Candidate Name	Centre Number	Candidate Number
		2

GCE AS/A level

1131/01

ECONOMICS – EC1

A.M. FRIDAY, 20 May 2011

1 hour

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

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DO NOT OPEN THIS BOOKLET UNTIL YOU ARE TOLD TO DO SO.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

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 13 if necessary, taking care to number the continuation correctly.

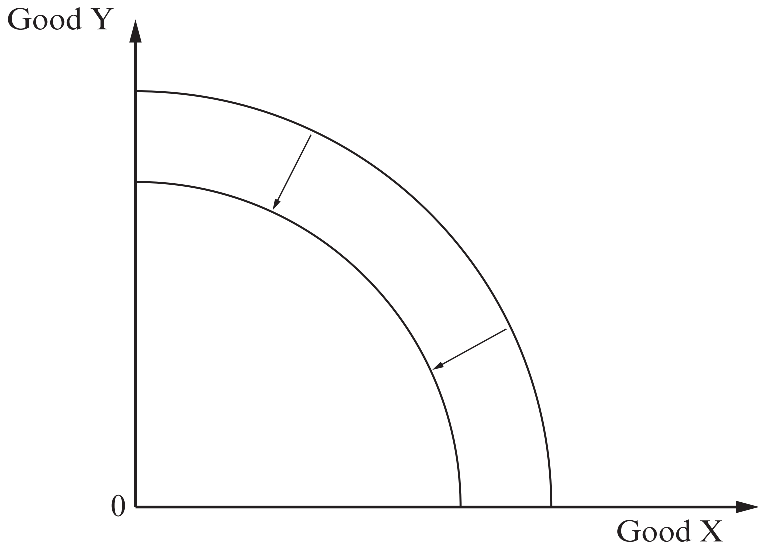
INFORMATION FOR CANDIDATES

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

Examiner only

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

1. The diagram below shows the production possibility frontier of an economy which has shifted inwards.



Explain **one** reason for an inward shift of the production possibility frontier. [2]

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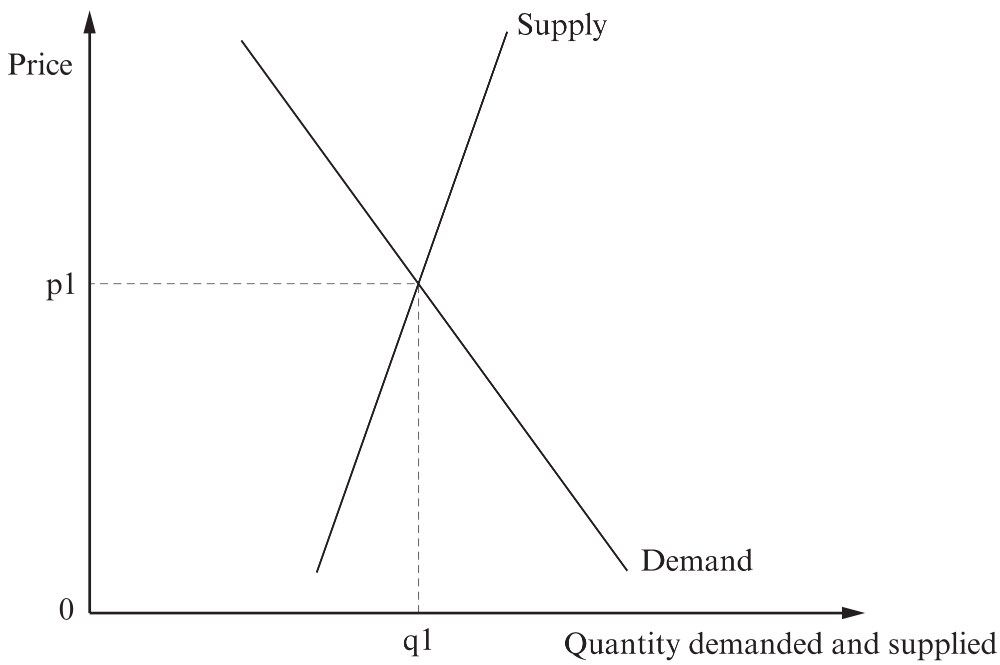
2. Kenya Businesses Unhappy with Price Control Law

In the face of rising food prices, the Kenyan Parliament passed a law this week that would allow the Government to control the price of essential commodities. The law has been opposed by many Kenyan economists, who say the effects could be disastrous.

The Kenyan Government will now be able to set maximum prices for essential goods, making it illegal for producers and retailers to sell above the price, controlling the profit margins for goods such as sugar, rice and flour.

25 June 2010

(a) Adapt the diagram below to show the effects on price and output of a maximum price imposed below the free market equilibrium on products such as rice or sugar. [2]



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(b) Discuss whether the imposition of a maximum price on products such as rice or sugar will be beneficial to producers and consumers in Kenya. [6]

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3. **GRITTING CUT BACK AS THE SALT RUNS OUT**

Councils face long wait for expensive foreign supplies

Britain has had to order salt from America and Spain to supplement exhausted stocks, but it will take up to four weeks for shipments to arrive, ministers said yesterday.

With Arctic conditions set to continue for at least another seven days, salt mines said they had reached production capacity and that stocks across Britain would run out by early next week.

Adapted from The Times, Saturday 9 January 2010

(a) Define price elasticity of supply. [2]

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(b) Using the data, explain why the price elasticity of supply of salt changes over time. [4]

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Total Mark /6

Examiner only

4. Minimum prices for vodka have been introduced in Russia as part of a campaign to reduce alcoholism. The price of the cheapest vodka will nearly double to a minimum of 89 roubles (£1.82) per litre. Shops in Moscow sell a wide selection of vodka, with luxury brands priced at more than ten times the new minimum price.

Previous attempts, however, to reduce alcohol consumption in the 1980s ran into difficulties. Strict control on the production and public consumption of alcohol led to a surge in the illegal production of low-quality home-made drink.

With the aid of a diagram and the information given, evaluate the view that setting minimum prices for vodka in Russia will reduce alcohol consumption. [8]

Total mark /8

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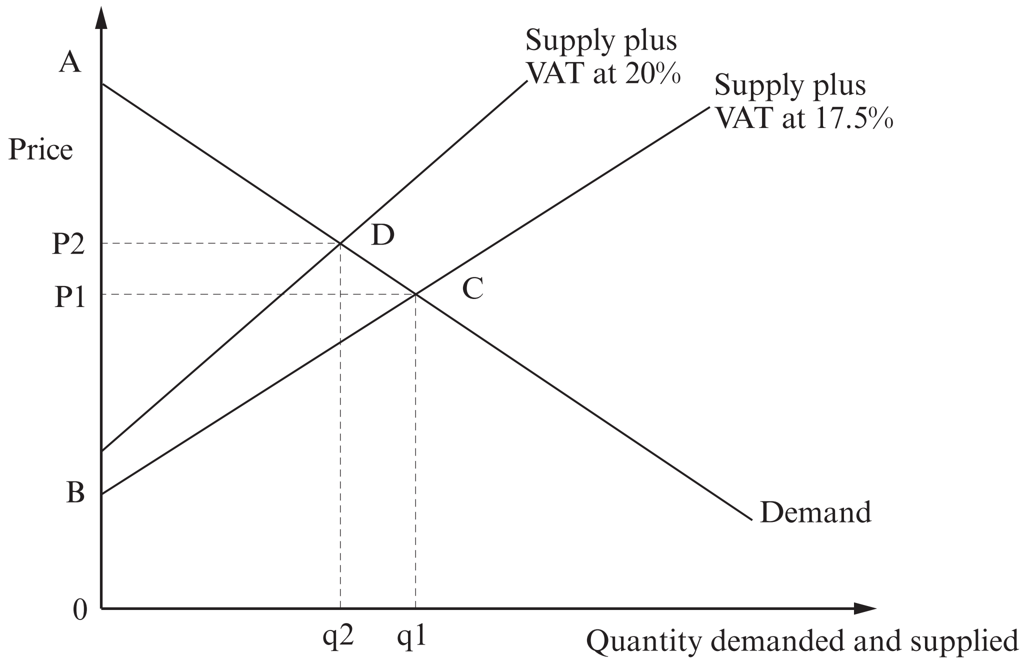
5. NEW TAX BOMBSHELL: 20% VAT

In the emergency budget of June 2010 the Government raised VAT from 17.5% to 20%.

(a) The diagram below shows the demand and supply for furniture following the increase in VAT from 17.5% to 20%.



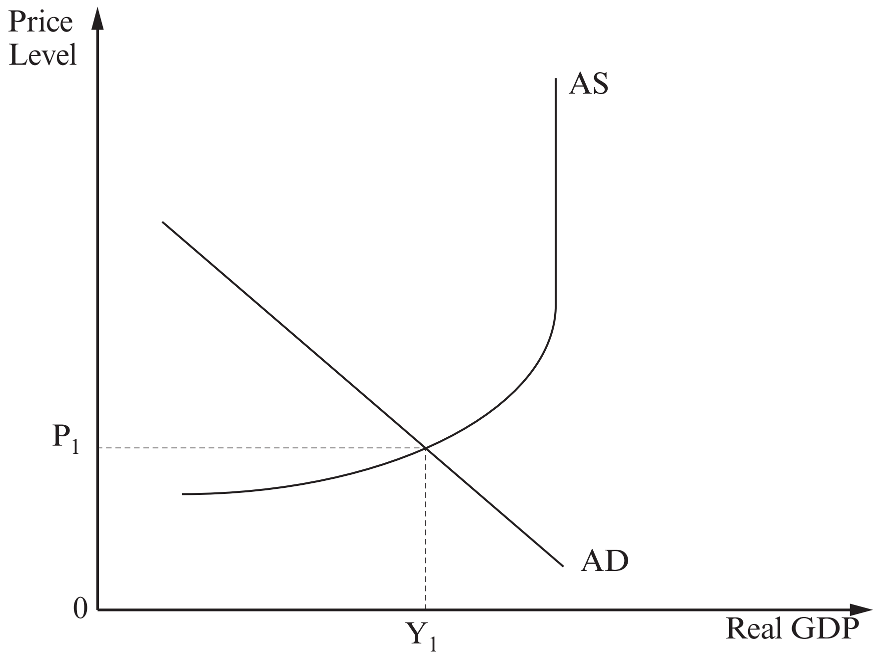
Identify the following:

(i) consumer surplus **after** the increase in VAT; .... [1]

(ii) producer surplus **before** the increase in VAT. .... [1]

Examiner only

(b) Adapt the aggregate demand and aggregate supply diagram below and explain the effects on the UK economy of the rise in VAT. [6]



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6. BROUGHT TO HEEL

The EU Commission has imposed a 16.5% tariff on imports of Chinese leather shoes and 10% on those from Vietnam. Alisdair Gray, director of the British Retail Consortium said: 'This move will be a signal to failing companies around Europe that the Commission will step in and protect them from foreign competition.' He added: 'Consumers will have to keep paying inflated footwear prices for a further two years.'	• **£1.60 added to the average pair of imported shoes** • **16.5% the duty on imported Chinese shoes** • **£700m per year in tariffs expected to be generated** • **30% of the EU footwear market accounted for by Chinese and Vietnamese shoes**

Adapted from the Daily Mail and The Times, 3 December 2009

(a) Apart from using tariffs identify **two** other ways in which a country can try to protect itself from foreign imports. [2]

(i) ....

(ii) ....

(b) Using the information above and an appropriate diagram, explain the possible effects on the European Union (EU) of imposing tariffs on shoes imported from China and Vietnam. [8]

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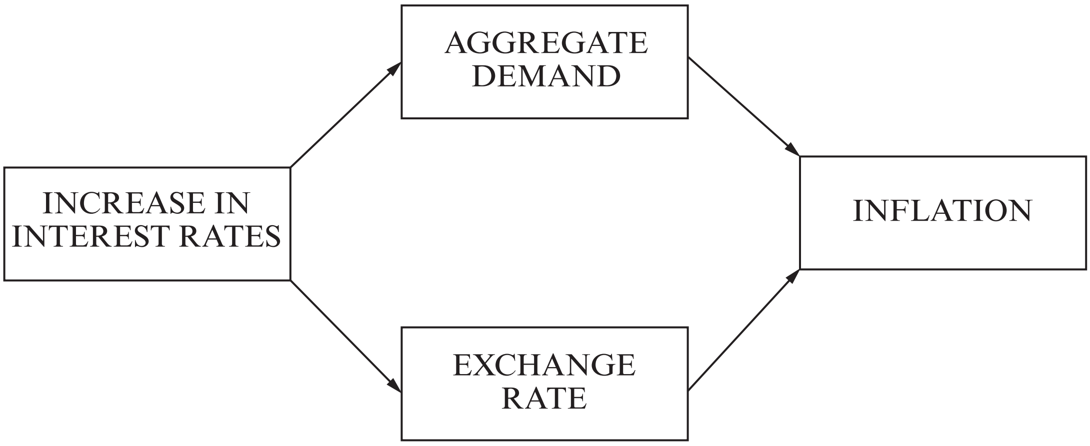
7. With reference to the diagram below, discuss the view that an increase in interest rates by the Bank of England will bring down the rate of inflation. [8]



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