

373/01

ECONOMICS – EC3

A.M. WEDNESDAY, 18 January 2006

(1¼ hours)

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **any two** questions.

INFORMATION FOR CANDIDATES

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

You are reminded of the necessity for good written communication and orderly presentation in your answers.

Answer **two** questions.

1. **VAT COULD BE EXTENDED TO FOOD PRODUCTS.**

- (a) Define consumer surplus and with the aid of a diagram explain how a sales tax could affect its size. [10]
- (b) Examine the view that the burden of a sales tax always falls mainly on consumers. [10]

2. **ROAD TOLLS INEVITABLE ON MAJOR UK MOTORWAYS.**

- (a) Explain, using examples, why pollution, congestion and noise are consequences of market failure. [10]
- (b) What are the advantages **and** disadvantages of road tolls as a policy for reducing motorway congestion? [10]

3. **UK GDP PREDICTED TO GROW BY 1.9% PER YEAR BETWEEN 2006 AND 2020.**

- (a) Explain what is meant by the circular flow of income and how changes in injections and withdrawals might affect Gross Domestic Product (GDP). [10]
- (b) To what extent will a rise in interest rates affect economic growth and inflation? [10]

4. **£8.5 BILLION EXTRA INVESTMENT IN EDUCATION OVER THE NEXT THREE YEARS.**

- (a) Explain what is meant by private goods, public goods and merit goods. [10]
- (b) Discuss the view that students taking degrees at universities should pay for the full cost of their courses through tuition fees. [10]

5. **GOVERNMENT COMMITTED TO A FLEXIBLE LABOUR MARKET AND HIGHER PRODUCTIVITY.**

- (a) Explain, with the aid of diagrams, the shape of the aggregate supply curve and the factors that could cause it to shift position. [10]
- (b) To what extent does a national minimum wage create a more flexible and productive labour market? [10]

6. **JAPAN HEIGHTENS TRADE TENSION WITH \$85M TARIFFS ON GOODS FROM THE USA.**

- (a) With the aid of a diagram, explain why governments impose tariffs on imports. [10]
- (b) Evaluate policies, other than tariffs, that could be introduced to reduce the value of imports into a country. [10]