Oxford Cambridge and RSA

A Level Economics

H460/01 Microeconomics

Tuesday 5 June 2018 – Afternoon

Time allowed: 2 hours

You may use:
- a scientific or graphical calculator

First name	
Last name	

Centre number						Candidate number				

INSTRUCTIONS
- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the barcodes.

INFORMATION
- The total mark for this paper is **80**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended responses will be assessed in questions marked with an asterisk (*****).
- This document consists of **20** pages.

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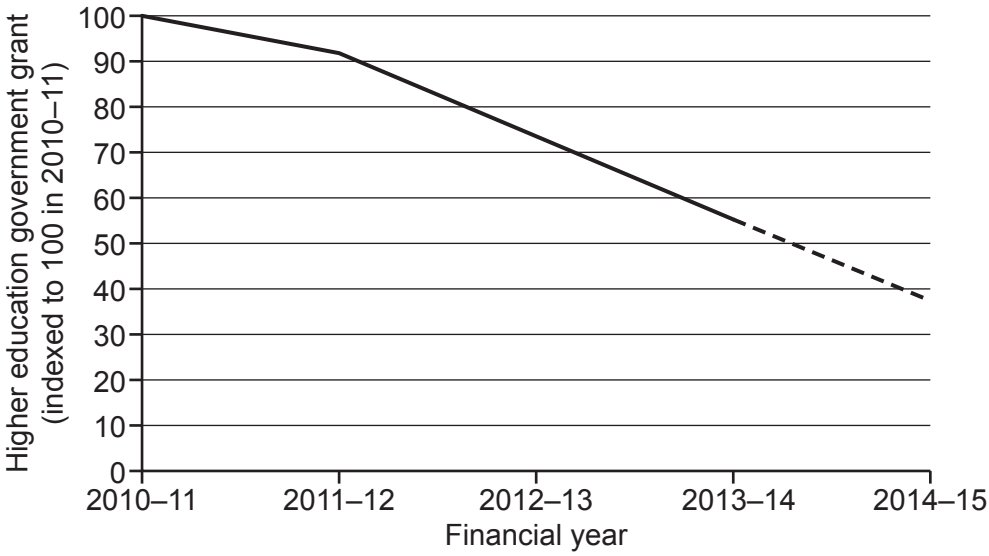
SECTION A

Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

Who should pay for students to study at university?

The proportion of university education provided by the public sector and the private sector varies throughout the world. Most UK universities are generally considered to be in the public sector. In 2017, there were only five private sector universities in the country. The difference between public sector and private sector universities, however, is changing. This is the result of a shift in the funding of higher education, particularly in England. Universities are obtaining less of their income from government financed teaching grants and an increasing proportion from tuition fees. Fig. 1 shows how the amount of government spending on higher education has fallen in recent years.

Fig. 1 – Spending on higher education government grant



Note: Figure for 2014–15 was a predicted figure. Figures are in real terms, adjusted for inflation using the GDP deflator.

Tuition fees were introduced in 1998 at a maximum of £1,000 a year. By 2017, these had risen to a maximum of £9,250 for UK and EU students studying in England. Most universities charge this maximum annual fee. In October 2017, the government announced that it was freezing tuition fees at £9,250 instead of increasing them in line with inflation and raising the student loan repayment threshold from £21,000 to £25,000. Most students would like the government to maintain the freeze for some time or even scrap tuition fees altogether.

Some A Level students do not gain the grades needed to take up university places. In other cases, however, it is tuition fees which discourage them from applying to university. These students are concerned about future debt levels and value for money. The average pay for university graduates is higher than that for non-graduates. Future earnings, however, vary according to the subject studied, university attended and job gained after graduation. Currently the highest earning post graduates tend to have been students of medicine, veterinary science, economics and engineering. While the lowest earners are found to be former students of English Literature, communication, agriculture and creative arts. A Level pupils are also aware that the learning experience varies between courses and universities, with some undergraduates complaining about lack of contact hours and high numbers of students in seminar groups.

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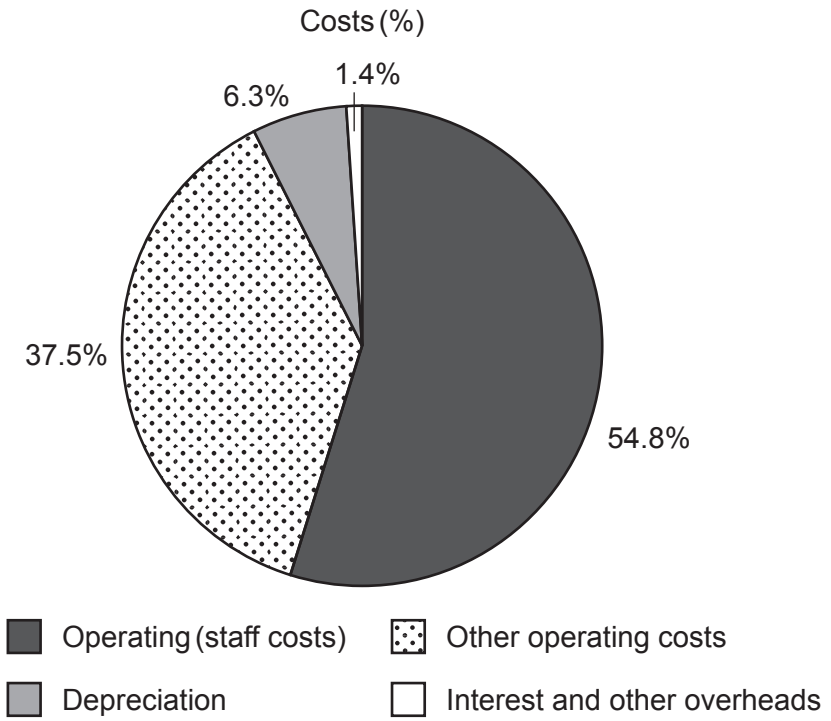
While a limit on tuition fees may be welcome to many students, universities are concerned about the measure. They are worried that if they are not able to charge higher tuition fees and if they do not get more funding from the government, they will struggle to cover their costs. Universities' operating costs vary with the number of students they teach. Fig. 2 shows a breakdown of the total cost of £31.2 billion incurred by UK universities in 2014–2015 when they were educating 2.2 million students.

Fig. 2 – The composition of the total cost of UK universities 2014–2015



The cost of providing degree courses varies between subjects and universities. It is, for example, more expensive to provide engineering courses than English Literature courses. The University of Cambridge, for instance, spends more per student than the University of Bedfordshire.

The amount spent on education for people above school age (tertiary education), includes spending on degree courses and vocational courses. Such education provides a range of benefits not only to those who undertake the courses but also to others. Tertiary education increases a country's output and the productivity of its workers. UK universities are also creating an increasing number of spin-off companies which create new jobs.

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Fig. 3 shows how the proportion of people of two different age ranges who had completed tertiary education varied in selected countries in 2016, as well as average income in those countries.

Fig. 3 – The proportion of people who had completed tertiary education in selected countries in 2016

Country	25–34 year olds who completed tertiary education	55–64 year olds who completed tertiary education	Average income (GDP per head in US$) 2016
Canada	60.6	46.2	42 200
Germany	30.5	26.3	42 000
Japan	60.1	39.7	39 100
New Zealand	43.4	28.2	39 400
South Korea	70.0	19.7	27 600
United Kingdom	52.0	37.6	39 900
United States of America	47.5	41.9	57 500

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Answer **all** the questions.

1 **(a)** Explain, using evidence from the stimulus material, why higher education is a private good.

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..... **[2]**

(b) Calculate, using information from the stimulus material, the average fixed cost of educating a university student in 2014–2015.

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..... **[3]**

(c) **(i)** Explain whether the information in Fig. 3 about average income and about 25–34 year olds who had completed tertiary education shows the expected relationship between the two.

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(ii) Explain, using information in Fig. 3, which country is likely to have experienced the lowest relative increase in occupational mobility over the last thirty to forty years.

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(d) Evaluate whether students will benefit from the government freezing the maximum annual tuition fee for some time.

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(e) Evaluate, using evidence from the stimulus material, whether a higher tuition fee should be charged to medical students than to English Literature students.

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SECTION B

Answer **EITHER** question **2 OR** question **3**.

EITHER

2* Governments may use buffer stock systems to reduce the market failure caused by price instability.

Evaluate, using an appropriate diagram(s), the effectiveness of a buffer stock system in reducing market failure. **[25]**

OR

3* Some economists claim that the Royal Mail was more efficient when it was a monopoly.

Evaluate, using an appropriate diagram(s), whether a monopoly will be efficient. **[25]**

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SECTION C

Answer **EITHER** question **4 OR** question **5**.

EITHER

4* Estonia continues to increase the role of market forces in its economy.

Evaluate whether operating a market economy is the best way to allocate resources. **[25]**

OR

5* Firms usually take into account the income and cross elasticities of demand for their products when setting their prices.

Evaluate whether a firm which produces a product that has positive income elasticity of demand and positive cross elasticity of demand should lower the price of the product. **[25]**

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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