

General Certificate of Education
June 2005
Advanced Subsidiary Examination



ECONOMICS
Unit 3 Markets at Work

ECN3

Friday 10 June 2005 Afternoon 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 and B**, and then answer **all** parts of Question 1 which follows.

Extract A:

Extract A was an extract of text.
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Extract B:

Extract B contained two graphs.
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Question 1

- (a) Define the term “base interest rates” (**Extract A**, line 2). *(3 marks)*
- (b) The number of households in Britain is increasing at a much faster rate than the size of the population.

State and explain **one** of the “long run changes in Britain’s economy and society” (**Extract A**, line 12) that might have caused this trend. *(4 marks)*
- (c) Using the concept of income elasticity of demand to help you, explain how “short term house prices are driven by earnings and affordability” (**Extract A**, lines 25 and 26). *(8 marks)*
- (d) With the help of a supply and demand diagram, explain the possible effects on house prices of a major housebuilding programme in the South East. *(10 marks)*
- (e) “Rising house prices are good for the economy, while falling prices are bad.” Identify and evaluate the arguments **for** and **against** this view. *(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.

Extract C:

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Extract D

Proven world oil reserves (billions of barrels of oil)		Estimates of world oil and gas reserves remaining in 2003 (equivalent to billions of barrels of oil)	
Year			
1982	676.6	Uppsala team	3 500
1992	1006.7	IPCC (lower estimate)	5 000
2002	1047.7	IPCC (upper estimate)	18 000

Question 2

- (a) Define the term “renewable resources” (**Extract C**, lines 9–10). *(3 marks)*
- (b) State and explain **one** reason why economists might “disagree” (**Extract C**, line 21) with geologists about the availability of oil deposits. *(4 marks)*
- (c) Using the concept of derived demand, explain why oil is important not just for the transport industry, but also for the economy as a whole. *(8 marks)*
- (d) With the help of a supply and demand diagram, explain the effect on the market for oil of the “production crunch” (**Extract C**, lines 1 and 15). *(10 marks)*
- (e) Discuss whether the problem of falling oil reserves can be solved by market forces, or whether government intervention is necessary. *(15 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

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

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

Extract E:

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Extract F:

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Extract G: EasyJet prices

Price of a one-way fare, Bristol–Barcelona, if booked by internet on Monday, 5 January 2004 (all dates in January 2004, tax not included)			
Date of travel	Price	Date of travel	Price
Tues 6	£71.49	Tues 13	£16.49
Wed 7	£51.49	Wed 14	£21.49
Thur 8	£41.49	Thur 15	£26.49
Fri 9	£41.49	Fri 16	£41.49
Sat 10	£31.49	Sat 17	£26.49
Sun 11	£31.49	Sun 18	£26.49
Mon 12	£26.49	Mon 19	£16.49

Question 3

- (a) Define the term “social costs” (**Extract F**, line 15). *(3 marks)*
- (b) Explain how a “multiplier” effect (**Extract F**, lines 7 and 12) can arise. *(4 marks)*
- (c) Explain possible ways in which price elasticity of demand can help to account for the patterns in the prices quoted in **Extract G**. *(8 marks)*
- (d) With the help of a supply and demand diagram, explain why Travelodge reduces its prices at some locations at certain times of the week or year (**Extract E**, lines 4–6). *(10 marks)*
- (e) Discuss arguments **for** and **against** the government increasing taxes on the travel and leisure industries. *(15 marks)*

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE

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