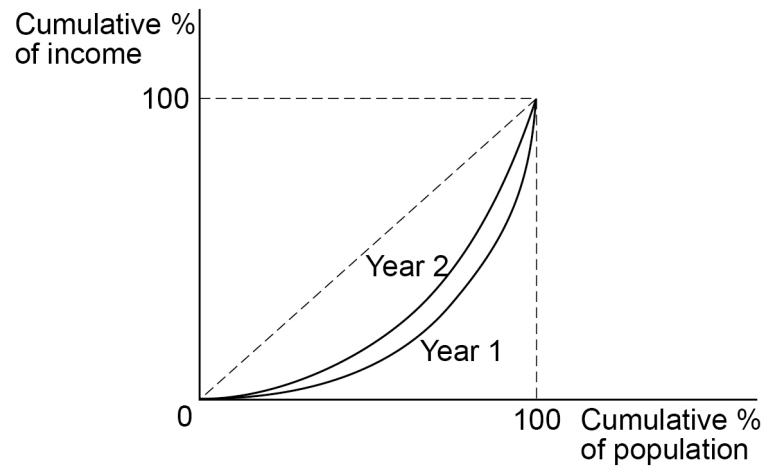
- A** The proportion of employers' total costs which are made up by wages
- B** The quantity demanded of the final output that the workers produce
- C** The size of the pool of skilled labour available in the local area
- D** The time taken to achieve the qualifications needed for the role

Turn over ►

2 7

Figure 7 shows the income distribution of a country in Year 1 and Year 2.

Figure 7



From **Figure 7**, it can be concluded that income distribution has become

[1 mark]

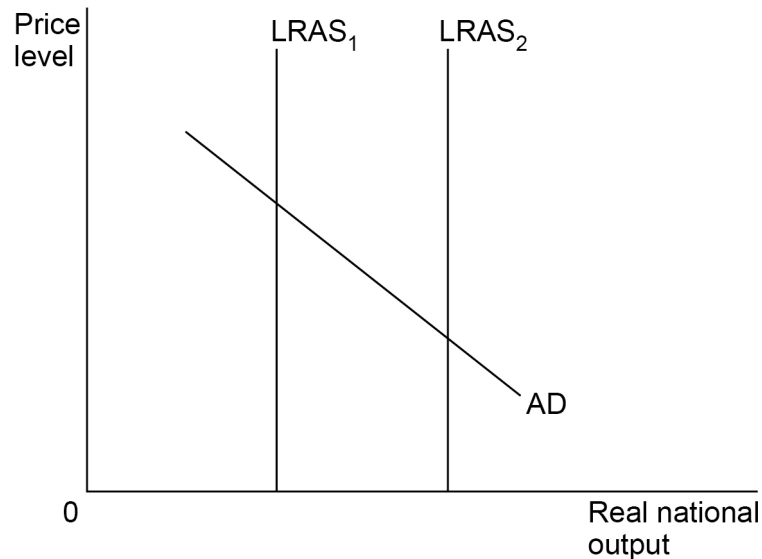
- A** less equal and the Gini coefficient has decreased.
- B** less equal and the Gini coefficient has increased.
- C** more equal and the Gini coefficient has decreased.
- D** more equal and the Gini coefficient has increased.



2 8

Figure 8 shows the aggregate demand curve (AD) and the long-run aggregate supply curves (LRAS) for an economy.

A redistribution of government spending from spending on welfare towards the funding of research and development shifts the long-run aggregate supply curve from $LRAS_1$ to $LRAS_2$.

Figure 8

Which one of the following is the most likely effect of this policy?

[1 mark]

- A** A decrease in the number of people who are economically active
- B** An improvement in the balance of payments on current account
- C** An increase in the size of the government's budget deficit
- D** The creation of a positive output gap

Turn over for the next question

Turn over ►



2 9

Which one of the following is an example of moral hazard resulting from the regulation of a financial system?

[1 mark]

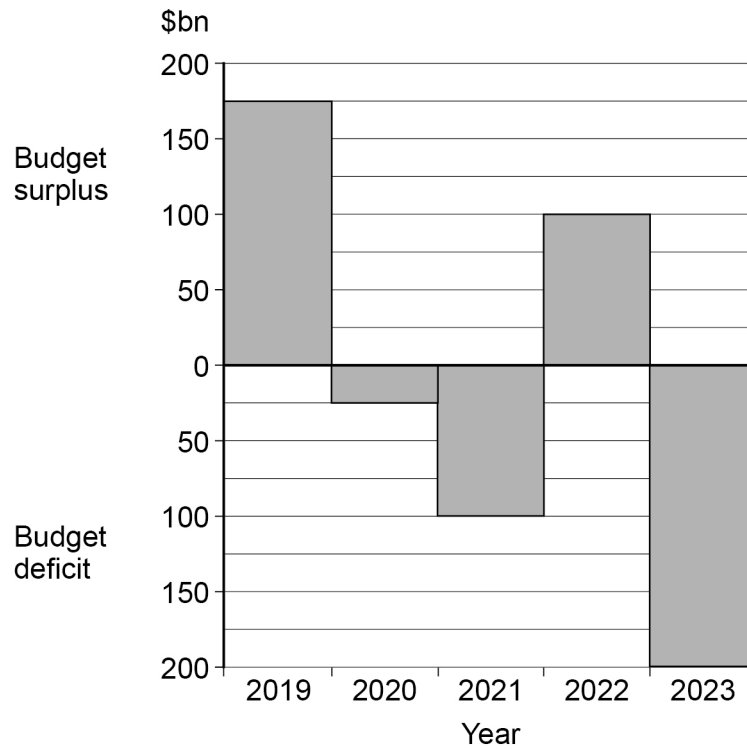
- A** Asymmetric information may lead bank customers to take out loans they cannot repay
- B** Banks may engage in more risky lending if they believe the central bank will support them in a crisis
- C** Banks may experience lower profits if the central bank imposes high capital requirements
- D** Regulations imposed by the central bank may make it harder for low-income groups to get loans



3 0

Figure 9 shows the government budget balance for an economy from 2019 to 2023.

Figure 9



All other things being equal, between 2019 and 2023, the national debt of this economy increased by

[1 mark]

- A** \$50bn
- B** \$200bn
- C** \$275bn
- D** \$325bn

30

Turn over for Section B

Turn over ►



There are no questions printed on this page

*Do not write
outside the
box*

**DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED**



