

373/01

**ECONOMICS – EC3**

P.M. FRIDAY, 8 June 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. **RISE IN ENERGY PRICES HAS LITTLE IMPACT ON DEMAND**

- (a) Explain, with examples, why different goods and services have different price elasticities of demand. [10]
- (b) Evaluate the view that the only way a firm can raise its revenue is by reducing the price of its goods. [10]

2. **AIRCRAFT EMISSIONS TO DOUBLE BY 2030 DESPITE HI-TECH JETS**

- (a) Define market failure and explain, with examples, why pollution is a consequence of market failure. [10]
- (b) Evaluate the measures the Government could introduce to reduce pollution from jet aircraft. [10]

3. **UK MONEY SUPPLY GROWS BY 16%**

- (a) Explain how the money supply is affected by the creation of credit by commercial banks such as Barclays. [10]
- (b) Discuss the view that monetary policy is the only effective way to control the price level in the UK. [10]

4. **UK GDP GROWTH HAS RELIED HEAVILY ON RISING CONSUMPTION AND GOVERNMENT SPENDING**

- (a) Explain the factors which determine the level of consumption in the UK economy. [10]
- (b) Evaluate the view that rising investment and rising exports are better for the economy than increased consumption and increased government spending. [10]

5. **“TAX CUTS HAVE CREATED FIVE MILLION NEW JOBS IN THE US.”  
GEORGE W BUSH**

- (a) Using aggregate demand and aggregate supply analysis, explain how cuts in income tax rates can create employment. [10]
- (b) Discuss economic policies, **other than** cuts in income tax, that might be introduced to create employment. [10]

6. **CHEAP IMPORTS OF CLOTHING FROM CHINA HIT THE EUROPEAN UNION’S TEXTILE INDUSTRY**

- (a) Explain the benefits of free trade. [10]
- (b) Should the European Union impose import tariffs on cheap clothing from China? [10]