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| Centre No. | | | | | | Paper Reference | | | | Surname | Initial(s) | | |
| Candidate No. | | | | | | 6 | 3 | 5 | 2 | / | 0 | 1 | Signature |

Paper Reference(s)

6352/01

Edexcel GCE

Economics

Advanced Subsidiary

Unit 2 – Markets: why they fail

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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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 EITHER Question 1 OR Question 2 in the spaces provided in this question paper.
 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 (⊗).

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2).
 There are 2 questions in this question paper. 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 spend the first 10 minutes reading the paper. In calculations you are advised to show all the steps in your working.

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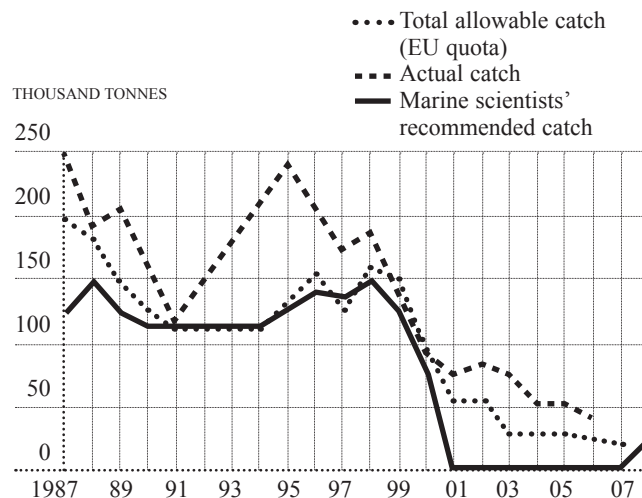
Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box .

Question 1

Declining Fish Stocks

Figure 1: North Sea Cod



Source: *The Independent* 27 November 2007

Extract 1

European Fisheries Policy

The Food and Agriculture Organisation says that nearly 70 per cent of the world's fish stocks are now over-fished. The Grand Banks off Newfoundland, Canada, once swarmed with cod so large that it was said you could step on them to reach the shore. In 2002 the fishery was closed because the cod had been "fished out". It remains closed to this day.

Under the European Union's Common Fisheries Policy, the European Commission sets maximum allowable catches. However, a report found that the actual level of catches is "unknown", thanks to "gaps, errors and mis-statements" in data sent to Brussels by national governments. Most rule-breakers are not caught; those caught are seldom punished; and the few punished face very small fines. Schemes to reduce overcapacity in fishing fleets have been ineffective. This has severe consequences. A survey of the north-east Atlantic found 81 per cent of fish stocks to be dangerously over-exploited. Nevertheless, the fishing industry is to be given subsidies which could be used to finance fuel costs of fishing vessels. This will lead to more intensive use of vessels, which may initially increase profits. However, in the medium and long term the increased effort will cause a further depletion of fish stocks, decreasing catches and reducing profitability.

About a fifth of the world's fish landings are illegal and the proportion is increasing, adding to the problem of declining fish stocks, scientists have said.

Further, thousands of tonnes of dead fish are dumped back in the sea because the boats have reached their EU quotas. The EU estimates that between 40 and 60 per cent of fish caught each year is thrown over the side.



The European Commission usually proposes quotas which are larger than those recommended by its scientific advisers (see Figure 1). National ministers then expand the quotas once again. In recent years, the final numbers have been 50 per cent higher than the scientists advised. And then the national fishing fleets break even these agreed limits on catches.

25

Some 600,000 tonnes of cod were being caught in the North Sea in 1980 and as recently as 1995 around 250,000 tonnes were being caught. However, in six years that figure had dropped to 80,000 tonnes and by 2006 it had dropped to under 44,000 tonnes – 7 per cent of the 1980 total and almost double that allowed by the EU quota.

Arguments about how to control national fishing fleets miss the biggest point. A bolder reform would be to create a European market in fishing rights, in which efficient skippers could buy, sell and rent tradable quotas, used in places like New Zealand. These quotas would set an upper limit on the amount of fish to be caught in a year. They would be sold by the EU and could then be traded between fishing boat owners. Fishing boat owners wishing to catch more fish than their quota could buy additional permits from others willing to sell. Alternative solutions include a system based on limiting the number of days trawlers can go to sea or a tax on fish for sale in shops.

35

Source: adapted from *The Independent* 21 November 2007 and *The Economist* 13 December 2007.



M 3 4 1 5 1 A 0 3 2 0

(a) Giving examples, outline the private costs and private benefits to fishermen engaged in commercial fishing.

(6)

(b) Why does over-fishing occur? Refer to the concept of property rights in your answer.

(4)



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(e) With reference to the last paragraph of Extract 1, evaluate tradable quotas **and** a tax on fish as methods of conserving fish stocks.

Lined area for student response



If you answer Question 2 put a cross in this box .

Question 2

Extract 1

The expansion of higher education

Higher education in the UK has expanded far faster than the ability of taxpayers to pay for it. Gone are the days when only the elite aspired to university: some 40 per cent of the age group now go on to higher education.

Higher education has traditionally been free in Britain. As student numbers increased and government support remained much the same, funding per student fell by 36 per cent in real terms between 1989 and 1997. A tuition fee of £1 000 a year (but not required from poor students) was introduced in 1998. Five years later, in a move intended to shake up higher education as well as pay for it, the maximum fee was increased to £3 000 from 2006 (with individual universities having the freedom to set their fees up to this maximum). Students were offered loans and universities were told to provide bursaries for poor students. Universities continue to receive a government subsidy of £4 000 per student per year, as well as much higher fees from foreign students, money from research contracts and income from endowments. But these do not cover the costs of the top universities: Oxford, for example, reckons that on average it costs more than £12,000 per year to teach an undergraduate.

Source: adapted from *The Economist* 1 February 2007



Extract 2**The economic benefits of a degree**

The introduction of tuition fees of up to £3 000 a year for full-time undergraduates in England has revitalised the debate about the benefits of a degree to the individual. The findings of research commissioned by Universities UK confirm that there are significant economic benefits (as well as substantial non-financial advantages) to obtaining a degree and these amount to an additional £160,000 over a working lifetime compared with an individual with two or more A-levels. This represents a difference of up to 25 per cent between the two groups. At the same time the report recognises that these figures will vary according to degree subject, qualification type and age of obtaining the qualification. Further, the benefits to individuals from possession of higher education qualifications increase as they get older. However, no account was taken of the actual cost of doing a degree – the lost earnings opportunities during the period of study and the amount paid in tuition fees. For example, the costs of taking a medical degree are significantly higher than those of a three-year Arts degree course.

The financial benefits also vary according to socio-economic background: men from lower socio-economic groupings and families with relatively lower family income do particularly well from attaining higher education qualifications.

Another important conclusion of the research is the fact that there has been no erosion of the financial benefit of a degree even though there has been a substantial increase in the supply of graduates over the last 15 years. There has been a matching increase in demand in the economy for highly trained individuals. In Britain's knowledge-based economy there is every prospect that this demand will continue to grow in the future.

The report states that the accumulation of human capital is a core determinant of the long-term economic growth of the UK economy and the production of high calibre graduates adds to wealth and prosperity of the nation and its inhabitants.

Figure 1: Gross additional lifetime earnings by degree subject compared to two or more GCE A-levels; 2000–2005

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|-------------------------------|-----------------|
| Medicine | £340,135 |
| Engineering | £243,730 |
| Business & Finance | £184,694 |
| Education | £114,935 |
| Humanities | £51,549 |
| Arts | £34,494 |

Source: The Economic Benefits of a Degree; Universities UK 2007



M 3 4 1 5 1 A 0 1 1 2 0

(a) Giving examples, outline the private costs to a student taking a degree course.

(4)

(b) (i) With reference to Extract 2, outline the private benefits of higher education to an individual.

(4)



(b) (ii) With reference to Extract 2 and Figure 1, explain factors which influence the size of the private benefits from a degree course.

(6)



(d) Apart from external benefits, analyse **two** reasons for state funding of universities.

(6)



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(e) Assess the case for allowing universities to increase tuition fees for undergraduate courses.

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(8)

Q2

(Total 40 marks)

TOTAL FOR PAPER: 40 MARKS

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