

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS

2881

THE MARKET SYSTEM

Friday

9 JUNE 2006

Afternoon

1 hour

Additional materials:

Designated Answer Booklet [2881/AB]

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

Write all your answers on the separate answer booklet provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

This question paper consists of 4 printed pages.

Answer **all** parts of this question in the accompanying answer booklet.

Making choices

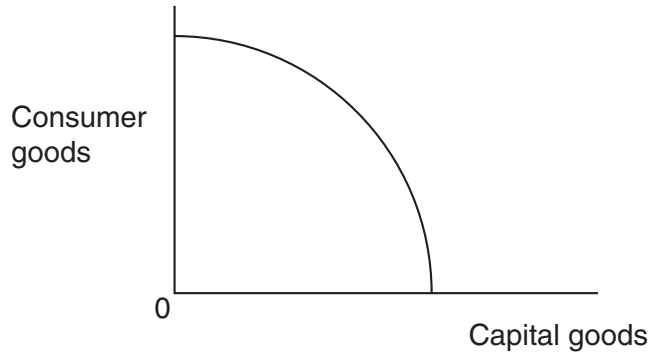
Economists have to deal with many aspects of the 'economic problem'. This problem affects the ways in which individuals, firms and governments behave.

Most of the decisions that are taken require choices to be made. Economists use a variety of techniques to analyse why choices have to be made, as well as the causes and consequences of these choices. These techniques include:

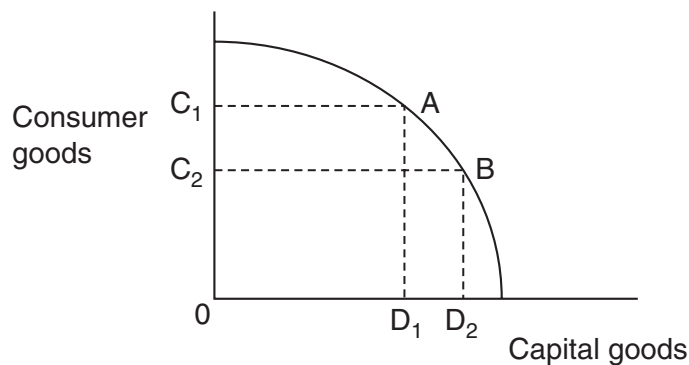
- diagrams such as a Production Possibility Curve (PPC);
- statistical data such as demand schedules;
- investigations, for example, into the actual behaviour of firms in different market structures.

Taken together, these techniques constitute part of the economist's tool kit. This provides an appropriate means for analysing and evaluating how choices are made.

- (a) (i) Describe the 'economic problem'. [2]
- (ii) Explain how the economic problem can be applied to you as a consumer. [2]
- (b) (i) Briefly describe what is meant by a Production Possibility Curve (PPC) for an economy. [2]



- (ii) On the diagram in your answer booklet, show the effect of an advance in technology on the economy. Explain what this means for this economy. [3]
- (iii) Explain how the diagram below can be used to show the concept of opportunity cost. [4]



- (c) The schedule below shows the market demand for the product of a monopoly.

Price per unit (£)	Quantity demanded per week (millions)
6	2
5	3
4	4
3	5
2	6

- (i) Define the term 'demand'. [2]
- (ii) Market research has estimated that, as price falls from £5 to £4 per unit, the price elasticity of demand is $(-)$ 1.0.

Is this consistent with the data in the schedule above? Explain your answer. [2]

- (d) Discuss whether price is always the most important determinant of demand for a product. [6]
- (e) (i) Explain what is meant by consumer surplus. [2]
(ii) Using a diagram, explain the effect that a fall in the price of a product will have on consumer surplus. [5]
- (f) (i) State three characteristics of a monopoly. [3]
*(ii) Discuss the extent to which monopoly is a realistic market structure. [12]