

Centre No.						Paper Reference						Surname	Initial(s)	
Candidate No.						6	3	5	1	/	0	1	Signature	

Paper Reference(s)

6351/01

Edexcel GCE

Economics

Advanced Subsidiary

Unit 1 – Markets: how they work

Friday 9 June 2006 – Afternoon

Time: 1 hour

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
Section A	
Section B	
Total	

Materials required for examination
Nil

Items included with question papers
Nil

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initials and signature. Check that you have the correct question paper.

Answer ALL the questions in Section A in the spaces provided in this question paper.

- For each question there are four suggested answers: A, B, C or D.
- When you have selected your answer to the question, write the chosen letter in the box provided.
- You can only offer one answer to each question.
- After making your selection you should offer an explanation of why you have made that choice. Your explanation may include a diagram.

Answer ONE question from Section B in the spaces provided in this question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). The paper is divided into two sections, A and B; both sections are equally weighted, with the total mark on Section A divided by two. The total mark for this paper is 40. There are 20 pages in this question paper. Any blank pages are indicated.

Advice to Candidates

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, including your use of grammar, punctuation and spelling. You are advised to divide your time equally between Section A and Section B.

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SECTION A

Answer ALL questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You are advised to spend 30 minutes on this section.

You are encouraged to use a diagram in your explanation where appropriate.

1. Indonesia was one of the countries most affected by a tsunami (tidal wave) in the Indian Ocean on 26 December 2004. The most likely economic impact is
 - A an outward shift of its production possibility frontier.
 - B an inward shift of its production possibility frontier.
 - C a movement from inside its production possibility frontier to the boundary.
 - D a decrease in prices of most goods because scarcity has increased.

(a) **Answer** **(1)**

(b) **Explanation**

(4)

(Total 5 marks)

Q1



Leave blank

2. The UK is increasingly specialising in service sector industries while China is increasingly specialising in manufacturing sector industries. One reason for these trends is that

- A China and the UK wish to become more self-sufficient.
- B Both countries can benefit by trading with each other.
- C Chinese manufacturing firms will only gain by selling in their domestic market.
- D China has a comparative advantage in service sector industries.

(a) Answer

(1)

(b) Explanation

(4)

(Total 5 marks)

Q2



Leave blank

3. One reason why there are mixed economies is that

- A the free market economy allocates resources efficiently.
- B the profit motive acts as a disincentive to new businesses to enter or leave an industry.
- C competition is always undesirable.
- D the free market economy can lead to an unequal income distribution.

(a) Answer

(1)

(b) Explanation

(4)

(Total 5 marks)

Q3



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4. Between 1994 and 2003 UK households' real disposable income rose by nearly 31 per cent, while spending on food increased by 3 per cent in real terms.

Which of the following is suggested by this information?

- A The demand for food is income elastic.
- B The demand for food is price inelastic.
- C The income elasticity of demand for food is negative.
- D The demand for food is income inelastic.

(a) **Answer**

(1)

(b) **Explanation**

(4)

(Total 5 marks)

Q4



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5. The following data represent demand and supply schedules for new potatoes over a given period of time. You may use the right-hand column to show your workings.

Price per kilo (£)	Quantity demanded (£)	Quantity supplied (kilos)	Quantity supplied after tax (kilos)
8	500,000	900,000	
7	600,000	800,000	
6	700,000	700,000	
5	800,000	600,000	
4	900,000	500,000	

If the government introduces a tax of £2 per kilo, the new equilibrium price will be

- A £8.
B £7.
C £6.
D £5.

(a) Answer

(1)

(b) Explanation

(4)

Q5

(Total 5 marks)



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6. A student spends £150 on giving a birthday party for some of his friends. The opportunity cost of the party to him may be represented by
- A the presents he receives from his friends.
 - B the enjoyment he gets from the party expressed in monetary terms.
 - C the DVDs on which he would otherwise have spent the £150.
 - D the financial cost he incurs in clearing up after the party.

(a) Answer

(1)

(b) Explanation

(4)

(Total 5 marks)

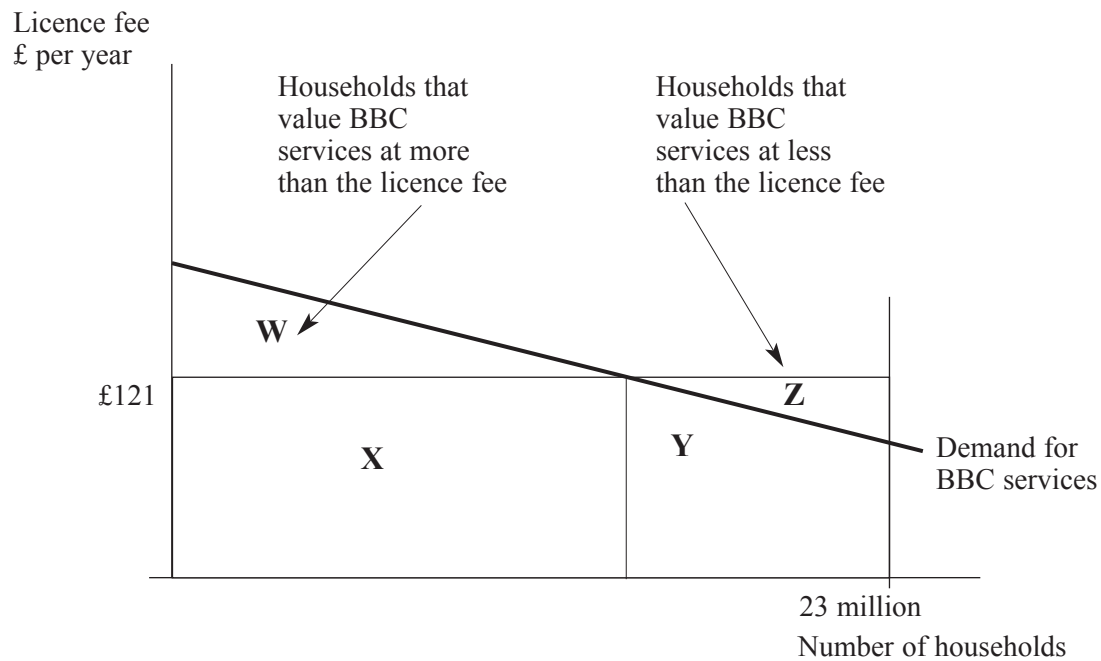
Q6



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7.

Source: *The Independent*, 10 December 2004

23 million households have TV licences in the UK. (Each household with a television must buy an annual licence priced at £121, the revenue from which goes to the BBC.)

It can be deduced from the diagram that the **net** consumer surplus is

- A $W - Z$
- B $W + X + Y - Z$
- C W
- D $W + X + Y$

Please write your answer and explanation on the next page.



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(a) **Answer**

(1)

(b) **Explanation**

(4)

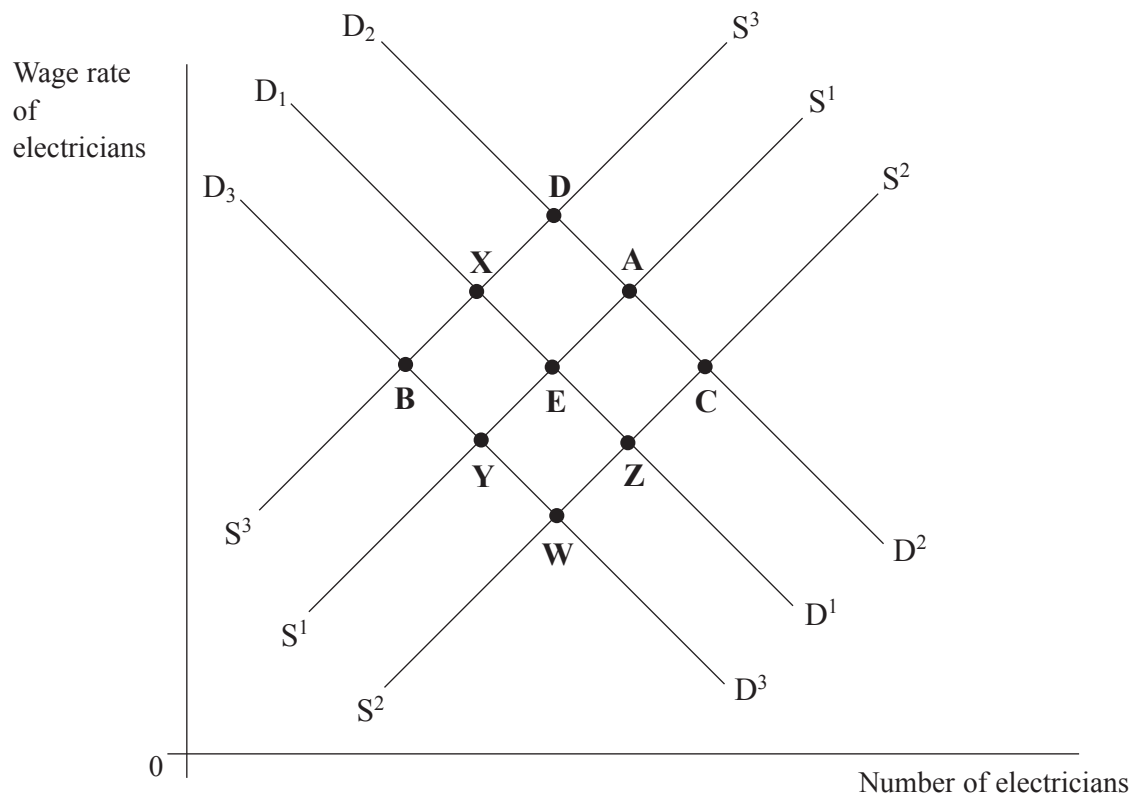
Q7

(Total 5 marks)



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8. The £10 billion Crossrail project, providing new rail links across central London, will require the services of hundreds of electricians over the next ten years. At the same time, there is likely to be a significant fall in the number of school leavers training to be electricians. If the initial equilibrium point is E, which of the points A, B, C, D shows the likely new equilibrium position in the labour market?



(a) Answer

(1)

(b) Explanation

(4)

Q8

(Total 5 marks)

TOTAL FOR SECTION A: 40 MARKS



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M 2 2 2 4 5 A 0 1 1 2 0

SECTION B**Answer EITHER Question 9 OR Question 10.****Write your answers in the spaces provided.****Indicate which question you are answering by marking the box (☒). If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).****You are advised to spend 30 minutes on this question.****If you answer Question 9 put a cross in this box ☒ .****Question 9****Car Prices**

China's economic boom has led to a global shortage of steel. This has caused Nissan to halt production at three of its car plants. Corus, the Anglo-Dutch steelmaker, is expected to raise the price of steel to the car industry by an average of 20 per cent in the next few weeks. A typical car may require more than 770 kg of steel.

Car manufacturers are now likely to increase prices in response to these higher steel prices and also because of an increase in energy costs. Glass's, the car market analyst, has forecast an early rise in car prices of 2.5 per cent. However, a spokesman for Nissan said 'We want to avoid passing the increased costs on to the consumer just yet, not least because the retail car market is so competitive'.

The best news for both steelmakers and car producers is that the major companies mining iron ore, a major ingredient in steel, are keen to expand output. However, this cannot happen immediately. The three largest mining companies, which together dug some 400 million tonnes in 2003, could be extracting 600 million tonnes in 2008.

Source: adapted from *The Times*, 4 January 2005, and *The Economist*, 8 January 2005



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If you answer Question 10 put a cross in this box

Question 10 **The Market for Gold, Silver and Diamonds**

Gold is the most beautiful of all precious metals. However, its price has risen from \$387.80 a troy ounce in November 2003 to \$433.60 in November 2004 and experts are predicting that demand for gold jewellery is about to fall.

Two factors have played a significant role in causing the increased price of gold. During 2004 there was the biggest fall in gold production since the Second World War and this was combined with a 5 per cent increase in the demand for gold in manufacturing, most of it in jewellery production.

The soaring price of gold has had a knock-on effect on the prices of silver and diamonds. Early warning signs of a gloomy future for Britain's jewellers came from Tiffany's, the jewellery company, which announced that its third quarter earnings were only £11.1 million compared with £16.2 million from the same period last year.

Source: adapted from *The Independent*, 15 November 2004, and *The Times*, 17 January 2005

(a) (i) Explain the term *cross elasticity of demand*.

(2)



Leave blank

(6)

Q10

(Total 20 marks)

TOTAL FOR SECTION B: 20 MARKS

TOTAL FOR PAPER: 40 MARKS

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