



**General Certificate of Education  
Advanced Subsidiary/Advanced**

373/01

**ECONOMICS – EC3**

A.M. THURSDAY, 17 January 2008

(1 $\frac{1}{4}$  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. MINIMUM WAGE INCREASED TO £5.35 PER HOUR - OCTOBER 2006**

- (a) Explain how wages are determined in the labour market. [10]
- (b) Evaluate, with the aid of a diagram, the possible effects of an increase in the national minimum wage. [10]

**2. GOVERNMENT INCREASES ITS SPENDING ON DEFENCE AND HEALTH**

- (a) Explain why the Government provides public goods such as defence and merit goods such as health care. [10]
- (b) Discuss the view that health care should be paid for through taxes rather than through charges to patients. [10]

**3. INVESTMENT LEVELS TOO LOW IN THE UK ECONOMY**

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

**4. THE MONETARY POLICY COMMITTEE RELIES ON INTEREST RATES TO CONTROL AGGREGATE DEMAND**

- (a) Explain how an increase in interest rates is likely to affect the components of aggregate demand. [10]
- (b) Evaluate the view that a government need only rely on control of aggregate demand to reduce both inflation and unemployment. [10]

**5. UK CLOCKS UP DISMAL RECORD ON PRODUCTIVITY AS TRADE DEFICIT CONTINUES**

- (a) Explain, with examples, the measures that could be taken to raise productivity in the UK economy. [10]
- (b) Evaluate the view that the UK's trade deficit can only be solved by the implementation of supply-side policies. [10]

**6. FLOOD OF CHEAP IMPORTS DAMAGES THE EUROPEAN UNION (EU) TEXTILE INDUSTRY**

- (a) With the aid of a diagram, explain how the EU could try to protect the textile industry from cheap foreign competition. [10]
- (b) Discuss the arguments for and against the EU taking action to protect the EU textile industry from cheap foreign competition. [10]