

General Certificate of Education
January 2005
Advanced Subsidiary Examination



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

Tuesday 18 January 2005 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:

Extract A was a map.
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Extract B:

Extract B was an extract of text.
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Question 1

- (a) With the help of an example from **Extracts A or B**, explain the meaning of the term “division of labour” (**Extract B**, line 10). *(4 marks)*
- (b) Explain how the division of labour may reduce costs of production and increase competitiveness. *(6 marks)*
- (c) Using the data and your economic knowledge, evaluate the case for **and** against a government trying to correct market failures, such as those resulting from the immobility of labour, negative externalities and greater income inequality, following the closure of factories. *(15 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

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: Estimated cross elasticities of demand for wine

	Price of beer	Price of spirits
Cross elasticity of demand for wine	-1.69	+0.66

Source: adapted from the Institute for Fiscal Studies, Briefing Note, The Revenue Effect of Changing Alcohol Duties, by ZOË SMITH, November 1999

Extract D:

Extract D was an extract of text.

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Question 2

- (a) Define cross elasticity of demand, **and** compare the cross elasticities of demand that are shown in **Extract C**. *(4 marks)*
- (b) With the help of a supply and demand diagram, explain the statement in **Extract D** (line 15) that “the effectiveness of higher taxes on alcohol depends on its price elasticity of demand”. *(6 marks)*
- (c) Evaluate the view that raising the legal drinking age to 21 will be more effective than other methods mentioned in **Extract D** for reducing the harmful effects of alcohol. *(15 marks)*

END OF QUESTIONS

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