

Candidate Name	Centre Number	Candidate Number
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## GCE AS/A level

371/01

### ECONOMICS – EC1

P.M. WEDNESDAY, 4 June 2008

45 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1	7	
2	3	
3	4	
4	4	
5	8	
6	10	
7	6	
8	8	
TOTAL	50	

**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.

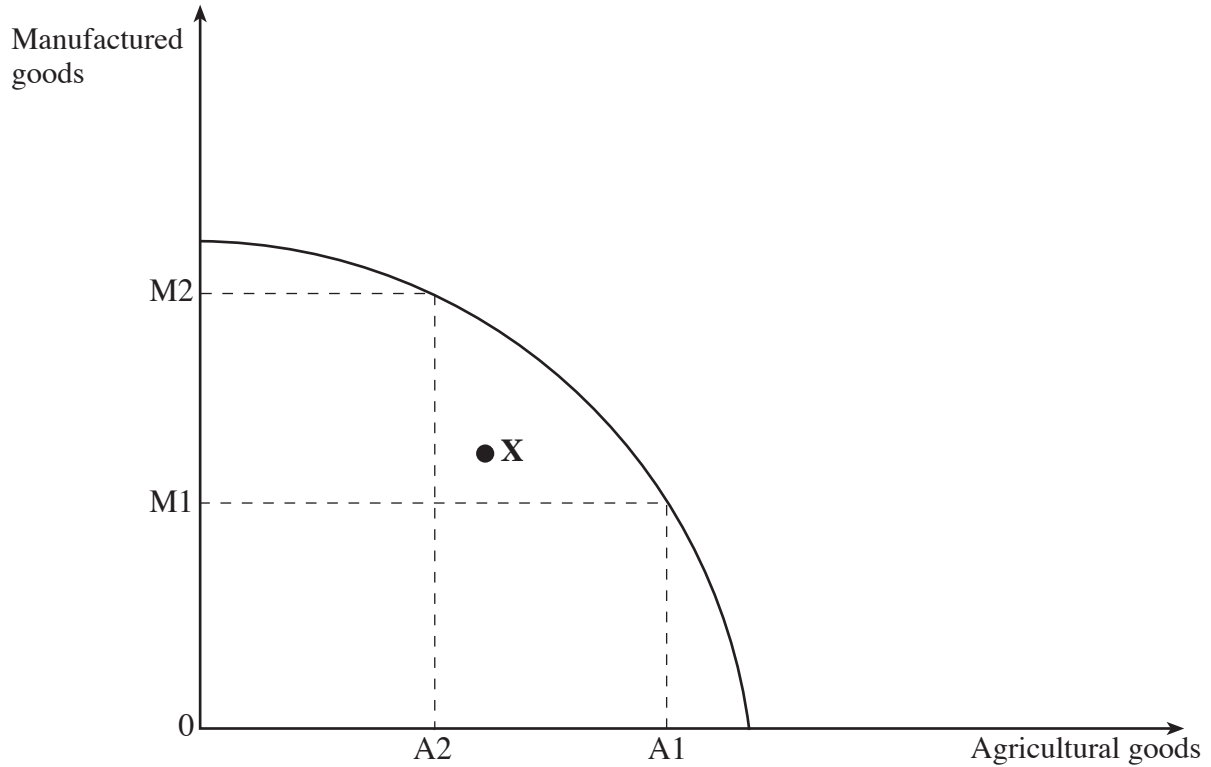
Answer **all** the questions in the spaces provided. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

#### INFORMATION FOR CANDIDATES

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

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

1. The production possibility diagram below shows an economy that produces only manufactured goods and agricultural goods.



- (a) If the economy is operating on its production possibility frontier producing OM1 and OA1 what is the opportunity cost of increasing the output of manufactured goods from OM1 to OM2? [1]

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- (b) If the economy is now producing at point X what does this indicate? [1]

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- (c) Adapt the above diagram to show an increase in the productivity of manufacturing only. [1]

- (d) Explain **two** reasons why this increase in manufacturing productivity could have come about. [4]

(i) .....

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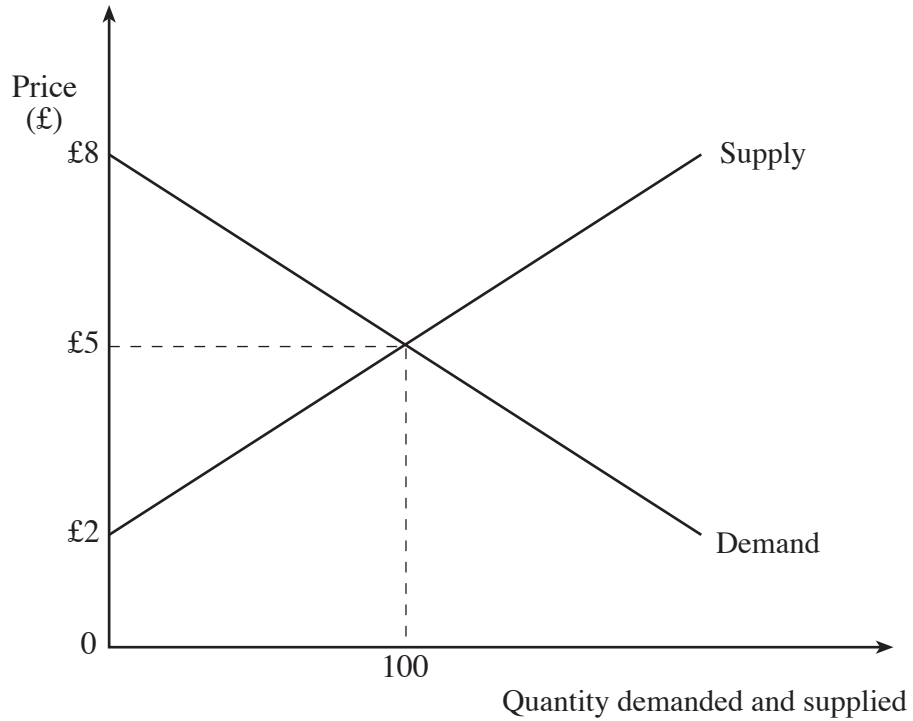
(ii) .....

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**Total Mark**

2. Study the diagram below which shows a market in equilibrium at £5.



(a) Calculate the value of the consumer surplus. [1]

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(b) In the diagram above, explain why the demand curve slopes down from left to right. [2]

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**Total Mark**

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3. The data below shows the price, quantity demanded and total revenue for a product over its full price range.

Price (£)	Quantity Demanded	Total Revenue (£)
10	0	0
9	10	90
8	20	160
7	30	210
6	40	240
5	50	250
4	60	240
3	70	210
2	80	160
1	90	90
0	100	0

- (a) At what price is the price elasticity of demand equal to unity or one? ..... [1]
- (b) Explain why the firm's total revenue changes when the price falls from £8 to £7. [3]

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**Total Mark**

4. In July 2007 parts of the UK were badly affected by flooding. There were calls for increased Government spending on flood defences and drainage systems. Explain why flood defences are public goods. [4]

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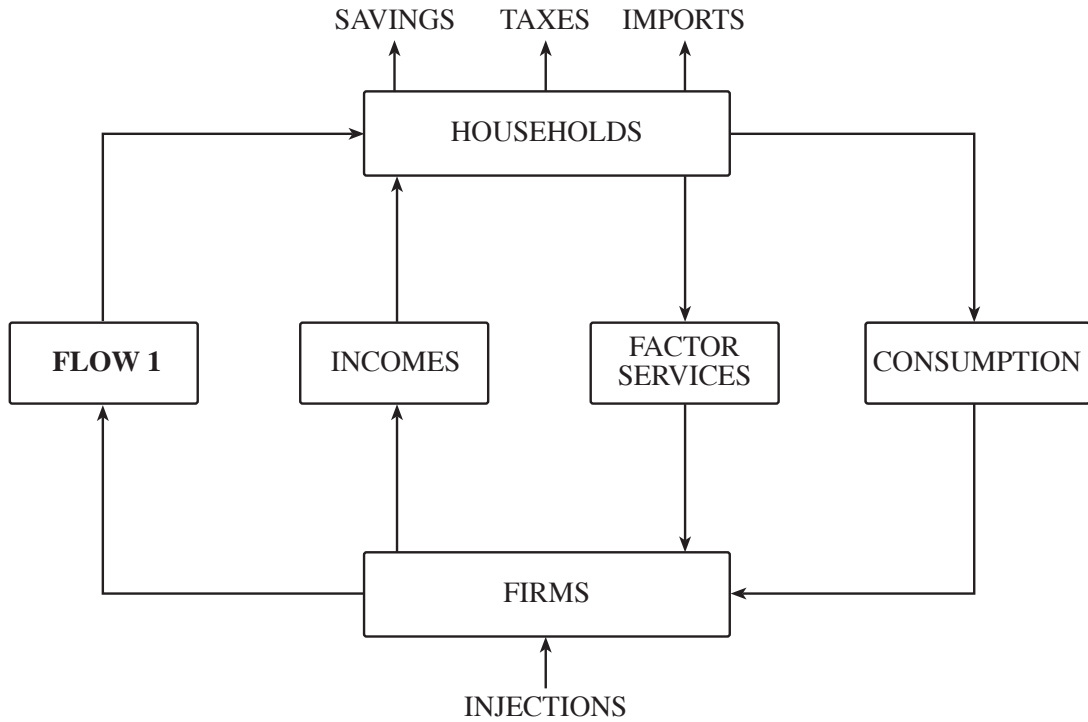
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**Total Mark**

5. Study the circular flow diagram below.



(a) Identify **FLOW 1**. [1]

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(b) Identify, in the diagram above, the **three** injections into the circular flow which apply to firms. [3]

(i) .....

(ii) .....

(iii) .....

(c) Assess the likely impact on the level of savings in the economy if there is an increase in the rate of interest. [4]

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6. Study the following diagram and then answer the questions that follow.

**Real GDP growth, year-on-year**



(a) Distinguish between GDP and GNP.

[2]

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(b) Explain, using the data, which country had a recession in the period shown.

[2]

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(c) With the aid of a diagram, discuss the view that the United States was likely to have had rising inflation in 2003. [6]

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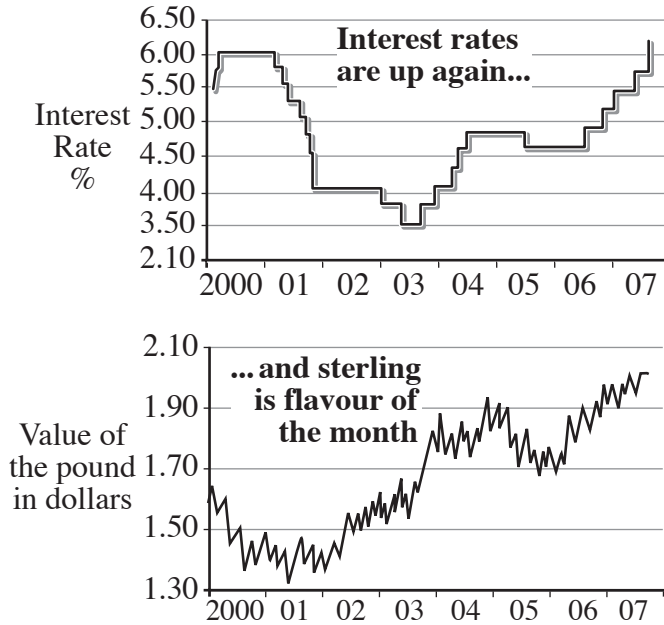
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**Total Mark**

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- 7. Study the data below which shows the changes in UK interest rates and changes in the exchange rate of the pound against the dollar.



Source: Thomson Datastream

Using the above data, discuss the extent to which changes in interest rates affect changes in the exchange rate. [6]

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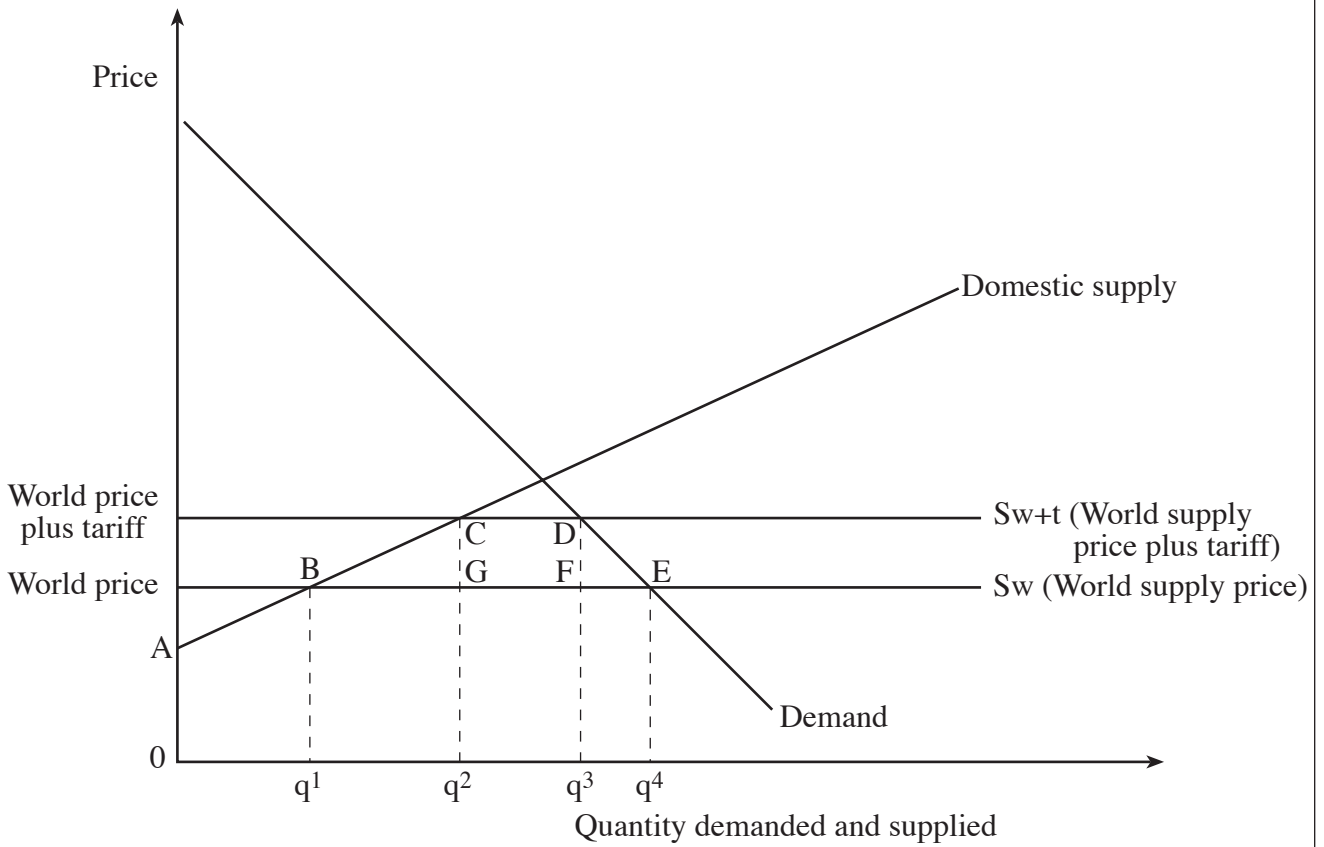
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**Total Mark**



8. The diagram below shows the effect of the imposition of a tariff on an imported product.



Using the diagram, discuss the view that when a tariff is imposed there are no winners only losers.

[8]

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