

General Certificate of Education  
June 2004  
Advanced Subsidiary Examination



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

**ECN3**

Monday 14 June 2004 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.

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

### OPTION 1: THE HOUSING MARKET

1

Total for this question: 40 marks

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

#### Extract A: Desperate shortage of new homes on market

New houses are in desperately short supply in Swansea. Average prices have smashed through the £100 000 barrier and some new homes have more than 30 people queuing to buy. New figures from house builders Barratt show the average price for one of the company's homes is now £139 600. In Swansea, a four-bedroom Barratt home will sell for at least £120 000. Barratt's figures show an 8 per cent price increase on the previous year for new homes sold. Meanwhile, pre-tax profits rose by 23.3 per cent, and the UK has seen the lowest number of new houses being built for 50 years. 1 5

Barratt group chairman, Frank Eaton, said: "General economic conditions, such as consumer confidence, remain favourable; coupled with this, there is a shortfall in housing supply, which means that prices are continuing to rise. Across the South Wales region, there is a range of developments in areas where there appears to be a shortage of new houses, including Cardiff, Swansea and Powys." 10

Chris Davies, manager of the Swansea branch of the estate agency Peter Alan Ltd, said: "There are not enough new houses being built to satisfy demand". Mr Davies said that there were two groups of people particularly interested in buying new or nearly new homes. "First time buyers can move in with no deposit paid to homes that are carpeted and lawned. All they have to do is buy furniture on five year interest-free credit", he said. "Also, there are people who work in banks or as computer engineers and so on who move around quite regularly. They don't want to buy an old house and do it up if they're moving on in six months' time." 15

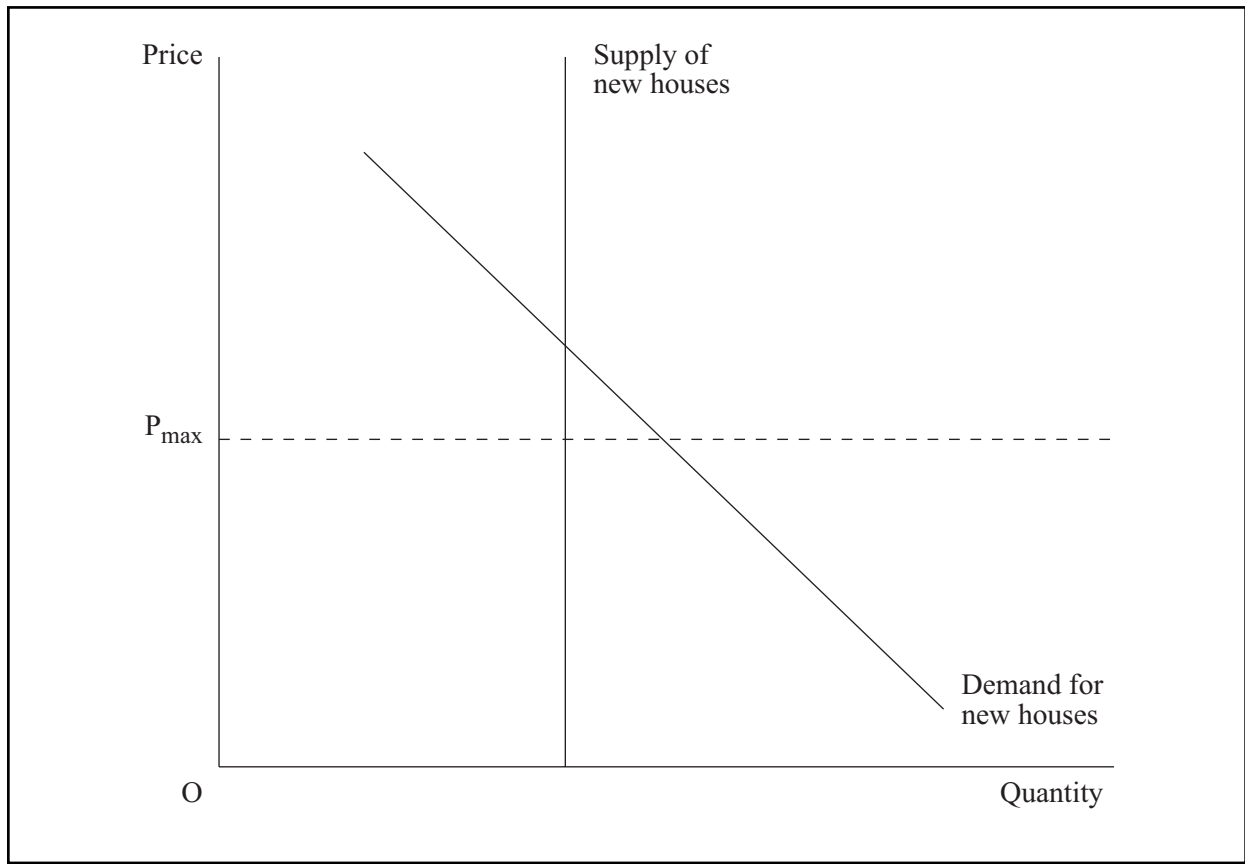
Source: adapted from RICHARD AUTY, *South Wales Evening Post*, 27 September 2002

#### Extract B: House prices go through the roof in South Wales – official

Want a house in Cardiff? It'll cost you £109 769. New figures released today by the biggest financial institution in Wales claim that's the average price of a home in the Welsh capital. But research by the Principality Building Society has a warning for home owners – the housing boom might not last long. The company's chief executive, Peter Griffiths, said: "It is pretty obvious that 16.8 per cent average growth is not a figure that can be sustained for any length of time". 1 5

He also said that South Wales was seeing the emergence of 'hotspots' in the property market, where house prices in some areas have risen by well over the regional average.

Source: adapted from CHRIS BECKETT, *South Wales Echo*, 2 January 2003

**Extract C***Question 1*

- (a) How would an economist define the term “shortage” (**Extract A**, line 11)? (3 marks)
- (b) Use the concept of price elasticity of supply to predict the effect on house building of “an 8 per cent price increase on the previous year for new homes sold” (**Extract A**, line 5). (4 marks)
- (c) Apart from “consumer confidence”, identify **two** “general economic conditions” that can affect the housing market (**Extract A**, lines 8–9) and explain their effects. (8 marks)
- (d) Suppose that a group of housebuilders in a certain locality are told that in order to improve the affordability of houses, none of them can charge more than an agreed maximum price for a new house for the next few years. This maximum price is shown as  $P_{\max}$  in **Extract C**. Reproduce **Extract C** in your answer book.

Making use of the diagram, analyse the consequences of this policy for the local market for new housing. (10 marks)

- (e) Explain why governments might regard housing as a merit good **and** evaluate the economic **advantages** and **disadvantages** of government intervention in the housing market. (15 marks)

Turn over ►

**OPTION 2: THE ENVIRONMENT**

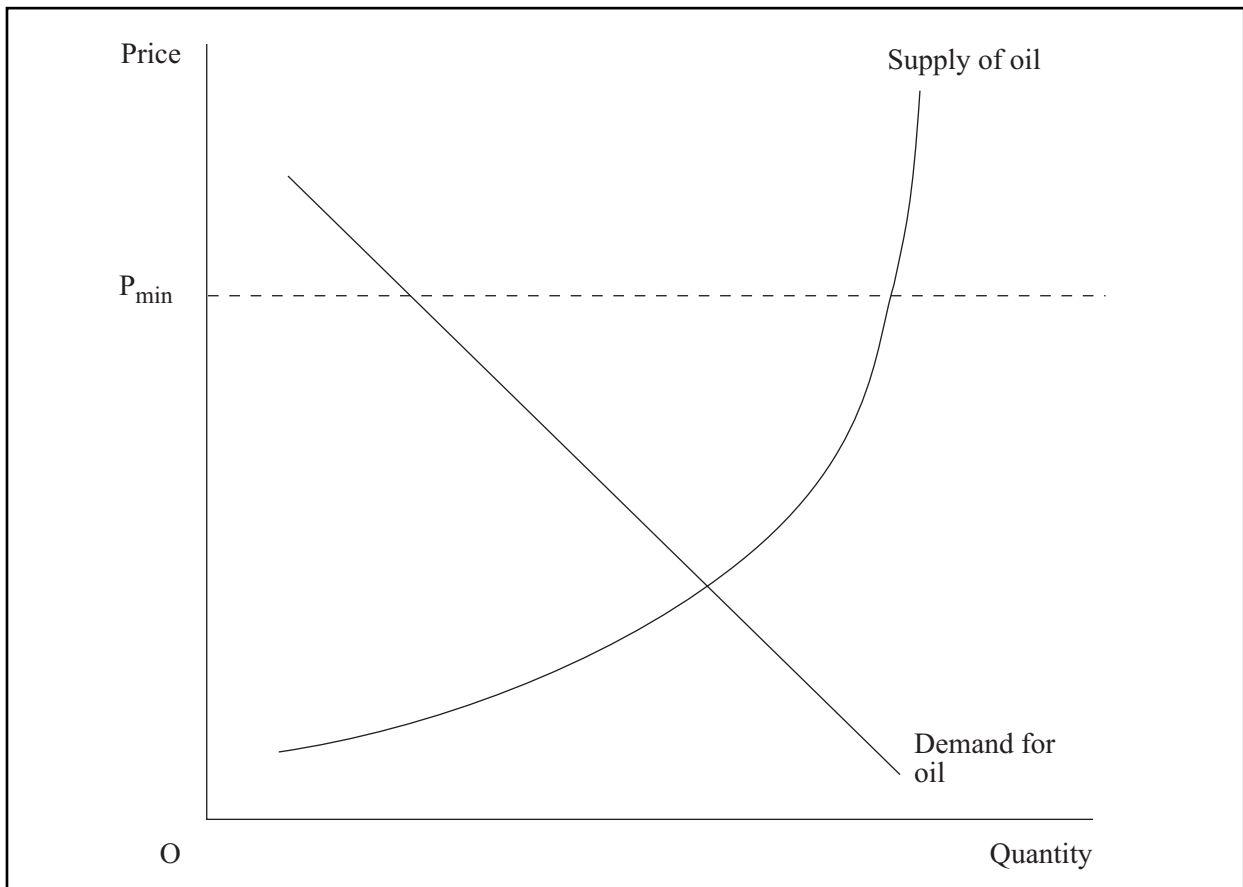
2

**Total for this question: 40 marks**

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

**Extract D: We will pay the price for believing the world has infinite resources**

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**Extract E***Question 2*

- (a) How would an economist define the term “economic growth” (**Extract D**, lines 1–2)? (3 marks)
- (b) Use the concept of opportunity cost to explain the importance of “finite resources” (**Extract D**, lines 6 & 22) to the economy. (4 marks)
- (c) Explain why it is possible to have economic growth while the quality of life decreases (**Extract D**, lines 1–4). (8 marks)
- (d) Suppose that the major oil producers agree that in order to conserve supplies of oil, none of them will charge less than an agreed minimum price for the next few years. This minimum price is shown as  $P_{\min}$  in **Extract E**. Reproduce **Extract E** in your answer book.

Making use of the diagram, analyse the consequences of this policy for the market for oil.

(10 marks)

- (e) Explain why the rapid depletion of natural resources might be viewed as a market failure **and** evaluate the **advantages** and **disadvantages** of government intervention to correct such a failure.

(15 marks)

**Turn over** ►

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**OPTION 3: THE ECONOMICS OF SPORT AND LEISURE****3****Total for this question: 40 marks**

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

**Extract F: Supporters promised a new Wembley**

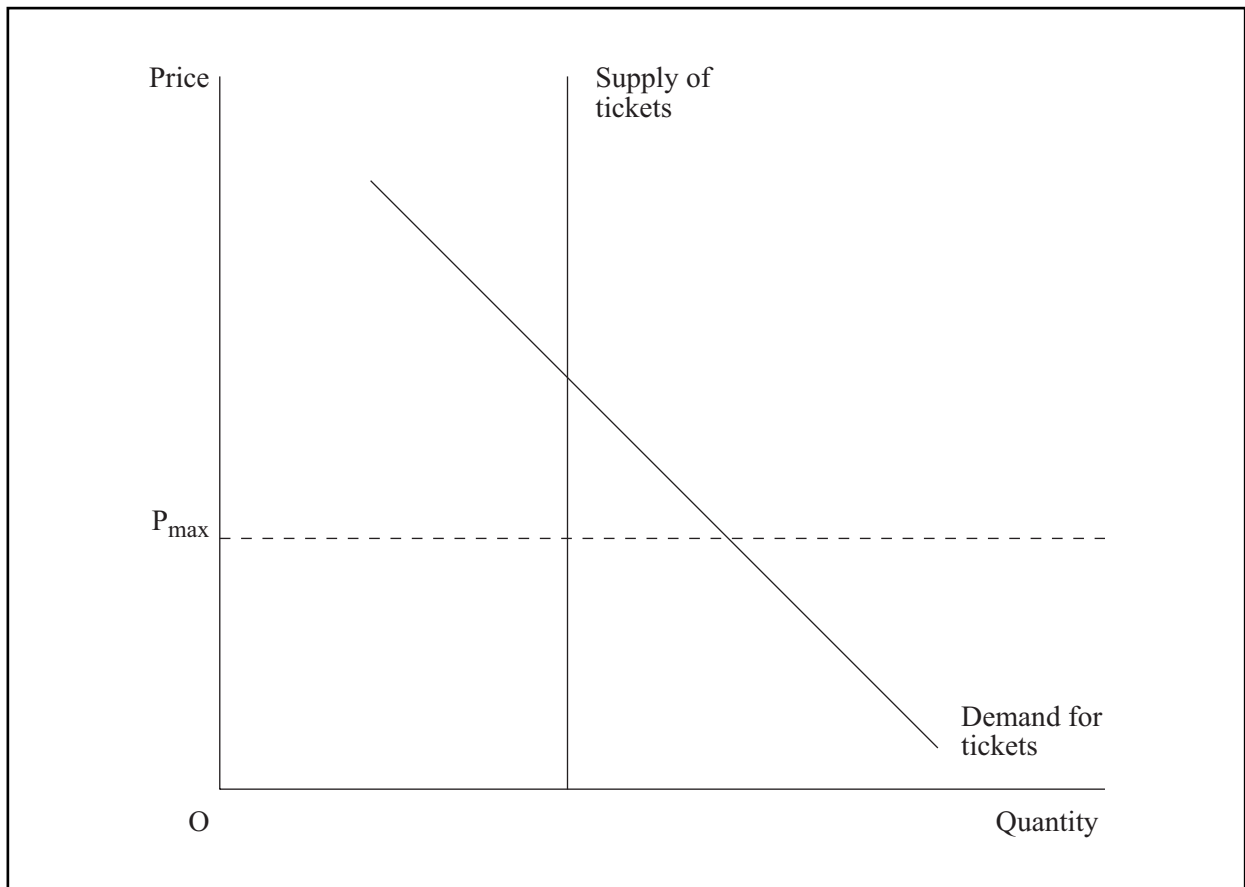
The FA Cup Final, League Cup and playoffs will return to the new Wembley in 2006, as will Rugby League. It remains the case, however, that not much athletics will be seen there. No facility has yet been agreed, and UK Athletics regards the stadium as too big for an event other than a World Championship. Music promoters are more enthusiastic. One said yesterday: “Wembley used to rock and this town has missed a venue like it”. The Rolling Stones might yet play Wembley again, if they can stagger on until it reopens.	1 5
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**Extract G: The full price of new Wembley is revealed**

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**Extract H: Yet another Wembley inquiry is about to start**

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**Extract I***Question 3*

- (a) How would an economist define the term “boom” (**Extract G**, line 14)? *(3 marks)*
- (b) Corporate ticket buyers are likely to be willing to pay higher prices than ‘ordinary’ fans. Use the concept of price elasticity of demand to suggest why this might be so. *(4 marks)*
- (c) Explain how the success of the stadium might be affected “if the economy moves from boom to recession” (**Extract G**, line 14). *(8 marks)*
- (d) Suppose all tickets are sold at the same price. The horizontal line  $P_{\max}$  in **Extract I** assumes that the “pleasant surprise” (**Extract G**, line 17) is a policy of charging a lower price for seats than the market equilibrium price. Reproduce **Extract I** in your answer book.

Making use of the diagram, analyse the consequences of this policy for the market for tickets.

*(10 marks)*

- (e) Identify the **costs** and **benefits** of a ‘national’ stadium **and** evaluate the view that government involvement is desirable in the building of such a project. *(15 marks)*

**END OF QUESTIONS**

**THERE ARE NO QUESTIONS PRINTED ON THIS PAGE**

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Extract H: © The Guardian, [www.guardian.co.uk/wembley](http://www.guardian.co.uk/wembley) , accessed 6 January 2003

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