General Certificate of Education
June 2004
Advanced Subsidiary Examination

ECONOMICS **ECN1/2**
Unit 1 Part 2 Data Response: Markets and Market Failure

Monday 14 June 2004 Morning Session

In addition to this paper you will require:
- an 8-page answer book;
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: 1 hour for papers ECN1/1 and ECN1/2 together

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 ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information
- The maximum mark for this paper is 25.
- 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.

Advice
- You are advised to spend at least 45 minutes on paper ECN1/2.

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

1 **Total for this question:** ***25 marks***

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

Extract A: The price of natural rubber, 1960-1999

This was a graph. It has not been reproduced here due to third-party copyright constraints.

Extract B: The rise and fall of a buffer stock scheme for natural rubber

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Question 1

(a) Using **Extract A**, compare the changes in the price of natural rubber before and after 1979. *(4 marks)*

(b) **Extract B** (lines 6–7) states that "INRO tried to stabilise the price of natural rubber, at the level achieved in 1979, by operating a buffer stock scheme".

With the help of a supply and demand diagram, explain how the price of natural rubber might be stabilised in a buffer stock scheme. *(6 marks)*

(c) Using the data and your economic knowledge, assess the case **for** and **against** market forces determining the prices of agricultural goods such as natural rubber, without any intervention by governments or buffer stock agencies. *(15 marks)*

TURN OVER FOR THE NEXT QUESTION

OR

2 **Total for this question:** ***25 marks***

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

Extract C: Admissions to selected museums before and after the abolition of admission charges in 2002; the price elasticity of demand for museum visits

This was a table. It has not been reproduced here due to third-party copyright constraints.

Extract D: The effect of abolishing admission charges to national museums

In 2002, following more favourable tax treatment by the Government, many museums, including those shown in **Extract C**, abolished admission charges. Charges had been introduced in the 1980s when government subsidies were frozen. Some museums do not wholly welcome free admission, feeling that the surge in visitors puts pressure on staffing and maintenance costs. At the Victoria and Albert (V&A) Museum, there are queues everywhere. A visitor, slumped at a messy table in the café, says: "A great museum, but a lousy cup of coffee". And museums argue: "Free admission is not enough; we are still under-funded and don't have enough money to buy objects to add to our collections".

Critics retort that, instead of complaining, museums should earn more 'per visitor per square metre'. They should also learn from famous stores by opening shops at international airports to sell copies of their objects and guides.

Most of the 'new' visitors are people who have always visited museums, making shorter but more frequent trips. To encourage poorer people to visit museums, barriers other than entry price should be looked at. The benefits of free admission are being felt mostly in the south-east, where the major collections are concentrated, and not in the regions. The director of a small regional museum says: "Charges have been ended for fortunate London residents and foreign tourists, but museums like mine still have to charge and are suffering".

Question 2

(a) Define price elasticity of demand **and** briefly compare the price elasticities of demand for museum visits, shown in **Extract C**, following the abolition of admission charges. *(4 marks)*

(b) With the help of demand curve diagrams, and using the information in the data, explain **two** possible reasons why the increase in the number of visitors was greater for some museums than others. *(6 marks)*

(c) Using the data and your economic knowledge, assess the case **for** and **against** providing free entry to museums. *(15 marks)*

END OF QUESTIONS

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Extract A: Based on data from International Rubber Study Group
Extracts A and B: © The Economist Newspaper Limited, London (16 December 1999)