



Rewarding Learning

General Certificate of Secondary Education

Centre Number

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Candidate Number

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Economics

Paper 2

MV18

[G9282]

Assessment

Time

1 hour 15 minutes, plus your additional time allowance.

Assessment Level of Control Tick the relevant box (✓)

Controlled Conditions	<input type="checkbox"/>
Other	<input type="checkbox"/>

Instructions to Candidates

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

You should answer **both** questions in the spaces provided.

If you do not have enough space to complete your answer, extra lined pages are provided at the back of the booklet.

Information for Candidates

The total mark for this paper is 60.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Your quality of written communication will be taken into account in assessing your answers to **1(f)** and **2(d)(ii)** and **2(e)**.

Advice for Candidates

You should take into account the maximum marks available when deciding how much time to spend on each question or part question.

Answer **both** questions

- 1 Alex is a self-employed personal trainer who works with individual clients to improve their fitness and well-being. Appointments take place in gyms or at clients' homes. This means she needs transport and a supply of relevant equipment.

Alex's business costs are shown in the table below.

Business Costs	(£s)
Transport	2000
Mobile phone	500
Equipment	500
Insurance	1000
Work clothing	600
Gym membership	400

- (a) Using an example, explain what is meant by fixed costs.
[2 marks]

(b) Alex also estimates that on average, variable costs are £5 per client.

She charges £25 per hour and has 1000 one-hour appointments per year.

Complete the information in the table below to show Alex's variable costs, total costs and total revenue for the year when she has 1000 clients. [3 marks]

Number of clients per year	Fixed costs	Variable costs (£s)	Total costs (£s)	Total revenue (£s)
0	5000	0	5000	0
1000	5000			

Clearly show your workings.

(c) Using the information from the table above, draw a break-even chart for Alex's business activity on the graph paper opposite. [4 marks]

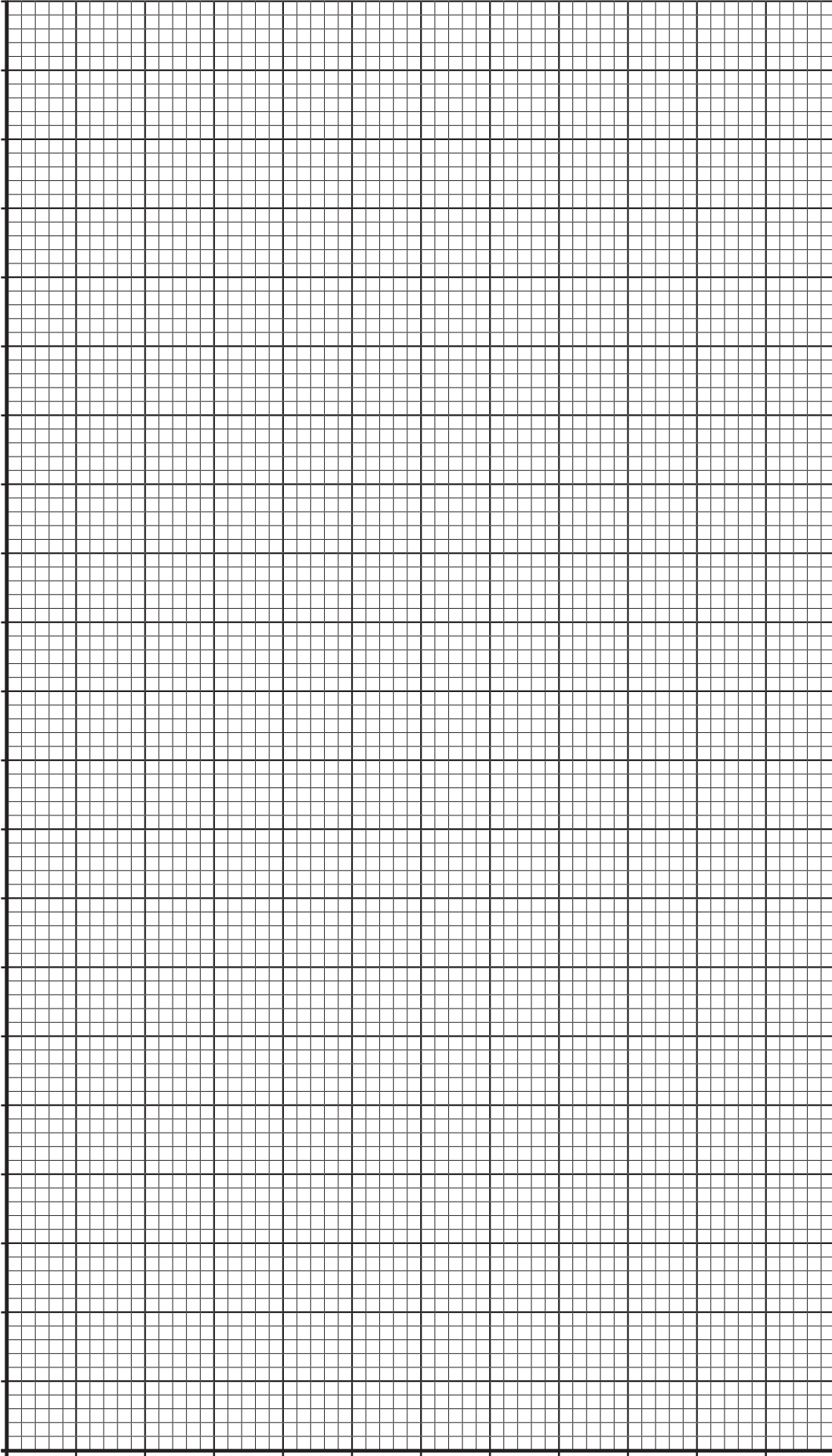
You should clearly label:

(i) both axes

(ii) the total costs (TC)

(iii) the total revenue (TR)

(iv) the break-even point (BE).



(d) Alex decides to cut her price from £25 to £20 per session. Demand now increases from 1000 to 1100 clients per year.

(i) Using the formula outlined below, calculate the Price Elasticity of Demand for Alex’s fitness services. [3 marks]

Show your calculations clearly.

$$\text{Formula: PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

Calculations

% change in quantity demanded =

% change in price =

PED =

(ii) Explain the impact of this price cut on Alex’s business. [3 marks]

(e) Alex needs finance to expand her business. Apart from a mortgage, explain **two** other ways in which Alex could obtain finance for this expansion. [6 marks]

1. _____

2. _____

- (f) Alex has decided that she needs to plan for the future. After paying taxes and living costs, Alex has approximately £500 each month. She has been given financial advice from three sources:

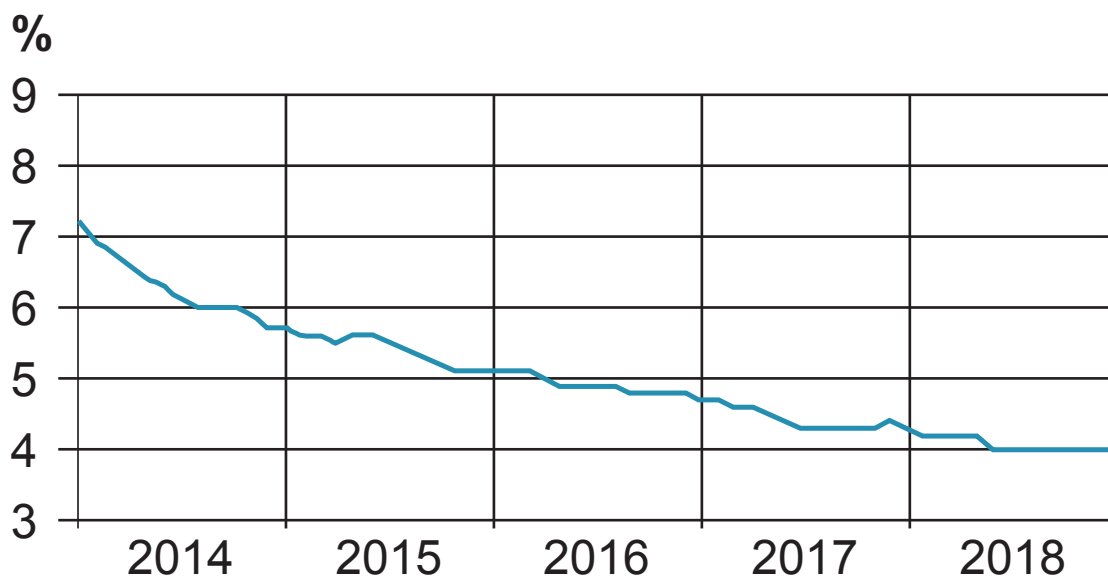
Source of advice	Advice	Expected outcomes from choice
Family	Get a mortgage and become a homeowner	As a first-time buyer she will need a large deposit and apply for a mortgage. There are good deals available but she needs to be sure that she can repay, especially if interest rates rise. However, this will give her an asset.
Friends	Spend now and enjoy more holidays	This will give Alex lots of experience of travelling and experiencing other cultures abroad. It may also strengthen her friendship with this group of friends. This will use up a considerable proportion of her disposable income.
Financial adviser	Take out a personal pension plan	As Alex is unlikely to get a state pension until she is around 70 years old, she should consider long-term financial plans if she wants to retire earlier and/or if she doesn't want to work as hard as she does now.

- 2 Study the information below and answer the questions that follow:

How well is the economy performing?

In September 2018, the Office for National Statistics (ONS) published the results of the latest Labour Force Survey showing that the number of people in work had reached a record high. There were more workers in jobs than at the start of the year. The unemployment rate, shown in **Fig. 1** below, was the lowest rate for over 40 years.

Fig. 1 UK unemployment rate 2014–2018



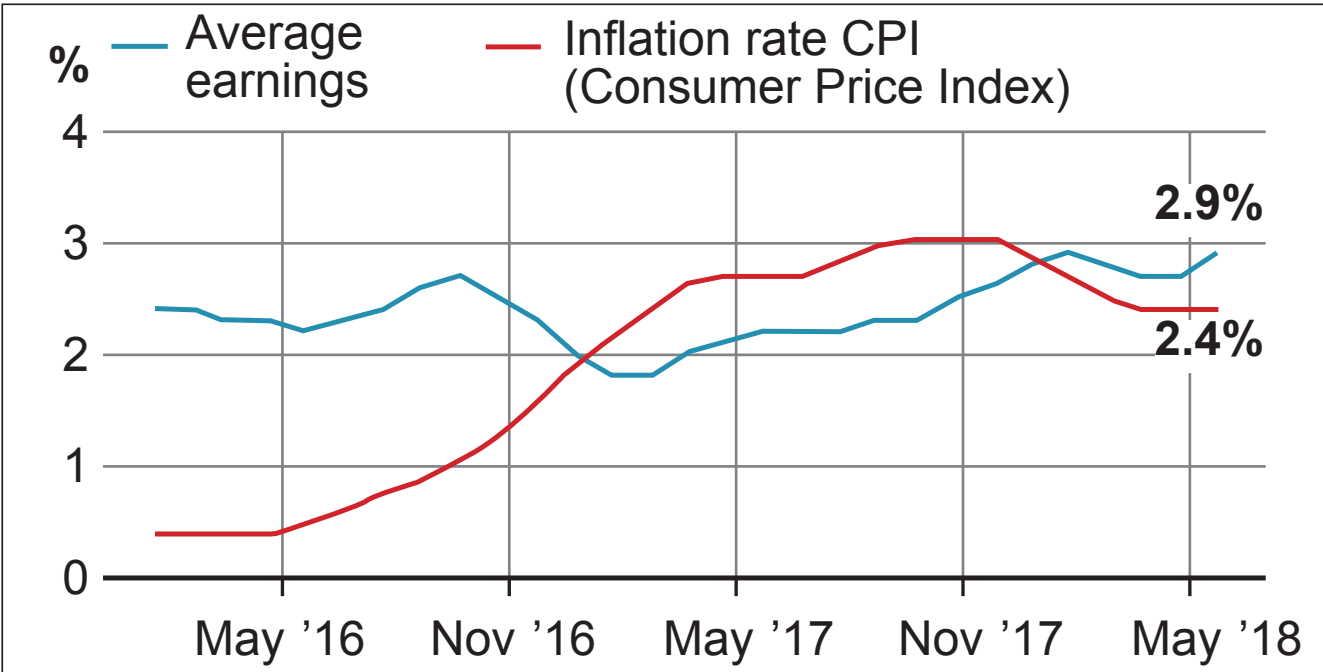
A government spokesperson said: “Day by day we are helping people turn their lives around by getting them into employment. Jobs are key to transforming lives and work is the best route out of poverty.”

The ONS also reported an unexpected rise in inflation to 2.7%. This is bad news for households who had started to see an increase in their living standards for the first time since the financial crash of 2008. Earlier in the year, the

increase in annual wages was marginally higher than the rate of inflation for the first time since the crash as shown in **Fig. 2** below.

Research has shown that average earnings were still £800 per year lower than ten years ago. Since the financial crash there have been winners and losers – even after inflation was taken into account, pay increased by 8% for finance workers and by 1.8% for construction workers. Those in the public sector were still worse off as their pay rise was frozen or kept below the rate of inflation.

Fig. 2 Annual % change in average earnings and inflation 2016–2018



A Trade Union leader has called on the government to increase the national minimum wage (NMW) to £10 per hour and to fund a proper pay increase for public sector workers.

Some economists predict that in future, there could be labour shortages in key areas of the economy, like healthcare and hospitality. There could also be problems recruiting skilled workers in general across the economy. This is likely to put future pressure on wages and inflation.

In August 2018, the Bank of England raised the base rate of interest from 0.5% to 0.75%, the highest level since 2009. This was a further worrying development for households. The Bank also warned that further increases may be necessary.

(a) With reference to the data, outline how unemployment is measured. [3 marks]

(b) Using **Fig. 1** describe what has happened to the UK's rate of unemployment between 2014 and 2018.
[3 marks]

(c) Explain **two** possible policies that the government could use to promote greater employment in the economy.
[8 marks]

Policy 1

Policy 2

- (d) (i)** Explain the likely effect on household spending when inflation rises at a faster rate than increases in average wages. [2 marks]

This is the end of the question paper

Sources

Q2.....**Fig.1** © UK labour market: September 2018 by Labour Force Survey. Published by Office for National Statistics, September 2018.
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/september2018#unemployment>

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Q2.....**Fig.2** © Consumer price inflation, UK: May 2018 by Office for National Statistics, June 2018
<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2018>

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Question Number	Marks
1	
2	
Total Marks	

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