

General Certificate of Education  
June 2003  
Advanced Subsidiary Examination



**ECONOMICS**  
**Unit 3 Markets at Work**

**ECN3**

Friday 6 June 2003 Morning Session

**In addition to this paper you will require:**  
an 8-page answer book.  
You may use a calculator.

Time allowed: 1 hour

**Instructions**

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN3.
- Choose **one** of the Options and answer **all** parts of the question on that Option.

**Information**

- The maximum mark for this paper is 40.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

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Choose **one** of the Options and answer **all** parts of the question on that Option.

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**OPTION 1: THE HOUSING MARKET**

**1**

**Total for this question: 40 marks**

Study **Extracts A and B**, and then answer **all** parts of Question 1 which follows.

**Extract A: Why we're changing rooms, not houses**

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**Extract B: What you could be adding to the value of your home this weekend (as a percentage of the cost of the project)**

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*Question 1*

- (a) Define the term ‘Retail Price Index’ (**Extract A**, lines 19-20). *(3 marks)*
- (b) What might be the opportunity costs of undertaking a DIY project? *(4 marks)*
- (c) Explain why ‘uncertainty about the future direction of house prices, and worries over the economy’ (**Extract A**, lines 8-9) might discourage people from moving house. *(8 marks)*
- (d) With the help of a supply and demand diagram, explain how a trend towards DIY, instead of moving house, could affect the market for houses. *(10 marks)*
- (e) Identify **and** evaluate the private and external costs and benefits of a movement towards DIY among homeowners. *(15 marks)*

**Turn over ►**

**OPTION 2: THE ENVIRONMENT**

2

**Total for this question: 40 marks**

Study **Extracts C and D**, and then answer **all** parts of Question 2 which follows.

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*Question 2*

- (a) Define the term ‘economic efficiency’ (**Extract C**, line 19). *(3 marks)*
- (b) What might be the opportunity costs of the government setting up a system of road pricing to reduce congestion and pollution? *(4 marks)*
- (c) Explain why traffic congestion might be described by an economist as a sign of market failure. *(8 marks)*
- (d) With the help of a demand diagram, explain how the effectiveness of a system of road pricing would depend upon price elasticity of demand. *(10 marks)*
- (e) Identify **and** evaluate the environmental and economic consequences of the road pricing system described in **Extracts C and D**. *(15 marks)*

**Turn over ►**

**OPTION 3: THE ECONOMICS OF SPORT AND LEISURE**

3

**Total for this question: 40 marks**

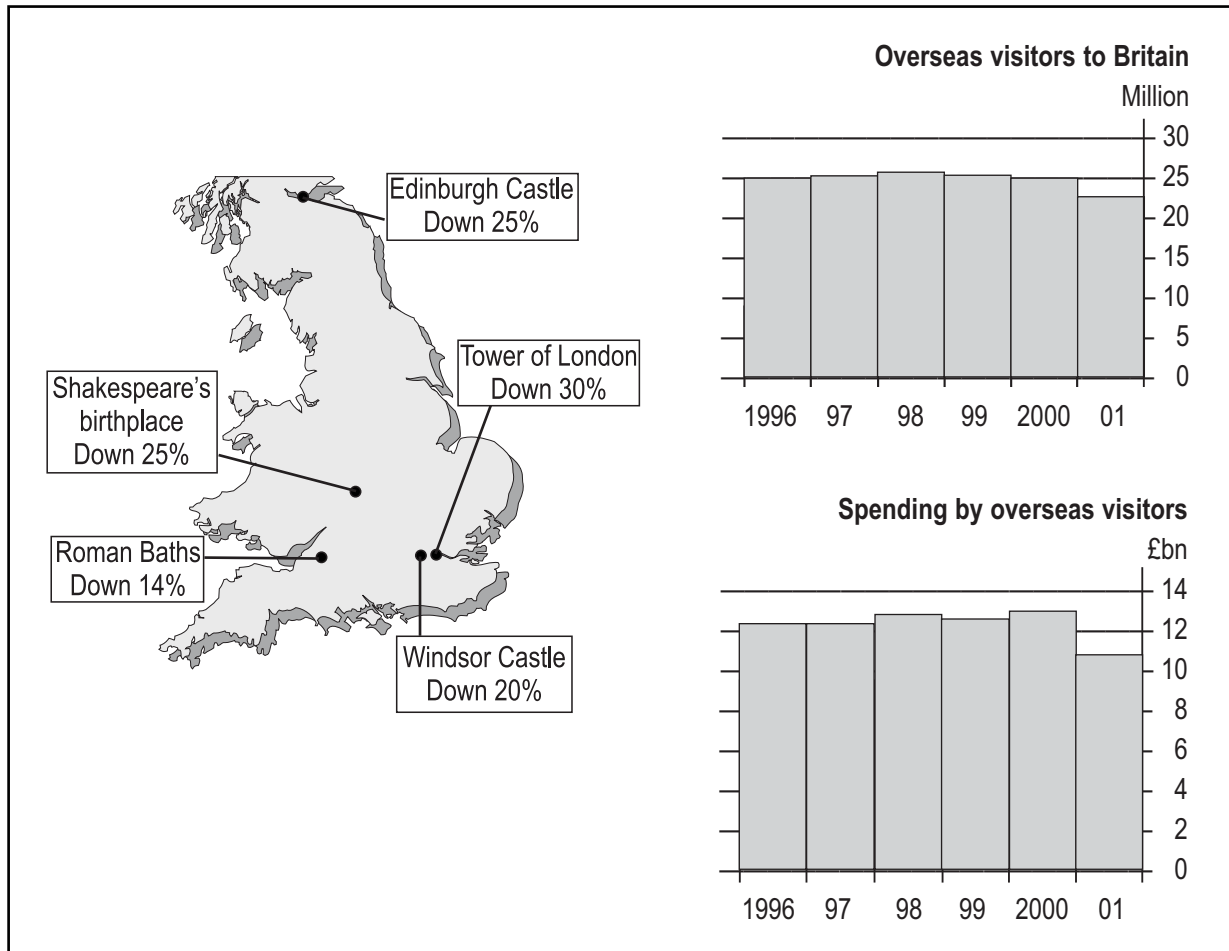
Study **Extracts E and F**, and then answer **all** parts of Question 3 which follows.

**Extract E: Tourist industry faces £2.5 billion losses**

Britain will lose £2.5bn in potential overseas earnings this year, and could take up to four years to recover, because of the combined effects of the foot-and-mouth crisis and the terrorist attacks in the USA.	1
The British Tourist Authority (BTA) yesterday suggested that the flow of visitors from the particularly important US market would be severely cut and that it would focus most of its short-term marketing on Europe. Meanwhile, it would monitor the US for changes in consumer confidence.	5
The British government's tourism minister said the government would do all it could to reassure people about air travel. He said there was no point in marketing the UK to the US at the moment, and the industry was being sensible in redirecting £60m of public funds allocated to the BTA and the English Tourist Council.	10
David Quarmby, the BTA chairman, predicted that the downturn in travel was likely to lead to the loss of 75 000 jobs in inbound tourism, which normally employs 400 000.	
The effects on the city of Bath provide an example of the recession caused by the fall in overseas visitors. With its Georgian elegance and Roman heritage, Bath is one of the worst affected cities outside London. Like the capital and a handful of cities, including Oxford, Cambridge, Stratford and Edinburgh, Bath strongly relies on overseas visitors. A wave of cancellations from the US and elsewhere since the September 11 attacks has resulted in a 20 per cent fall in hotel occupancy rates. The Roman Baths and Pump Room has suffered a 14 per cent drop in visitors. The attraction, the sixth most popular historic attraction in England, was already down by 9 per cent on last year due to the effects of foot-and-mouth and the strong pound.	15 20
However, there are signs of an upturn in the domestic market, with people taking advantage of the bargain breaks now available, and the head of heritage services for Bath and north-east Somerset has said that the city council will focus on the home market.	25

*Source: adapted from an article by SCHEHERAZADE DANESHKHU, Financial Times, 27 September 2001*

### Extract F: Visitor numbers plummet



Source: adapted from an article by SCHEHERAZADE DANESHKHU, *Financial Times*, 27 September 2001

#### Question 3

- (a) Define the term 'recession' (**Extract E**, line 14). (3 marks)
- (b) Suggest why the USA is regarded as a 'particularly important' market for the British tourist industry (**Extract E**, line 5). (4 marks)
- (c) Explain how 'the strong pound' (**Extract E**, line 22) can affect the domestic tourist industry. (8 marks)
- (d) With the help of a supply and demand diagram, explain how a decline in US tourist numbers has led to domestic tourists being offered 'bargain breaks' (**Extract E**, line 24). (10 marks)
- (e) Identify **and** evaluate the reasons for the government and local councils spending taxpayers' money on promoting tourism. (15 marks)

### END OF QUESTIONS

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