

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 16 January 2009 – Morning

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, initial(s) and signature.

Check that you have the correct question paper.

Answer ALL 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 are 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. *Statement One*

“The rise in oil prices above \$100 a barrel will result in a slower rate of economic growth.”

Statement Two

“The government should intervene to prevent further increases in oil prices.”

- A Statement One is positive and statement Two is normative.
- B Statements One and Two are both positive.
- C Statement One is normative and statement Two is positive.
- D Statements One and Two are both normative.

(a) **Answer** (1)

(b) **Explanation**

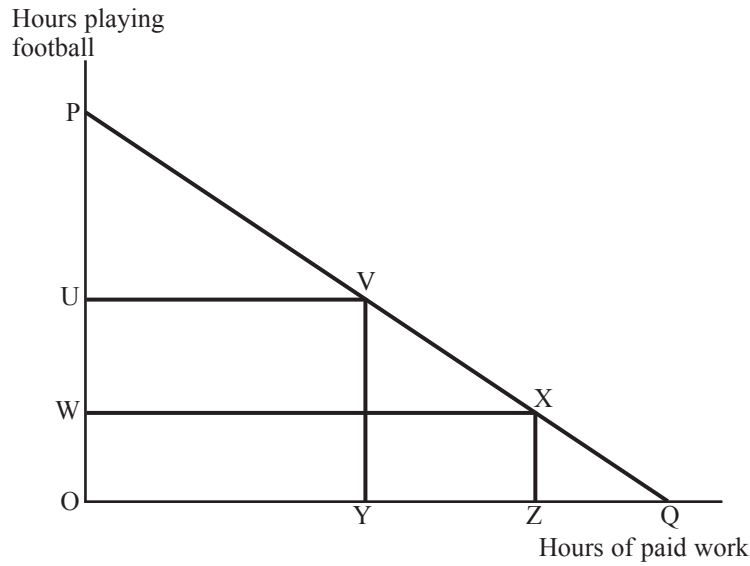
(4)

Q1

(Total 5 marks)



2.



The line PQ shows how Greg allocates all available hours per week between time playing football and paid work. What is the opportunity cost of Greg deciding to move from point V to X?

- A O–Z.
- B Y–Z.
- C O–U.
- D U–W.

(a) Answer

(1)

(b) Explanation

(4)

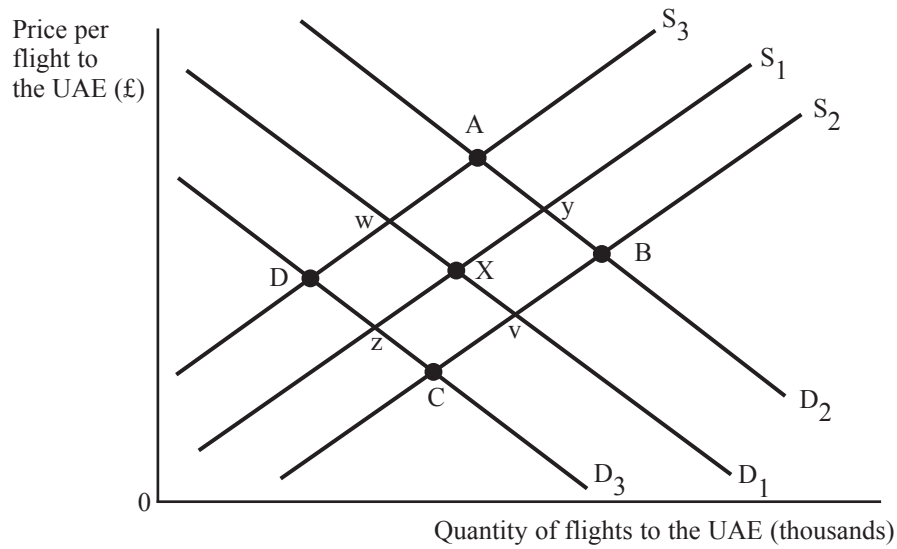
(Total 5 marks)

Q2



3.

Market for flights to the United Arab Emirates (UAE)



The diagram shows the demand for and supply of flights to the United Arab Emirates (UAE) from the UK.

The government raises taxes on flights out of the United Kingdom, whilst the UAE tourist board embarks on a successful advertising campaign.

If the initial equilibrium point is X, which of the following points, A, B, C, D shows the likely new equilibrium point for the flights?

(a) Answer

(1)

(b) Explanation

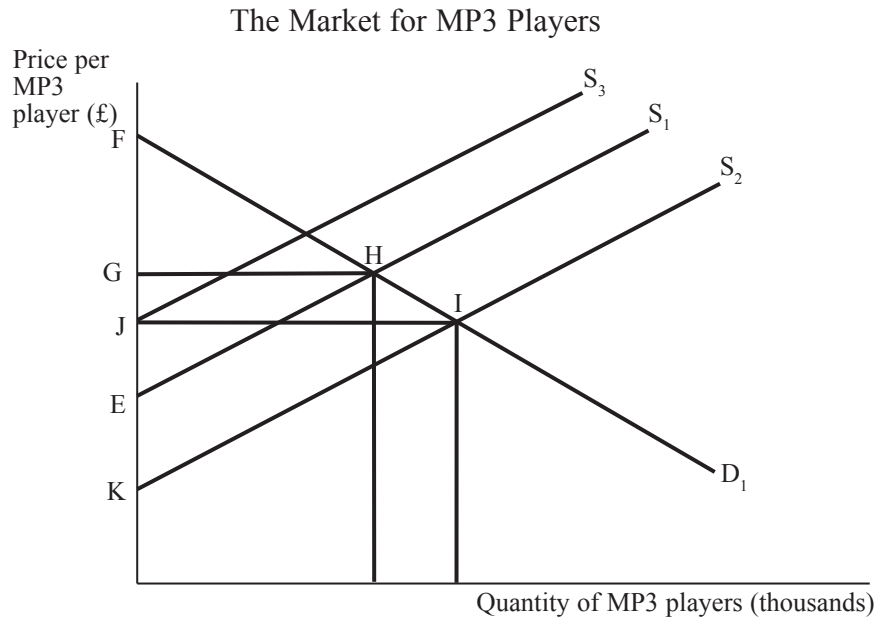
(4)

Q3

(Total 5 marks)



4.



The diagram shows the demand and supply for MP3 players, where the initial equilibrium position is point H. Following a decrease in the cost of manufacturing MP 3 players, what area represents the change in consumer surplus?

- A FHG.
- B KIJ.
- C GHIJ.
- D FIJ.

(a) **Answer**

(1)

(b) **Explanation**

(4)

(Total 5 marks)

Q4



5. The price elasticity of supply of fresh lemons is likely to be

- A negative and elastic in the short run.
- B negative and elastic in the long run.
- C positive and inelastic in the short run.
- D positive and inelastic in the long run.

(a) Answer

(1)

(b) Explanation

(4)

(Total 5 marks)

Q5



6. If average income rises by £1000 it is estimated that the demand for cars rises by proportionately more than the demand for pasta. This suggests that
- A the cross price elasticity of demand for cars and pasta is positive.
 - B the income elasticity of demand for cars is greater than for pasta.
 - C the price elasticity of demand for cars is greater than for pasta.
 - D cars and pasta are inferior goods.

(a) **Answer**

(1)

(b) **Explanation**

(4)

(Total 5 marks)

Q6



7. The increase in the London Congestion Charge from £5 to £8 has resulted in a fall in the number of car journeys and an increase in the demand for bus journeys. This suggests that, with respect to the price of car journeys, the cross elasticity of demand for bus journeys is

- A negative.
- B price elastic.
- C price inelastic.
- D positive.

(a) Answer

(1)

(b) Explanation

(4)

(Total 5 marks)

Q7



8. A shop sells 500kg of tea at £9 per kg. A tax of £3 per kg is imposed, raising the market price to £10. Sales fall to 300kg.

What happens to the revenue of the shop after the tax is paid?

- A Falls by £1500.
- B Falls by £2400.
- C Rises by £500.
- D Falls by £2100.

(a) Answer

(1)

(b) Explanation

(4)

(Total 5 marks)

Q8

TOTAL FOR SECTION A: 40 MARKS



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 about an answer, 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

Extract 1

Global tyre shortage

Times have never been better for the mining industry. Driven by increasing demand from an industrialising China, the industry is awash with billions of pounds. Yet the reverse side of the boom is that every aspect of mining infrastructure, after years of under-investment, is under strain from the race to dig up everything from iron ore to coal.

Perhaps nowhere is this strain more acute than in the supply of one of the most ordinary yet crucial components that keeps the global mining industry rolling: tyres for huge dump-trucks and other mining machinery. 5

Bridgestone, the biggest provider of “super-giant” tyres, warned that the shortage of tyres would last until 2012. This shortage is so acute that the price of tyres has risen from \$30,000 in 2005 to three times as much in 2007. 10

“With a current worldwide shortage of large mining machinery tyres, truck tyres can exceed \$90,000,” said Anthony Kocken, manager of Xstrata’s Black Star Open Cut mine in Australia. It is not uncommon for new dump trucks to be delivered to a site without tyres, sitting idle for weeks or months until their wheels arrive.

The cost of explosives used in mining has also rocketed, while at ports, ships are having to line up single file to take on fresh loads. 15

Rising costs, however, have been outstripped by the near record current prices across a whole range of commodities. Morry Taylor, the head of Titan International, a US tyre manufacturer, explained: “In [Canada’s] tar sands, with oil at \$80 per barrel, a \$3m dump truck pays for itself in 30 days.” 20

Source: Adapted from *Global tyre shortage threatens to stop mining industry in its tracks* by Danny Fortson, *The Independent*, 24 December 2007



(b) Discuss the impact of rising ‘super-giant’ tyre prices on the mining industry.

Horizontal lines for writing the answer.

(6)



If you answer Question 10 put a cross in this box .

Question 10 **Pressure mounting on rice supplies**

British importers of Himalayan basmati rice expect that prices will increase even further as stocks fail to meet increasing demand. The wholesale price of basmati has almost doubled in the past year, because of a poor harvest and increasing demand for the rice grown only in northern India and Pakistan.

Jonathan Calland, an executive of Tilda, the biggest British importer, said: “We are looking at further price increases.” After a weak harvest and a big price increase last year, the company had hoped for a recovery in supply. 5

Mr Calland said: “With a price increase of 55 per cent in March, one would have anticipated more basmati would be sown, but we saw a small reduction.”

In India, the wholesale price has leapt from about £13.85 per 100kg to £25.18 in just over a year, but even these massive gains have not proved enough of an incentive for Indian farmers to plant more rice, Mr Calland says. 10

In Britain rice is being rationed by shopkeepers in Asian neighbourhoods to prevent hoarding. Tilda said that its buyers were restricting customers to two bags per person.

Other countries are profiting from the boom in the rice market: in January and February, Vietnam, one of the world’s largest exporters, made \$150 million through rice exports, an increase of nearly 80 per cent from a year ago. 15

The cultivation of basmati is very labour-intensive and yields between one and two tonnes per hectare, compared with six tonnes for rival grains. Wheat has also doubled in price and farmers are switching to higher-yielding and more profitable crops. 20

Source: Adpated from *Pressure mounting on Basmati supplies* by Carl Mortished, *The Times*, 17 December 2007, *Rice supplies to fall to 25 year low* by Rhys Blakely, *The Times* 13 March 2008 and *Food crisis: rationing introduced in bid to protect rice supplies* by Suzy Jagger and David Charter, *The Times*, 24 April 2008



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