

---

# A-level Economics (7136)

## Paper 1 Markets and market failure

---

Specimen 2015

Morning

2 hours

### Materials

For this paper you must have:

- an answer book
- a calculator.

### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/1.
- In **Section A**, answer **either** Context 1 **or** Context 2.
- In **Section B**, answer **one** essay.

### Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.



**Extract C: Walmart and China**

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company Walmart, the world's largest retailer and owners of Asda in the UK, has been known to stop operating in some countries rather than have to recognise unions.	1
With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as Walmart, McDonald's and FedEx, have adopted an anti-union stance in the countries in which they operate.	5
In China, however, Walmart has signed 'collective bargaining' agreements with the All-China Federation of Trade Unions (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on Walmart's part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. Walmart gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if Walmart's management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business.	10
Some economists believe that trade unions, by threatening industrial action, can force up wages and make it difficult for management to adopt changes that improve productivity. This, they believe, reduces firms' competitiveness and, in the long run, leads to job losses. However, others argue that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities in counteracting the monopsonistic power of large employers, and in preventing discrimination and exploitation.	15

Source: news reports, 2011

- 0 1** Using **Extract A**, calculate, to **two** decimal places, the percentage change in the number of employees who were union members in 2012 compared with 1995. **[2 marks]**
- 0 2** Explain how the data in **Extract A** show the declining importance of trade unions in the UK labour market. **[4 marks]**
- 0 3** **Extract B** (line 13) states that unions 'counteract the monopsonistic demand for labour from powerful employers'.  
  
With the help of a diagram, explain how the monopsonistic demand for labour from powerful employers is likely to affect wages and employment in a labour market where there are no trade unions. **[9 marks]**
- 0 4** **Extract C** (lines 21–22) states that '....any negative economic effects of trade unions are outweighed by the positive effects of trade union activities...'.  
  
Using the data in the extracts and your knowledge of economics, evaluate the view that trade unions protect the interests of workers and consequently improve the economic welfare of the society in which they operate. **[25 marks]**

Do **not** answer Context 2 if you have answered Context 1.

or

## Context 2

**Total for this Context: 40 marks**

### Pollution and climate change

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

#### Extract D: Carbon emissions from fossil fuels, world and selected countries, 2010

##### (i) Total CO<sub>2</sub> emissions

	Millions of tonnes
China	8 290
USA	5 430
Russia	1 740
UK	500
Brazil	420
Nigeria	80
Qatar	70
Morocco	50
World	31 350

Note: figures are rounded

##### (ii) Per capita CO<sub>2</sub> emissions

	Tonnes per head
Qatar	64.5
USA	18.0
Russia	11.0
UK	8.5
China	6.5
Brazil	2.5
Morocco	1.0
Nigeria	0.5
World	4.6

Source: official statistics

#### Extract E: Climate change

In 2004, Russia signed up to the Kyoto Protocol, an international agreement on policies to manage climate change. This committed Russia to a United Nations programme to reduce emissions of greenhouse gases. In 2010, Russia's emissions were as low as their 1990 levels, but this was less to do with environmental policy and more to do with the collapse of heavy industry following the fall of the Soviet Union. A large contribution towards the UK's Kyoto targets also came from deindustrialisation. However, China, like the USA, did not sign up to the Kyoto Protocol.	1
International action to control carbon emissions is necessary. One policy is known as 'carbon trading'. Countries agree overall emissions limits and try to create an international market for permits to pollute. The idea is to put a money value on emissions and, over time, to create incentives for businesses to invest in less-polluting technology. As well as the large compulsory 'compliance' market for carbon credits, there is also a smaller voluntary market for 'carbon offsets'.	5
For example, an organisation can be paid to plant trees to allegedly offset the damage that an airline journey does to the ozone layer. Some companies are using these offsets, together with greater energy efficiency and reduced polluting activities, to claim to be 'carbon neutral'. Some environmentalists and economists are suspicious of offset schemes and claim, for instance, that offset schemes have hidden environmental costs. They argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights.	10
	15
	20

Source: news reports, 2010

Critics say that carbon trading amounts to ‘privatisation of the atmosphere’, with property rights in this vast new market being grabbed by speculators or by those who already pollute the most. They also claim that activities such as buying credits from Russia are an ‘accounting fraud’ because they do not necessarily arise from energy efficiency but from the collapse of heavy industry. There is concern that carbon trading is a further blow to manufacturing and that service industries are treated more leniently. If the UK relies on manufactured imports, it can be argued that factories located in China are actually creating UK emissions.	1  5
Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel. There is a suspicion that carbon trading might mislead the public into believing that pollution from airlines and other industries is no longer damaging. Governments are accused of being overgenerous in allotting permits to industries that they see as nationally important, such as car manufacturing and electricity generation. While the UK might reduce its domestic demand for carbon, it continues to contribute to the world supply of fossil fuels through activities such as oil prospecting and opencast mining. Russia, China and less-developed countries with coal reserves show few signs of reducing their output of this form of carbon.	10  15

**0 5** Using the data in **Extract D**, calculate, to **two** decimal places, the percentage of world CO<sub>2</sub> emissions generated by the UK. **[2 marks]**

0	6
---	---

 Explain how the data in **Extract D** show that the USA needs to reduce pollution more than other countries.

**07** **Extract E** (lines 18-20) states ‘They argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights’.

With the help of a diagram, explain how the absence of property rights can worsen the environmental market failures of **both** pollution **and** the rapid depletion of natural resources.

**[9 marks]**

0	8
---	---

**Extract F** (lines 9–10) states ‘Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel’.

Using the data in the extracts and your knowledge of economics, evaluate the possible impact on UK businesses of policies to reduce pollution.

**[25 marks]**

---

**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**Either**

**Essay 1**

In August 2013, the UK government argued that there needed to be greater competition in energy markets in the UK.

**0 9**

Explain why a lack of competition is likely to lead to allocative and productive inefficiency in markets such as the market for energy.

**[15 marks]**

**1 0**

Evaluate the view that if markets can be made more contestable there is no need for further government intervention.

**[25 marks]**

**or**

**Essay 2**

The law of diminishing returns is an economic principle which will inevitably affect firms in the short run, whereas it is not always possible for firms to achieve economies of scale.

**1 1**

Explain how a firm's costs of production are affected by the law of diminishing returns in the short run and how they may be affected by economies of scale in the long run.

**[15 marks]**

**1 2**

Evaluate the view that firms will always try to minimise their costs and maximise their revenues.

**[25 marks]**

**or**

**Essay 3**

Over the past 35 years, successive governments have reduced taxes on income whilst increasing taxes on spending, such as excise duties and Value Added Tax (VAT).

**1 3**

Distinguish between equity and equality **and** explain the effects of this government policy on the distribution of income.

**[15 marks]**

**1 4**

Assess the economic costs **and** benefits of government action which results in greater inequality in the distribution of income and wealth in the UK.

**[25 marks]**

**END OF QUESTIONS**

---

**There are no questions printed on this page.**

**There are no questions printed on this page.**

**Acknowledgement of copyright holders and publishers**

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Extract A © Source: Contains public sector information licensed under the Open Government Licence v. 2.0

Extract B © Source: News reports, 2011

Extract C © Source: News reports, 2011

Extract D © Source: Office for National Statistics licensed under the Open Government Licence v. 2.0.

Extract E © Source: News reports, 2010

Extract F © Source: News reports, 2010

Copyright © 2014 AQA and its licensors. All rights reserved.