

Candidate Name	Centre Number	Candidate Number

WELSH JOINT EDUCATION COMMITTEE
 General Certificate of Education
 Advanced Subsidiary/Advanced



CYD-BWYLLGOR ADDYSG CYMRU
 Tystysgrif Addysg Gyffredinol
 Uwch Gyfrannol/Uwch

371/01

ECONOMICS – EC1

P.M. FRIDAY, 9 June 2006

(45 minutes)

Examiner's Use Only

TOTAL MARK	
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DO NOT OPEN THIS BOOKLET UNTIL YOU ARE TOLD TO DO SO.

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions in the spaces provided. You may use continuation paper on page 9 if necessary, taking care to number the continuation correctly.

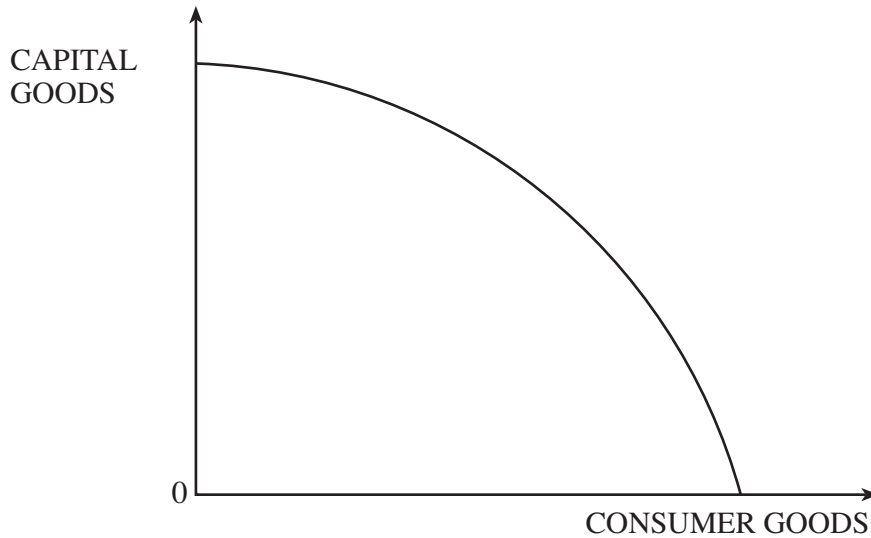
INFORMATION FOR CANDIDATES

Mark allocations are shown in brackets. This paper has a total of 50 marks.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

Answer **all** the questions in the spaces provided.

- 1. The diagram below shows the production possibility frontier for a country which produces only capital goods and consumer goods.



Explain how the production possibility frontier above can be used to illustrate (a) limited resources and (b) opportunity cost.

- (a) Limited resources. [2]

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- (b) Opportunity cost. [2]

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- 2. An early economist, Adam Smith, suggested that individually one worker could produce ten pins in one day. However, in a pin factory where ten workers each performed only one task in the pin making process total output would be 48,000 pins per day.

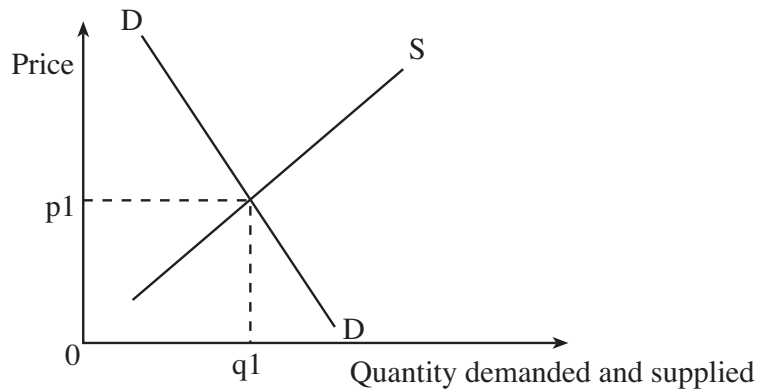
- (a) What is the method of production called where each worker performs only one task in the production process? [1]

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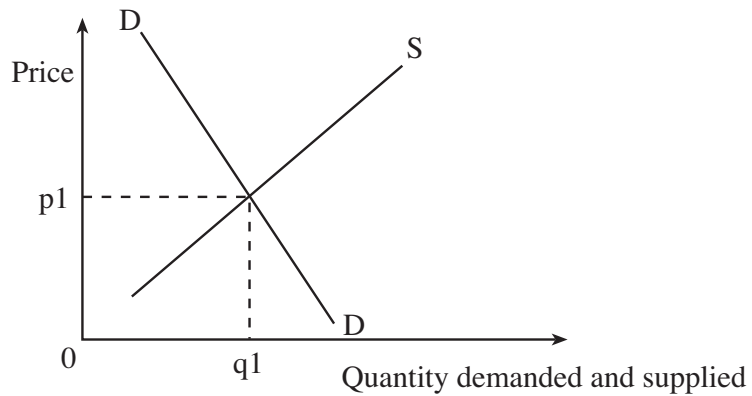
- (b) What is the new level of productivity following the introduction of the above method of production? [1]

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3. (a) The demand and supply diagram below shows the market equilibrium for a normal good. Adapt the diagram to show the effect of a per unit subsidy paid to producers. [2]



- (b) The demand and supply diagram below shows the market equilibrium for a normal good. Adapt the diagram to show the effect of a fall in income. [2]



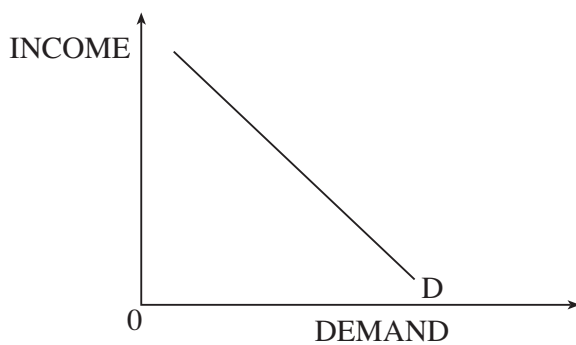
4. (a) Explain what is meant by income elasticity of demand. [2]

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- (b) Comment on the income elasticity of demand of the product shown in the diagram below. [2]



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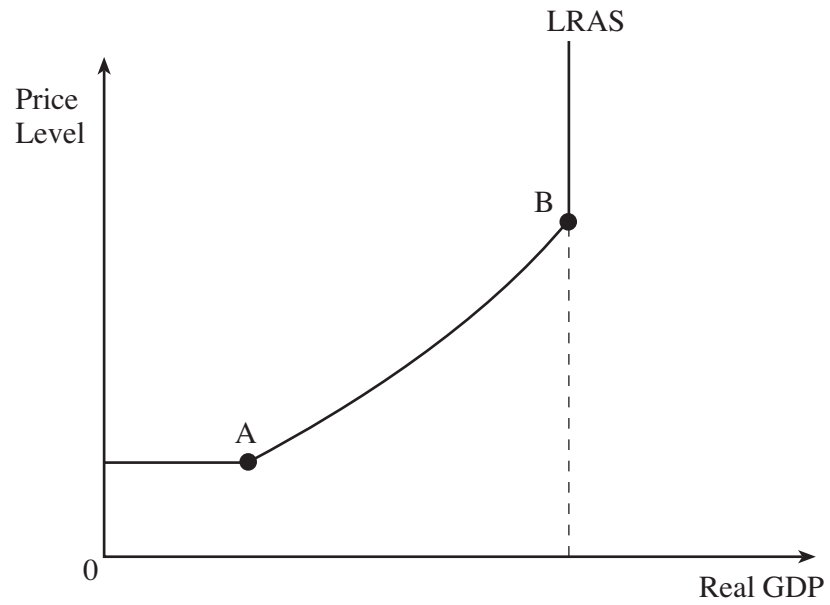
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5. (a) Explain the slope of long-run aggregate supply curve, shown in the diagram below, **between points A and B.** [3]



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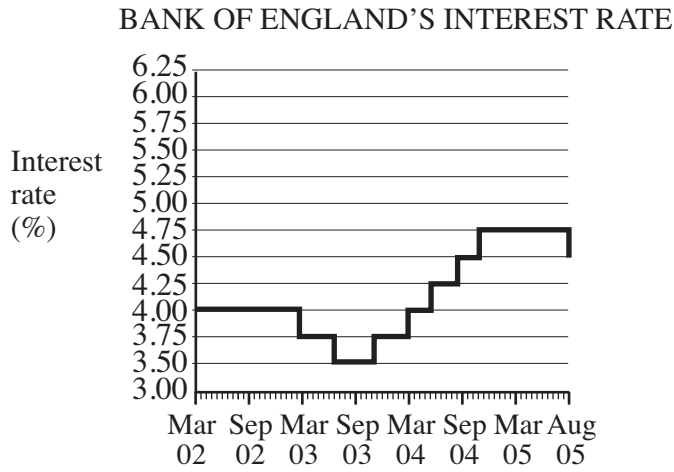
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- (b) Identify **two** factors that could cause the long-term aggregate **supply** curve to shift to the right. [2]

(i)

(ii)

6. BANK CUTS INTEREST RATES TO 4.5% (4 August 2005)



Source: Bank of England

- (a) With the aid of the data, explain the role of the Monetary Policy Committee of the Bank of England. [4]

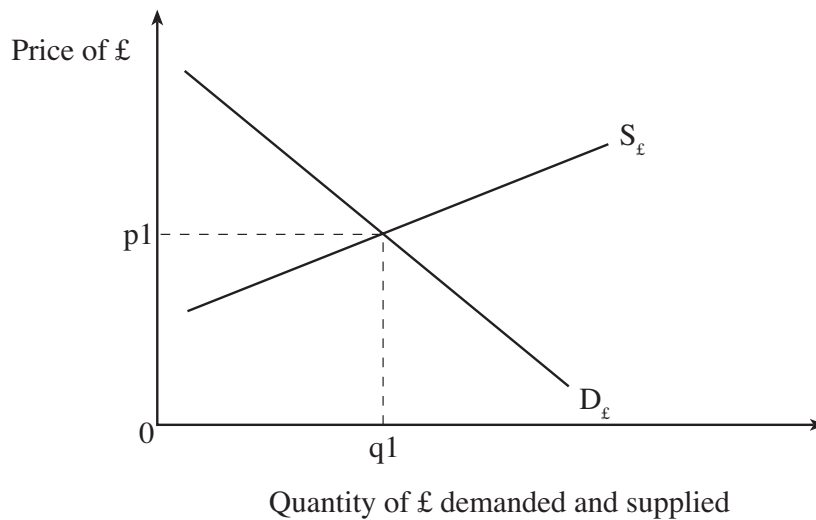
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- (b) Using the diagram below, explain how a cut in interest rates might affect the exchange rate of the pound. [4]



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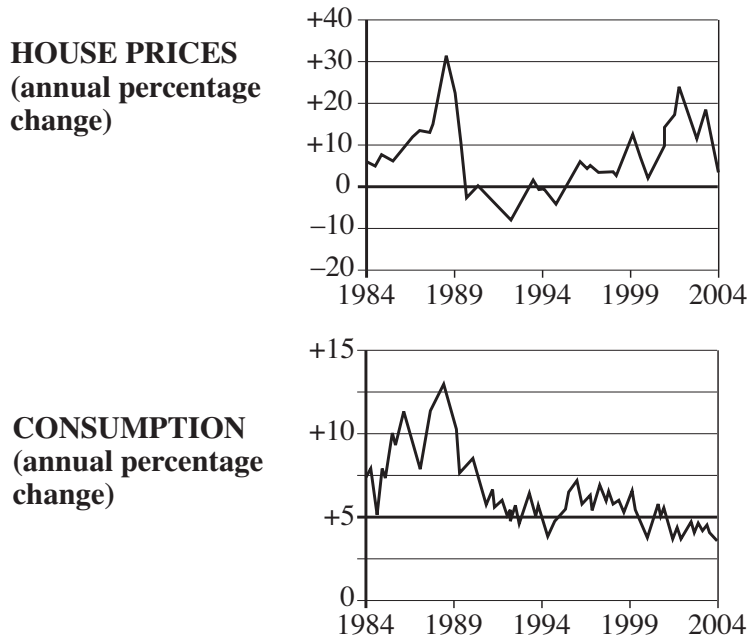
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7. Using the data below, analyse the possible connection between the changes in house prices and changes in consumption. [6]

HOUSE PRICE AND CONSUMPTION (annual percentage (%) change)



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8. ROW OVER £8 LONDON CONGESTION CHARGE

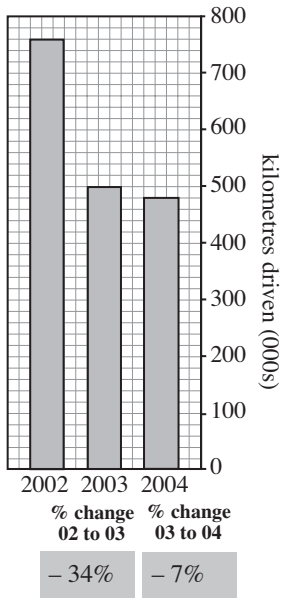
With the aid of the data, evaluate how the congestion charge has helped to correct market failure.

[8]

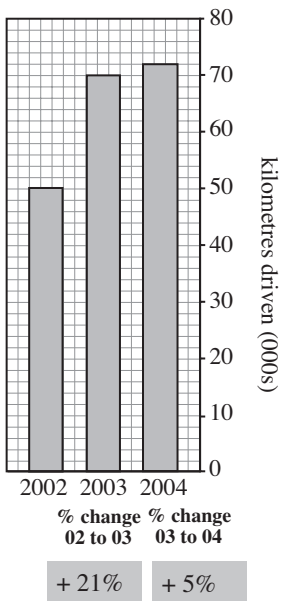
CUTTING THE TRAFFIC

Kilometres driven within the zone during charging hours

CARS



BUSES AND COACHES



Profit 2004 - 05: £97 m

How the profit is used:

- 80% on buses
- 13% road safety (including road humps)
- 6% walking and cycling
- 1% freight facilities

Source: *The Times*, Monday July 4, 2005.

