

373/01

ECONOMICS – EC3

A.M. THURSDAY, 18 January 2007

(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. **WORLD OIL PRICE SET TO RISE**

- (a) Define price elasticity of demand and explain the factors that might determine the price elasticity of demand for petrol. [10]
- (b) Discuss the possible effects of a rise in the price of oil on the UK economy. [10]

2. **TRAFFIC JAMS AHEAD UNLESS WE BUILD MORE MOTORWAYS**

- (a) Explain why road congestion is an example of market failure **and** why it has worsened in the UK in recent years. [10]
- (b) Evaluate the view that the Government should build more motorways to solve the problem of road congestion. [10]

3. **GOVERNMENT MAY HAVE TO RAISE TAXES**

- (a) Compare how taxes on incomes **and** taxes on spending affect consumers. [10]
- (b) Discuss the possible economic effects of a shift from the taxation of incomes towards taxation on spending. [10]

4. **SUPPLY-SIDE POLICIES WILL BENEFIT UK ECONOMY**

- (a) Explain, with examples, what is meant by supply-side policies. [10]
- (b) Discuss the view that supply-side policies are **always** beneficial to an economy. [10]

5. **UK BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT REACHES A RECORD OF £47.6 BILLION IN 2005**

- (a) Explain how the main forms of protection might be used to reduce a current account deficit. [10]
- (b) Discuss the possible effects of rising imports on the UK economy. [10]

6. **GOVERNMENT COMMITTED TO REDUCTION IN POVERTY**

- (a) Explain the reasons for **and** the consequences of an unequal distribution of income. [10]
- (b) Evaluate the use of taxes, state benefits and a national minimum wage as ways of reducing inequalities of income. [10]