ASM Tuition Academy

AQA Econ Paper 1

Question 21 (3 marks)

Define 'scarce resource' (Extract B, line 11).

Answer

A scarce resource is a resource for which the demand is greater than the available supply, meaning there is not enough to satisfy all wants and needs. Because of this, choices must be made about how the resource is allocated.

2 2 **Extract C** (lines 4–7) states: 'Since 2011, tourists staying in a five-star hotel in the peak season have been taxed €5 for each night. However, they are only charged for five nights, even if they stay longer. They pay 50% less in the off-peak season.'

Calculate the total amount of tax paid by two people staying for seven nights in a five-star hotel in the off-peak season.

[4 marks]

Answer

1. Peak season tax per night = **£5**
2. Off-peak season tax = **50% less → £2.50 per night**
3. Tourists are charged tax for **five nights only**, even if they stay longer.
4. Two people → multiply by **2**

Calculation:

- Tax per person = £2.50 × 5 nights = **£12.50**
- For two people: £12.50 × 2 = **£25**

Euro 25 Final answer

2 3 Use **Extract A** to identify **two** significant features of the number of visits to the UK by overseas residents over the period shown.

[4 marks]

Feature 1

ASM Tuition Academy

There was a steady increase in overseas visits from 2018 to 2019, reaching around 11 million visits in several quarters.

Feature 2

There was a sharp and dramatic fall in 2020, dropping to almost zero, due to travel restrictions from the pandemic.

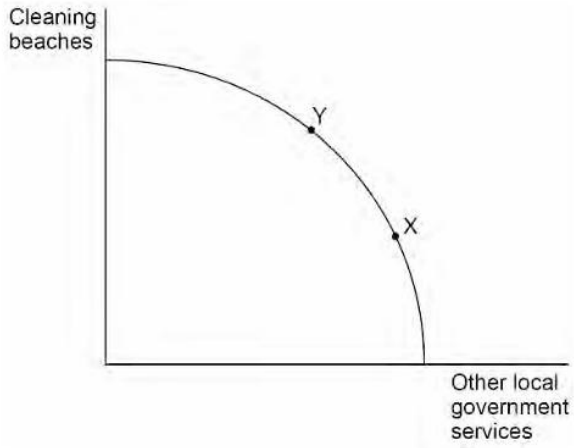
Question 4

A local authority has limited resources to allocate to two services, 'cleaning beaches' and 'other local government services'.

Draw a production possibility diagram showing the potential provision of these two services. Assuming these resources remain fully employed, show on this diagram the effect of allocating more resources to cleaning beaches.

[4 marks]

Answer



2 5 ***Extract B*** *(lines 1–2) states: 'As the world recovered from the recession of 2008, there was more demand for travel and tourism.'*

Explain possible reasons for an increase in the demand for travel and tourism.

[10 marks]

Introduction	• Demand increased because → higher incomes → easier booking → pent-up demand released
Point 1 — Higher incomes after recovery	**Reason 1** • Economic recovery → incomes ↑ → people can afford holidays → **Demand shifts right** • Tourism = normal good → income ↑ = demand ↑ • Evidence: 4.3 million jobs in tourism (Extract B) → stronger economy
Point 2 — Changing preferences and easier booking	**Reason 2** • Online booking → search costs ↓ → travel easier → more people travel • Preference shift → people value experiences → demand ↑ • Evidence: upward trend in visits (Extract A)
Point 3 — Pent-up demand after restrictions	**Reason 3** • Restrictions → people delay travel → once lifted → surge in bookings • **Pent-up demand → immediate increase in demand** • Evidence: nearly 4 million visits Q1 2022
Conclusion	• Summarise → income ↑ + convenience ↑ + pent-up demand → **D shifts right**

Model Answer

There are several reasons why demand for travel and tourism increased, and many of these are linked to changes in income, preferences and the removal of restrictions. The extracts show that more people were able and willing to travel, especially as economic conditions improved.

One key reason is that people had more disposable income as the economy recovered. Tourism is a normal good, meaning that when incomes rise, people demand more of it. Extract B shows that by 2019 the tourism sector supported 4.3 million jobs, which suggests stronger economic performance. As more people became employed, they could afford holidays again, helping to push demand up.

Another reason is that tourism has become easier and more attractive. Online booking websites, comparison tools and cheap flights reduce the effort needed to organise a trip. This shift in preferences towards experiences and convenient travel helps explain why the number of visits to the UK was steadily rising before 2020, as shown in the chart in Extract A.

A further reason is the release of pent-up demand once travel restrictions were lifted. During the pandemic people could not travel, so many delayed holidays. Extract B shows that even in Q1 2022, which is normally a quiet period, nearly 4 million overseas visitors came to the UK. This shows how strongly demand rebounded when travel became possible again.

Overall, rising incomes, easier access to booking travel, and the release of pent-up demand all contributed to an increase in demand for travel and tourism.

ASM Tuition Academy

Q21 (3 marks)

Define 'Regressive taxes'.

A **regressive tax** is a tax that takes a **higher percentage of income from low-income households** than from higher-income households. As income rises, the proportion of income paid in the tax falls. VAT is a common example of a regressive tax.

A homeowner has an interest-only mortgage of £225 000. The annual interest rate paid on their mortgage has increased from 2% to 4.3%.

*Calculate the increase in the amount of interest paid per month to the **nearest pound (£)**.*
[4 marks]

Work out annual interest at both rates

1 2% of £225,000 = £4,500
4.3% of £225,000 = £9,675

Step 2 — Monthly payments

2 Old monthly interest = £4,500 ÷ 12 = **£375**
New monthly interest = £9,675 ÷ 12 = **£806.25**

Step 3 — Increase

3 £806.25 − £375 = **£431.25**

Final answer: £431 increase per month

Use **Extract A** to identify **two** significant points of comparison between inflation and the growth in average weekly real earnings over the period shown.

[4 marks]

Point 1 — Inflation rose sharply while real earnings fell

Inflation (CPIH) increased through 2021 and peaked in 2022 at around 8-10%, while real earnings growth remained negative for most of the period.

ASM Tuition Academy

Point 2 — Real earnings stayed below inflation throughout

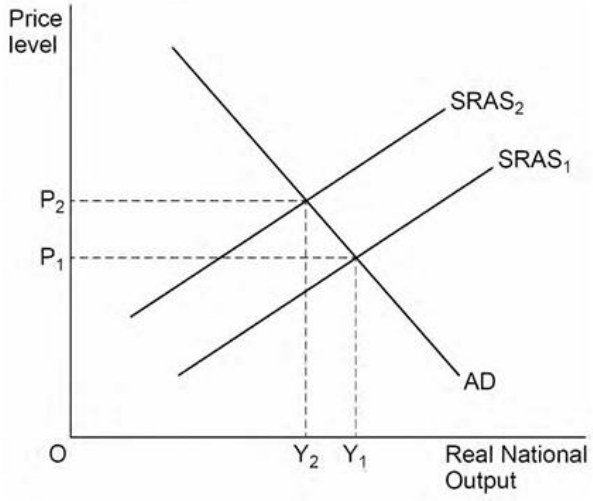
At no point between Dec 2020 and Nov 2022 did real earnings outpace inflation; real earnings growth was consistently below zero while inflation was rising.

Extract B *(lines 1–3) states: '…rapid increases in the price of commodities, such as gas and wheat...led to a 40-year high inflation rate...'.*

Draw an AD/AS diagram to show how rising commodity prices are likely to affect the macroeconomy.

[4 marks]

The correct diagram involves an AD/AS diagram showing a leftward shift in the SRAS curve.



5 **Extract B** (lines 11–12) states: 'In response, as inflation rose above the target rate, the Bank of England's Monetary Policy Committee acted by increasing Bank Rate.'

Explain how an increase in Bank Rate may lead to a reduction in the rate of inflation.

[10 marks]

Higher interest rates reduce consumption

Bank Rate ↑ → commercial banks raise loan & mortgage rates → monthly repayments ↑ → disposable income ↓ → consumption ↓ → AD shifts left → demand-pull inflation falls.

Context: Extract B shows mortgage repayments increased when Bank Rate rose.

Higher interest rates reduce investment

Bank Rate ↑ → cost of borrowing for firms ↑ → fewer loans for capital investment → investment ↓ → AD ↓ → less spending pressure in economy → inflation falls.

Context: Business investment already declining (Extract C) → higher rates reduce AD further.

Extract C (lines 17–18) states: 'These policies could restrict economic growth in the short term and increase the likelihood of the economy going into recession.'

Use the extracts and your knowledge of economics to evaluate policies that might help an economy to recover from a recession.

[25 marks]

ASM Tuition Academy

<u>Expansionary fiscal policy (G↑ or tax↓)</u>

Government spending ↑ → incomes ↑ → consumption ↑ → AD shifts right → real GDP ↑ → unemployment ↓ → economy moves out of recession.

Tax cuts ↓ → disposable income ↑ → household spending ↑ → AD ↑ → faster recovery.

Context (from extracts):
Retail sales ↓ 3% and investment ↓ 2.5% → suggests demand is weak.

Evaluation:

High borrowing (forecast 106.7% of GDP) → limits ability to expand G → risk of worsening debt → might increase long-term interest rates.

Also: inflation high → fiscal expansion could add more demand → risk of worsening inflation.
→ Fiscal policy may help short-term but has **budget constraints + inflation risk**.

Monetary policy (cutting interest rates)

Chain of analysis:
Interest rates ↓ → borrowing cheaper → mortgages ↓ → disposable income ↑ → consumption ↑ → AD ↑ → GDP ↑ → recovery strengthened.

Interest rates ↓ → cost of borrowing for firms ↓ → investment ↑ → AD ↑.

Context:
Business investment already falling → lower rates could reverse this decline.

Evaluation:

Extract B shows interest rates were being raised to fight inflation → cutting now could make inflation worse → weakens currency → imported inflation ↑.
Also: confidence may be low → even if rates ↓, people may not borrow → **monetary policy can be weak in a recession (liquidity trap-type behaviour)**.

ASM Tuition Academy