

General Certificate of Education
June 2007
Advanced Subsidiary Examination



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

Friday 8 June 2007 1.30 pm to 2.30 pm

For this paper you must have:

- an 8-page answer book
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: the total time for papers ECN1/1 and ECN1/2 together is 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 ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

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

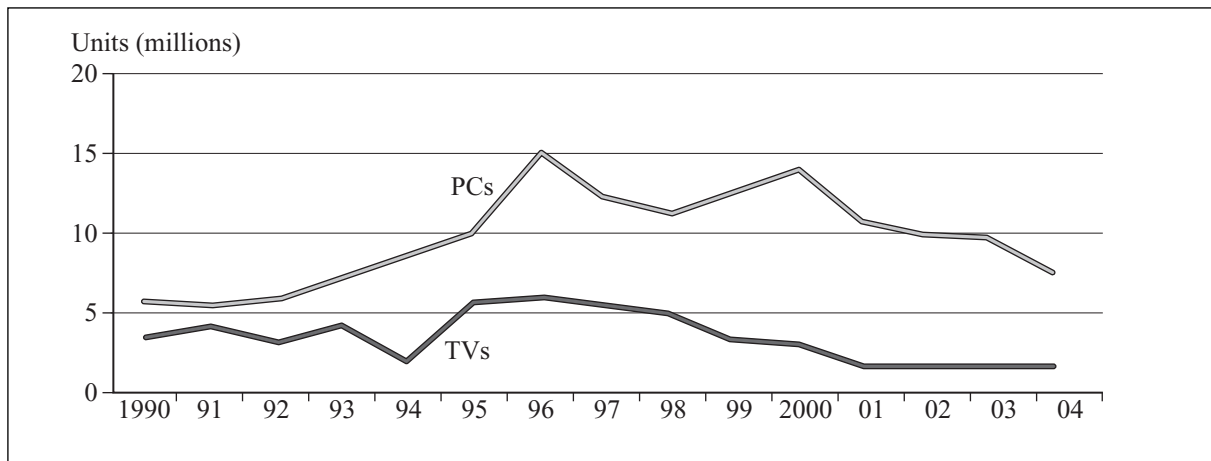
Answer **EITHER** Question 1 **OR** Question 2.

EITHER

Total for this question: 25 marks

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

Extract A: UK production of televisions (TVs) and personal computers (PCs), 1990 to 2004



Source: Intellect; adapted from the *Financial Times*, 20 January 2006

Extract B: Televisions go flat

Extract B was an extract of text.

It has not been reproduced here due to third-party copyright constraints.

Extract C: The end of TV production in the UK?

Most flat-screen televisions (TVs) are made in low-wage nations in Asia and eastern Europe, where the world's leading TV manufacturers have invested heavily in the past five years. This has had a big impact on TV manufacturing in the UK. In 1996, UK factories, mostly owned by Japanese firms such as Sony, produced one in three of all the TVs made in the European Union. Almost all these TVs were based on old technology. But TV manufacturers have shown little interest in investing in factories that make flat-screen TVs in the UK. Instead, they have switched manufacturing to low-wage nations such as China. The number of TVs made in the UK has fallen to about 1 million. Driven by similar pressures, the UK has seen a similar drop in the output of other types of consumer electronics goods, for example personal computers and mobile phones.	1 5 10
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Source: adapted from an article by PETER MARSH in the *Financial Times*, 20 January 2006

Question 1

- (a) Using **Extract A**, compare the changes in the production of televisions (TVs) with the changes in the production of personal computers (PCs) in the UK during the period 1990 to 2004. (4 marks)

- (b) The prices of flat-screen TVs have fallen in recent years.

With the help of a supply and demand diagram and the information in **Extracts B and C**, explain why this has occurred. (6 marks)

- (c) The closure of factories may lead to market failures, such as those resulting from the immobility of labour, negative externalities, greater income inequality and uncompetitive markets.

Using the data and your economic knowledge, evaluate the case **for** and **against** the government subsidising firms producing TVs in the United Kingdom in order to prevent such market failures. (15 marks)

Turn over for the next question

Turn over ►

OR

Total for this question: 25 marks

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

Extract D: Changes in the price of crude oil (\$ per barrel) and the annual rate of change of air fares (%)

Extract D is a graph.

It has not been reproduced here due to third-party copyright constraints.

Extract E: Factors affecting the demand for air travel

<p>There are many factors which affect the demand for air travel. One is the availability of alternative modes of transport. The shorter the distance travelled, the more likely it is that there will be close substitutes. A second factor is that the cost of air travel tends to be a smaller proportion of overall trip costs for international travel than for domestic travel because the length of the stay away from home is usually much greater. A third factor is that tourists are much more likely to put off trips to specific locations when faced with high fares. They are more likely to shop around and choose to go to destinations to which they can get cheap flights.</p>	<p>1 5</p>
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Extract F: Dealing with aircraft emissions

It is probably not widely appreciated that the level of emissions from the UK air transport industry shows an extraordinary rise in a small number of years. Merely between 1990 and 2002, greenhouse gas emissions from the UK air industry doubled, from approximately 20 million tonnes to nearly 40 million tonnes.	1
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Here is a remarkable fact. On current rates of growth, UK air emissions will exceed all UK car and lorry emissions by 2020. This brings us to two features of the future. One is that very high tax levels will be needed, either directly on flights themselves or on airplane fuel. The other is that we must eventually replace the fossil fuels burned by planes. Therefore some clean alternative is needed.	5
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Source: adapted from an article by ANDREW OSWALD, published in *Accountancy Magazine*, February 2005

Question 2

- (a) Using **Extract D**, compare the changes in the annual rate of change of air fares with the changes in the price of oil during the period 2002 to 2005. *(4 marks)*

- (b) **Extract E** mentions three factors that influence the demand for air travel.

Define price elasticity of demand **and** explain how **two** of the factors in **Extract E** can affect the price elasticity of demand for air travel. *(6 marks)*

- (c) Lines 8 to 9 of **Extract F** state that ‘we must eventually replace the fossil fuels burned by planes. Therefore some clean alternative is needed.’

Using the data and your economic knowledge, evaluate the case **for** and **against** relying on the market mechanism to produce clean alternative sources of energy that can replace fossil fuels such as oil and coal. *(15 marks)*

END OF QUESTIONS

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