



**Economics Questions By Topic:**

**Consumer & Producer Surplus  
(1.2.8)**

**A-Level Edexcel Theme 1**

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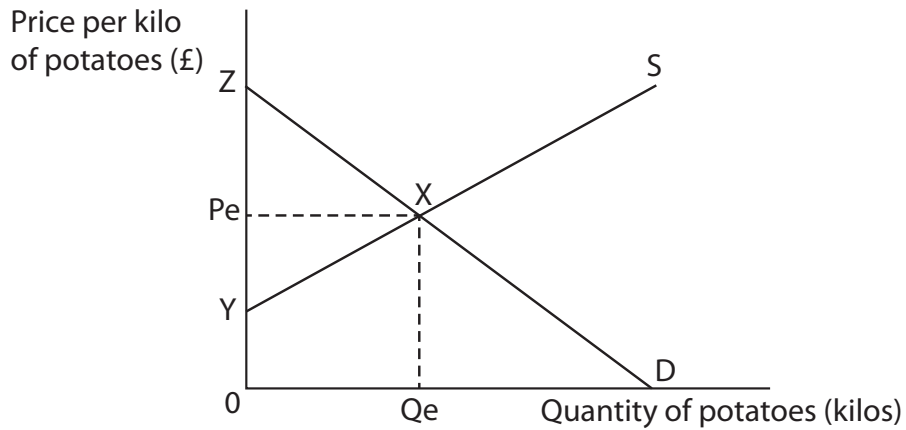
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SECTION A

Write your answers in the spaces provided.

1



The diagram shows the market for potatoes where the initial equilibrium price is  $P_e$  and quantity  $Q_e$ . Use the diagram in your explanation.

An increase in demand for potatoes is most likely to

(1)

- A maintain price at  $P_e$  and decrease producer surplus
- B raise price and increase producer surplus
- C maintain price at  $P_e$  and increase consumer surplus
- D raise price and decrease consumer surplus

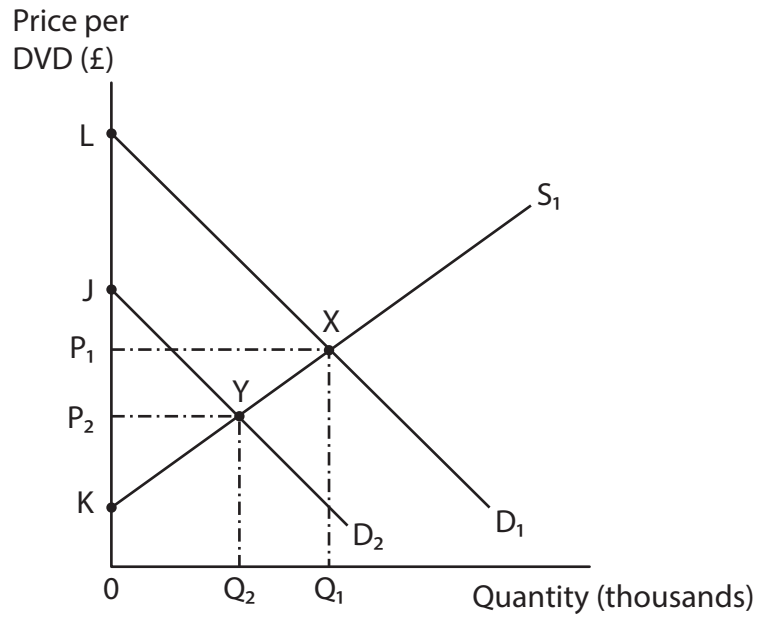
Answer

Explanation

(3)

(Total for Question 1 = 4 marks)

2



The diagram shows the market for DVDs. A decrease in demand from  $D_1$  to  $D_2$  will cause a fall in

(1)

- A producer surplus to  $P_2JY$
- B consumer surplus to  $LXP_1$
- C producer surplus to  $P_2YK$
- D consumer surplus to  $OP_2YQ_2$

Answer

**Explanation**

(3)

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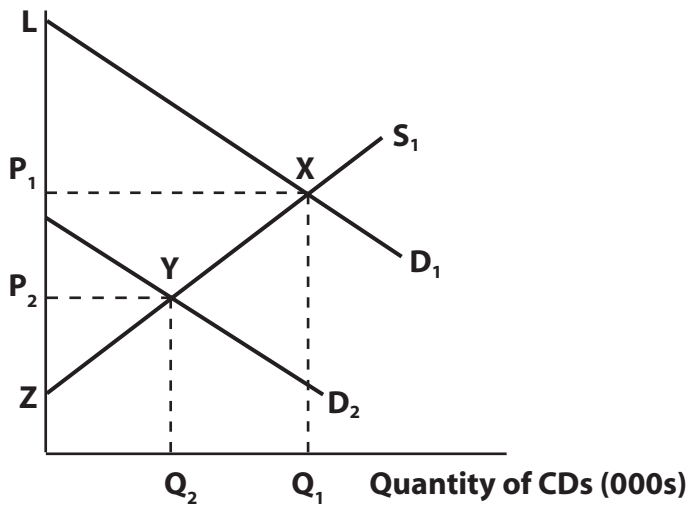
**(Total for Question 2 = 4 marks)**

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3

Music CD market

Price per CD (£)



The diagram shows the market for music CDs. A decrease in demand from  $D_1$  to  $D_2$  will cause a loss of producer surplus equal to the area:

(1)

- A  $P_1XL$
- B  $P_1XZ$
- C  $P_2YZ$
- D  $P_1XYP_2$

Answer

Explanation

(3)

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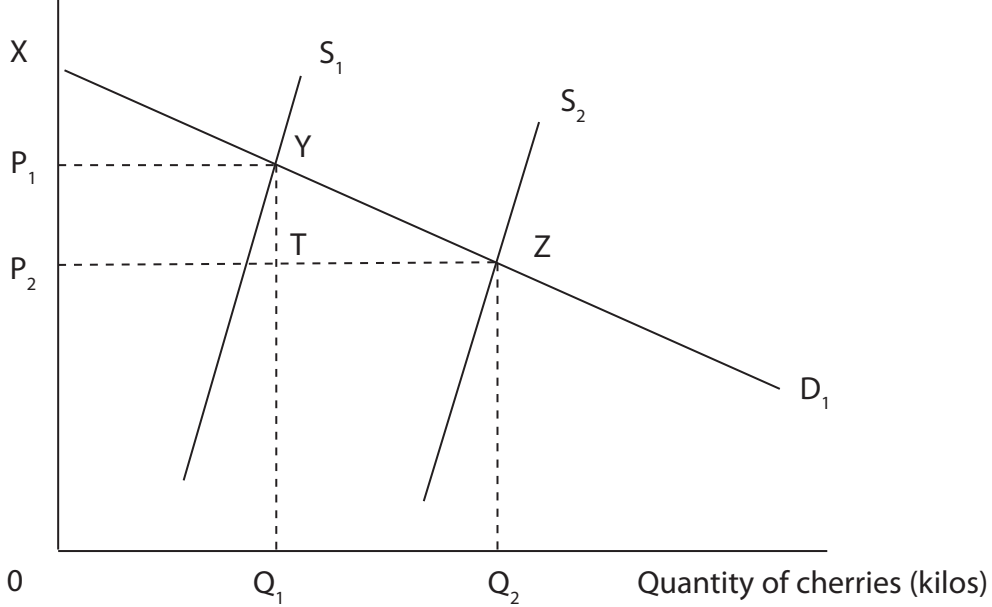
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(Total for Question 3 = 4 marks)



5 Price of cherries per kilo £



The diagram shows the market for cherries. In year 1 demand is represented by  $D_1$  and supply by  $S_1$ . In year 2, the supply of cherries increases to  $S_2$ . This causes consumer surplus to increase to the area:

(1)

- A  $XYP_1$
- B  $Y TZ$
- C  $P_1YTP_2$
- D  $XZP_2$

Answer

Explanation

(3)

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(Total for Question 5 = 4 marks)





## SECTION B

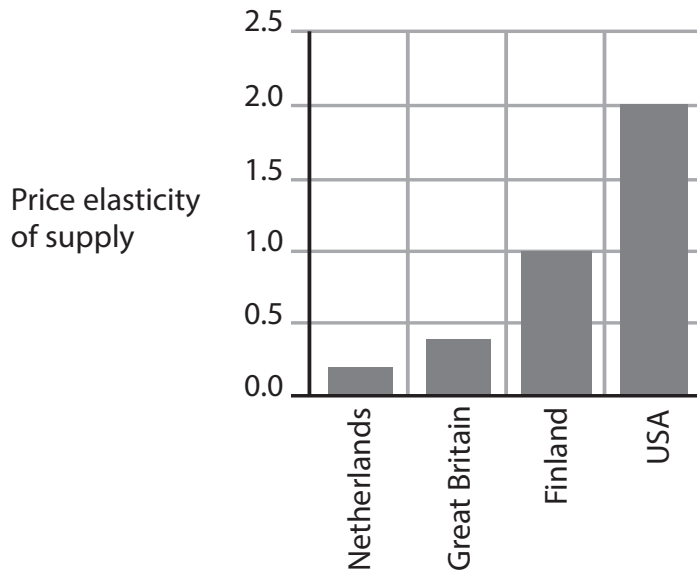
Read all figures/extracts before answering.

Write your answers in the spaces provided.

### Question 7

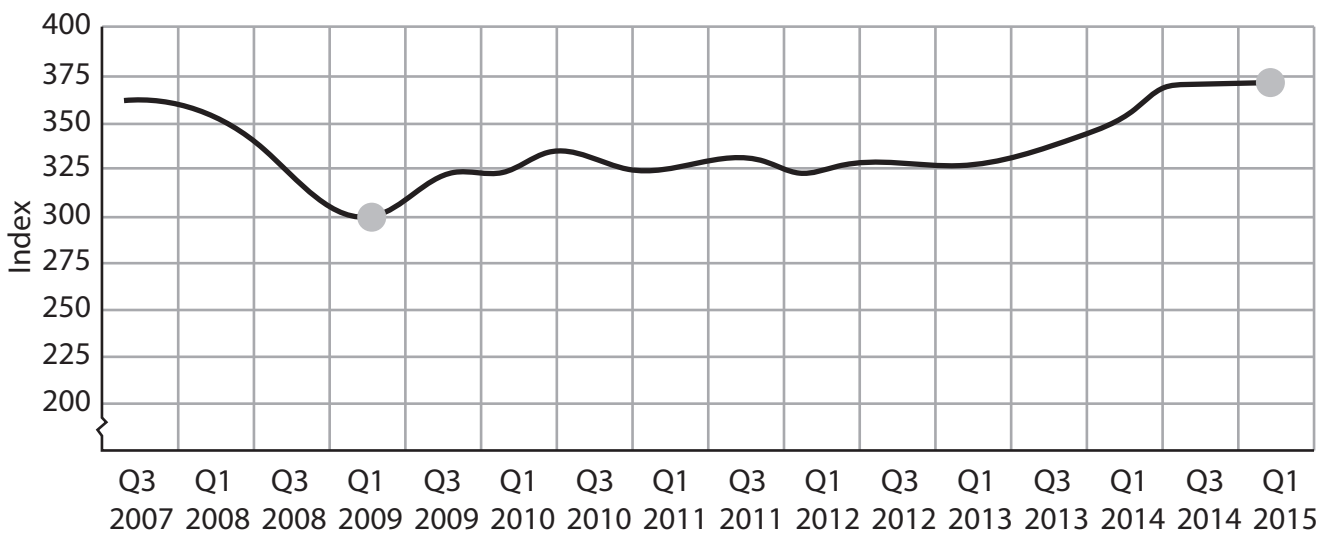
#### The market for housing

Figure 1 – Estimates of the price elasticity of supply of new housing, selected countries



(Source: adapted from Caldera Sánchez, A. and Å. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", Figure 3, OECD Economics Department Working Papers, No. 837, OECD Publishing. <http://dx.doi.org/10.1787/5kgk9qhrnn33-en>)

Figure 2 – Index of UK house prices (1993 = 100)



(Source: <http://www.nationwide.co.uk/about/house-price-index/download-data#~>)

## Extract A

### Problems facing UK first time buyers

Over a third of aspiring first time buyers in the UK have given up hope of ever being able to save for a deposit to buy a property, new research has found. A deposit is the minimum amount that must be paid upfront when buying a property, which is a proportion of the price of the property.

The UK Government has a Help to Buy scheme designed to help people buy a home. The government subsidises the mortgage (loan) needed to buy a property, so buyers require a smaller amount saved as a deposit. Under this scheme, first time buyers need as little as a 5% deposit to qualify for a mortgage. This is due to end in the first few months of 2017. The research from mortgage insurer Genworth says this will mean a return to 20% deposits, which would see the average time needed to save for a deposit rise from three years to over 10 years. 5 10

“Trying to buy your first home in the current climate is like chasing a runaway train. Even with good salaries that could comfortably support a mortgage, thousands of aspiring first time buyers can only save modest sums, especially those who are already paying rent. This deposit trap is why many feel they are left with the all or nothing choice of borrowing from family or waving goodbye to ever owning a home,” said Simon Crone, a vice president at Genworth. 15

“Help to Buy has significantly improved access to mortgages with deposits that are actually realistic to save. The numbers using the scheme may be modest, but it has made significant inroads in the short-term to boost access at the lower end of the property market,” he pointed out. 20

(Source: adapted from <http://www.propertywire.com/news/europe/uk-first-time-buyers-201409309641.html> September 2014)

## Extract B

### Housing and flood defences

A radical new approach to housing and a £2.3 billion of investment in flood defences were announced as part of the UK Government’s new National Infrastructure Plan 2014.

One key proposal is for the government to plan, build and sell homes. An initial programme on a government-owned former airfield near Cambridge will see the development of 10 000 homes. This approach will fast track the development by providing certainty and making new homes available more quickly. 5

The government will make the initial investment but expects that later costs will be met through the sale of land and homes. It will also evaluate the feasibility and economic effects of rolling out this model on a wider scale, to support and accelerate housing supply. 10

The plan also commits to £2.3 billion of capital investment to over 1400 flood defence projects in a 6-year programme of investment. As a result, over 300 000 homes will be better protected and over £30 billion of economic damages prevented. Major projects that will benefit include £42 million for the Oxford Flood Alleviation Scheme, £80 million for the Humber Estuary and over £17 million for Tonbridge, Yalding and the surrounding communities. 15

(Source: adapted from <https://www.gov.uk/government/news/ambitious-plans-for-housing-flood-defence-and-roads-set-out-in-national-infrastructure-plan-2014>)

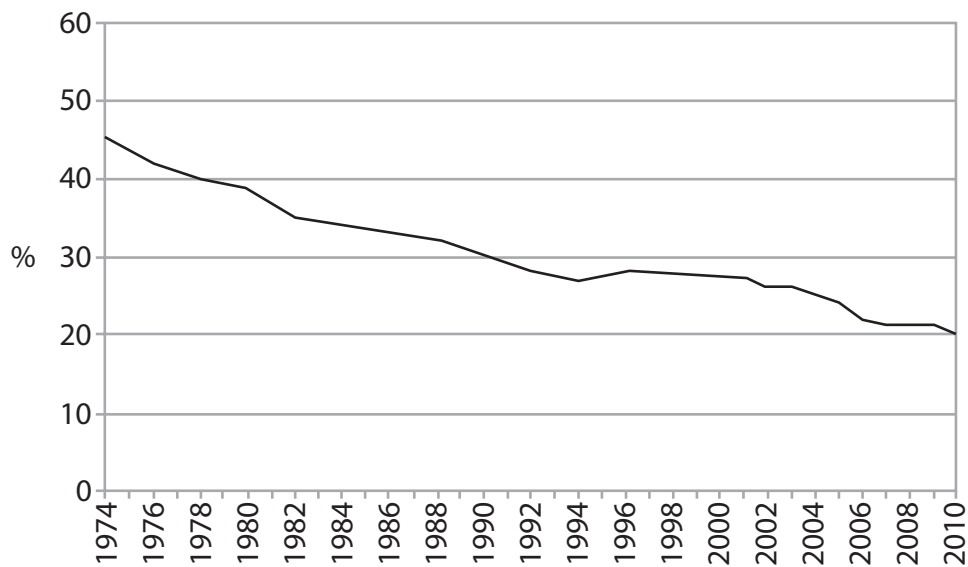
**7** Explain the likely impact on producer surplus of an increase in the demand for housing. Use a diagram to illustrate your answer.

(6)

**(Total for Question 7 = 6 marks)**

## 8 Tobacco consumption in Britain

**Figure 1 Percentage of adults in Great Britain who smoke cigarettes, 1974–2010**



(Source: © Crown copyright)

**Figure 2 The estimated costs of tobacco smoking in Britain**

Type of cost	£ billion per year
National Health Service	2.7
Loss of productivity from smoking breaks at work	2.9
Staff absence from work owing to tobacco-related illnesses	2.5
Cleaning up tobacco litter	0.3
House fires from tobacco smoking	0.5
Loss of output from early death of smokers	4.1
Loss of output from early death of passive smokers	0.7
<b>Total</b>	<b>13.7</b>

(Source: © ASH)

### **Extract 1 The decline of tobacco smoking in Britain**

Tobacco smoking has fallen over the past fifty years following government health campaigns warning people of its dangers and greater regulations on its sale and consumption. Higher taxes on cigarettes have also contributed to the decline in smoking. The tax on tobacco now accounts for 80% of the £7.45 price paid for a premium packet of cigarettes.

5

The leading anti-smoking pressure group ASH, believes it will take a further fifty years to eliminate smoking in Britain. ASH claims that up to two-thirds of lifelong smokers are eventually killed by their habit.

(Source: © ASH)

### **Extract 2 Tobacco taxation**

In the 2012 Budget the Chancellor George Osborne increased the tax on tobacco by 5 percentage points above the rate of inflation (known as the tobacco tax escalator). This added 37 pence to the price of a packet of cigarettes. The government received £12.1 billion in revenue from indirect taxes on tobacco in 2012.

Despite price increases on tobacco contributing to a fall in its demand, total expenditure has risen (including the tax receipts). For example, consumer expenditure on tobacco increased from £15.1 billion in 2010 to £15.3 billion in 2011.

5

Tobacco consumption among 11–15-year-old children has not changed over the past five years with 5% being regular smokers. Tobacco smoking also remains much higher for low income workers in manual occupations (29%) compared to higher income workers in professional and managerial occupations (13%).

10

There has also been a significant switch in tobacco sales, from high quality, expensive brands to low quality and cheap cigarettes. The latter now account for 30% of the British market.

(Source: © ASH)

### **Extract 3 Tobacco smuggling and government regulations**

Around 20% of all tobacco smoked in the UK is smuggled into the country and the government loses more than £2 billion a year in potential tax revenue. High tobacco taxes are blamed for creating the illegal trade. The trade is dominated by criminal gangs who can import into the country more than 10 million cigarettes in just one lorry container load.

5

However, some of the highest levels of smuggling were found in Spain and Italy, two countries with the lowest tax rates on tobacco.

There has also been an increase in the manufacture of counterfeit tobacco products. Many counterfeit cigarettes are hard to distinguish from genuine brands and often consist of even more harmful chemical compounds. Government plans to force tobacco companies to use plain packaging may make it easier to produce counterfeit cigarettes.

10

A government smoking ban imposed on enclosed public spaces since 2007 has coincided with more than 1 500 pubs and bars closing down each year.

(Source: © ASH)

**8** Outline the likely impact on consumer surplus and producer surplus in the tobacco market of a decrease in demand for tobacco. Illustrate your answer with a supply and demand diagram.

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**(Total for Question 8 = 6 marks)**

**END OF SECTION B**