

373/01

ECONOMICS – EC3

P.M. FRIDAY, 9 June 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. **FALLING COSTS OF PRODUCTION REDUCE THE PRICE OF DVD PLAYERS**

- (a) Explain what is meant by consumer surplus and describe, with the aid of a diagram, how a fall in costs of production will affect the consumer surplus in the market for DVD players. [10]
- (b) With the aid of diagrams, evaluate the view that a fall in the price of DVD films is the main reason for the increase in the sales of DVD players. [10]

2. **GOVERNMENT INTENDS TO GO BEYOND KYOTO EMISSIONS TARGET**

- (a) Using economic analysis, explain why a government may introduce measures to reduce industrial pollution. [10]
- (b) Evaluate the measures a government could introduce to reduce the pollution caused by industry. [10]

3. **GOVERNMENT MAY HAVE TO RAISE TAXES IN THE NEAR FUTURE**

- (a) With the use of appropriate diagrams, explain how increased taxes on **both** income and expenditure might affect consumer spending. [10]
- (b) Discuss the possible effects on the UK economy of a shift from taxation on incomes towards taxation on spending. [10]

4. **INVESTMENT BY UK PRIVATE SECTOR FIRMS TOO LOW**

- (a) Explain the factors which affect the level of investment in the UK economy. [10]
- (b) Discuss the view that more investment spending and less consumer spending will always benefit an economy. [10]

5. **UK GOVERNMENT STRUGGLES TO MEET ALL ITS MACROECONOMIC OBJECTIVES**

- (a) Why is it important for the UK Government to achieve its macroeconomic objectives? [10]
- (b) With the aid of diagrams, evaluate the view that it may **not** be possible to achieve all these macroeconomic objectives at the same time. [10]

6. **UK POUND NEEDS TO FALL AGAINST US DOLLAR**

- (a) Explain, with the use of appropriate diagrams, the factors that determine the exchange rate of the pound against currencies such as the US dollar. [10]
- (b) Evaluate the view that a high value of the pound against the US dollar will benefit both UK consumers **and** workers. [10]