

Please write clearly in block capitals.

Centre number

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Candidate number

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Surname _____

Forename(s) _____

Candidate signature _____

I declare this is my own work.

INTERNATIONAL AS ECONOMICS

Unit 1 The Operation of Markets, Market Failure and the Role of Government

Thursday 8 January 2026

07:00 UK Time

Time allowed: 1 hour 45 minutes

Materials

For this paper you must have:

- the Source Booklet, provided as an insert (enclosed)
- a calculator, which you are expected to use where appropriate.

Instructions

- 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.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do **not** write outside the box around each page or on blank pages.
- Do **not** write in the Source Booklet.
- 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.
- You may use a bilingual dictionary for this exam.
- You may **not** use an English dictionary.

For Examiner's Use

Question	Mark
1–15	
16	
17	
18	
19	
20	
21	
TOTAL	



J A N 2 6 E C 0 1 0 1

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EC01

Section A

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

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

The central purpose of economic activity is to

[1 mark]

A improve the distribution of income.

☐

B maximise production of goods and services.

☐

C minimise costs of production.

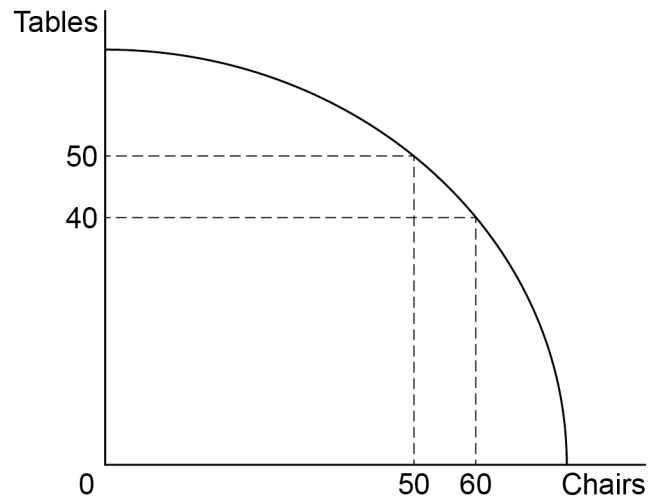
☐

D satisfy needs and wants.

☐


0 2

Figure 1 shows the production possibility boundary for a firm that produces tables and chairs.

Figure 1

What is the opportunity cost if the output of chairs increases from **60** to **70**?

[1 mark]**A** 10 chairs☐**B** 10 tables☐**C** Less than 10 tables☐**D** More than 10 tables☐**0 3**

Which one of the following is most likely to be a characteristic of a concentrated market?

[1 mark]**A** Firms are located in one part of the country.☐**B** Firms find it difficult to enter the market.☐**C** Firms focus on supplying one type of good.☐**D** Firms specialise in one stage of the production process.☐**Turn over ►**

0 4

Oil is used to produce fuel for non-electric cars.

Which one of the following is most likely to cause the demand for oil to decrease?

[1 mark]

A A decrease in consumer wealth

☐

B A decrease in demand for electric cars

☐

C A decrease in prices of non-electric cars

☐

D A decrease in the price of oil

☐
0 5

Table 1 shows the demand for and supply of shirts per month for a firm.

Table 1

Price of shirt (\$)	Demand for shirts (per month)	Supply of shirts (per month)
10	2000	0
15	1500	500
20	1000	1000
25	500	1500

After a successful advertising campaign, demand increases by 1000 at each price. Due to higher indirect taxes, supply reduces by 20% at each price.

Which one of the following is correct?

There will be

[1 mark]

A an increase in excess demand of 100% at \$10.

☐

B an increase in excess demand of 110% at \$15.

☐

C an increase in excess supply of 300 shirts at \$25.

☐

D excess demand of 2000 shirts at \$20.

☐


0 6

Which one of the following is an example of a positive statement?

[1 mark]

- A** Reducing inequality is less important than reducing poverty.
- B** State provision is the best way to increase provision of merit goods.
- C** Subsidies to firms will result in an increase in average costs.
- D** The government should reduce indirect taxation on demerit goods.

☐☐☐☐**0 7**

A firm faces a perfectly elastic demand curve and has an upwards sloping supply curve. Labour costs make up 70% of the firm's costs.

All other things being equal, if labour productivity increases by 50% what is the most likely outcome?

[1 mark]

- A** Price decreases by 50%.
- B** Price decreases by more than 50%.
- C** Revenue increases by 50%.
- D** Revenue increases by less than 50%.

☐☐☐☐**0 8**

Which one of the following is the best example of a public good?

[1 mark]

- A** A bottle of water
- B** A good sold by the government
- C** Education
- D** Street lighting

☐☐☐☐**Turn over ►**

0 9

A firm wants to increase its total revenue. Which one of the following combinations would result in higher total revenue for the firm?

[1 mark]

	Price elasticity of demand	Change in price	
A	-5	Increase	☐
B	-1	Decrease	☐
C	-0.5	Increase	☐
D	0	Decrease	☐

1 0

The government introduces an indirect tax of \$2 per unit on a demerit good. The original price was \$10 per unit. The new price is \$11.50.

To one decimal place, how much tax is paid by the producer as a percentage of the **new** price?

[1 mark]

- A** 4.3% ☐
- B** 12.5% ☐
- C** 13.0% ☐
- D** 16.7% ☐

1 1

Mario opens a small café in a large town where there are many similar businesses. What is likely to be his most important objective in the first year of the business?

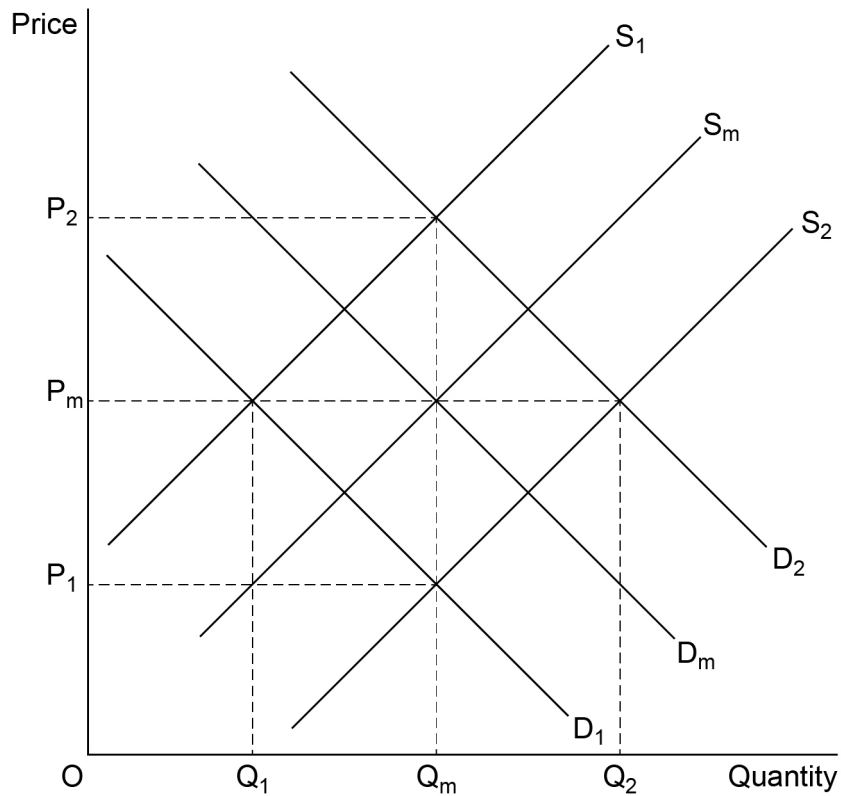
[1 mark]

- A** To be in business at the end of the year ☐
- B** To be the most popular café in the town ☐
- C** To increase the number of people the café employs ☐
- D** To make enough money to give to charity ☐



1 2

Figure 2 shows possible supply (S) and demand (D) curves for the market for a good. Production of the good results in negative externalities but its consumption results in positive externalities. S_m only considers the private costs and D_m only considers the private benefits.

Figure 2

Which one of the following is the socially optimum price and quantity?

[1 mark]

	Price	Quantity	
A	P_1	Q_m	☐
B	P_2	Q_m	☐
C	P_m	Q_1	☐
D	P_m	Q_2	☐



1 3

A firm is experiencing diseconomies of scale. It decreases its output to reduce its diseconomies of scale.

Which one of the following is correct?

[1 mark]

A Average cost decreases and total cost decreases

☐

B Average cost decreases and total cost increases

☐

C Average cost increases and total cost decreases

☐

D Average cost increases and total cost increases

☐
1 4

Table 2 shows the different sources of income and wealth for a person in Germany.

Table 2

House	€500 000
Money in bank	€70 500
Wage	€37 000
Car	€23 000
Interest on savings	€10 500
Shares in a business	€5 000

According to **Table 2**, what is their total wealth?

[1 mark]

A €528 000

☐

B €533 500

☐

C €598 500

☐

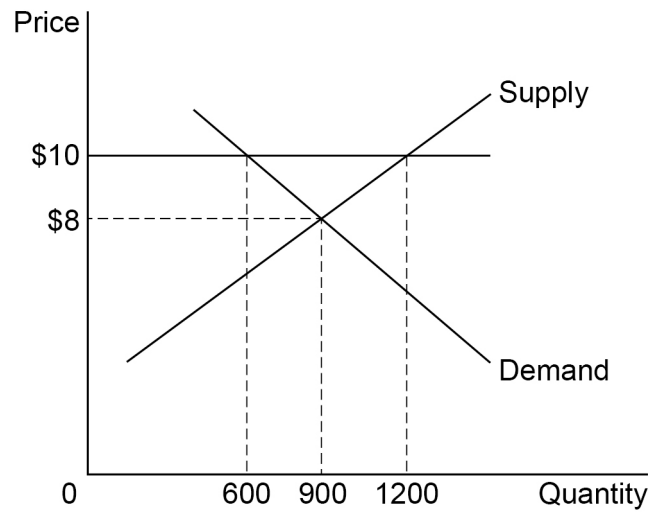
D €630 500

☐


1 5

Figure 3 shows the market for electricity.

Figure 3



The government introduces a maximum price for electricity of \$10 per unit. The most likely effect of the maximum price in the market is

[1 mark]

A an increase in the price of 25%.

☐

B excess demand of 600 units.

☐

C excess supply of 600 units.

☐

D no change in quantity.

☐

15

Turn over for the next section

Turn over ►



Section B

Look at the Source Booklet and answer **all** questions in the spaces provided.

Do **not** write in the Source Booklet.

1 6 . 1 Define 'monopoly power' (**Extract B**, line 12).

[3 marks]

1 6 . 2 Define 'fixed costs' (**Extract B**, line 15).

[3 marks]



1 7

The extracts provide information on olive oil prices and consumption.

You are advised to show your working for the calculations below.

1 7 . 1

Use **Extract A** to calculate the mean annual consumption of olive oil for the period 2018/2019 to 2023/2024.

Give your answer to the nearest **thousand** tonnes.

[2 marks]

1 7 . 2

Use **Extract A** and **Extract C** (lines 17–18) to calculate the cross elasticity of demand for sunflower oil with respect to the change in the price of olive oil between 2021/2022 and 2022/2023.

Give your answer to **two** decimal places.

[4 marks]

6

Turn over for the next question

Turn over ►



[6 marks]

[illegible]



To what extent do the data suggest that changes in the price of olive oil affect the consumption of olive oil?

[6 marks]

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on its right side, suggesting it's resting on a surface. The overall appearance is that of a clean, unused piece of stationery or notebook paper.

Turn over ►



[9 marks]

[illegible]



2 0

Extract B (line 19) states: 'Any changes in costs or revenue will affect the profits of these firms.'

Analyse the factors that may affect the profits of firms selling olive oil.

[12 marks]

Turn over ►



Extra space



Extract C (line 1) states: ‘Some economists think governments should intervene if olive oil prices increase significantly.’

[20 marks]

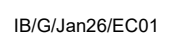
[illegible]

[illegible]

[illegible]

[illegible]

20



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outside the
box*

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



[illegible]

[illegible]