

Surname	Centre Number	Candidate Number
Other Names		2



GCE AS/A level

1131/01

ECONOMICS – EC1

A.M. THURSDAY, 12 January 2012

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1	3	
2	3	
3	3	
4	3	
5	6	
6	4	
7	4	
8	12	
9	12	
TOTAL	50	

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

ADDITIONAL MATERIALS

In addition to this paper, you will need a calculator.

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 12 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. According to a study by the accountants PricewaterhouseCoopers, the increase in lifetime earnings for a medical graduate relative to not going to university is £340,000. According to the Universities and College Union, under new government proposals, the lifetime cost to a doctor of paying for a degree in medicine will be £105,000.

With the aid of the data, define **and** calculate the opportunity cost for a potential medical student of deciding not to go to university. [3]

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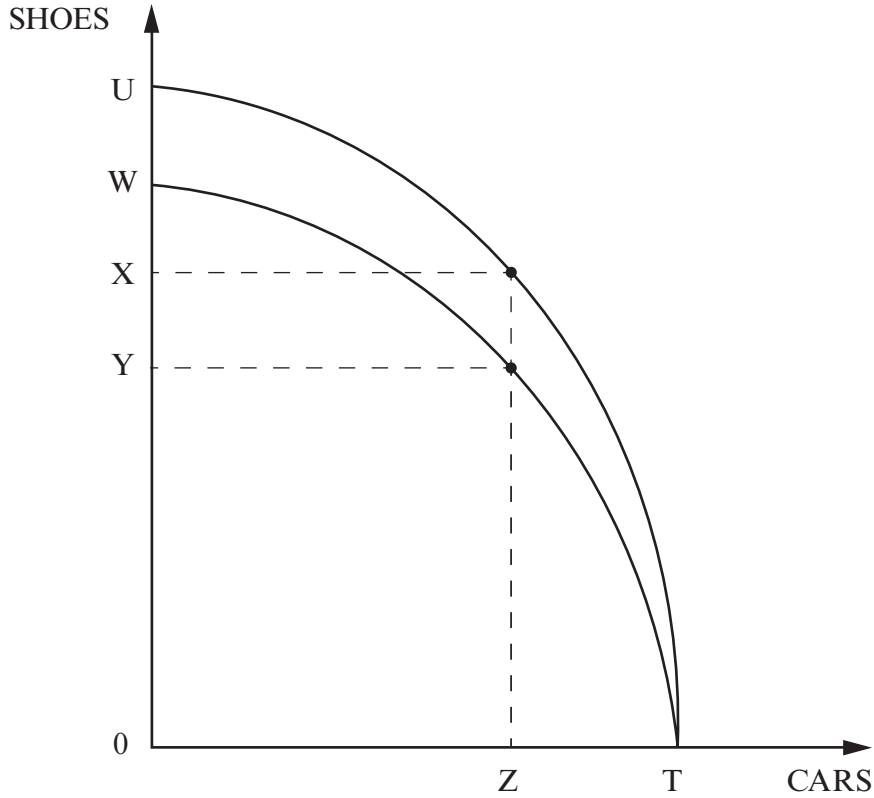
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Total Mark / 3

- 2. The production possibility frontier below, which shows a country producing only shoes and cars, has shifted from TW to TU.



- (a) Identify the opportunity cost of producing 0Z cars when the production possibility frontier is TW. [1]

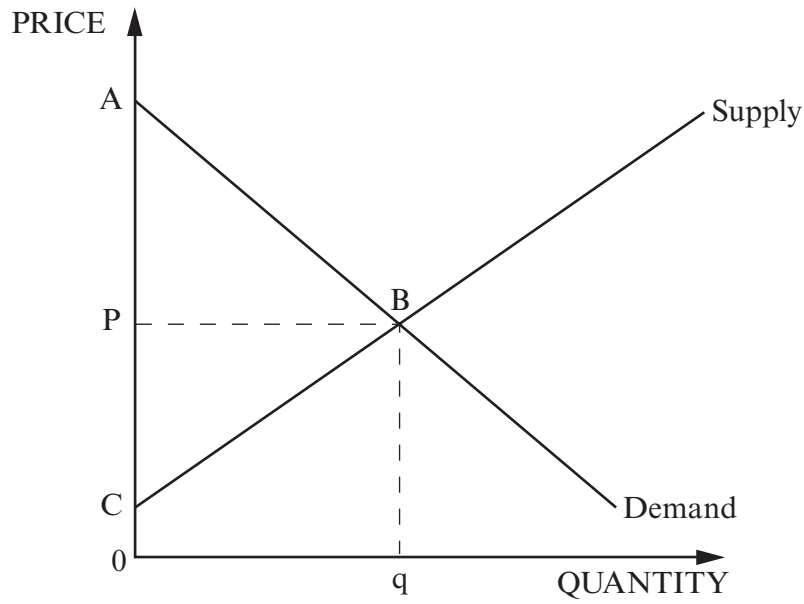
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- (b) Explain **one** factor which could have shifted the production possibility frontier to TU. [2]

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Total Mark / 3

3.



Define consumer surplus **and** identify it on the demand and supply diagram above. [3]

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Total Mark / 3

4. The price of a firm's product rises from 50p to 60p and as a result its weekly production rises from 2000 to 2500 units. Calculate the price elasticity of supply for the product and comment on its value. [3]

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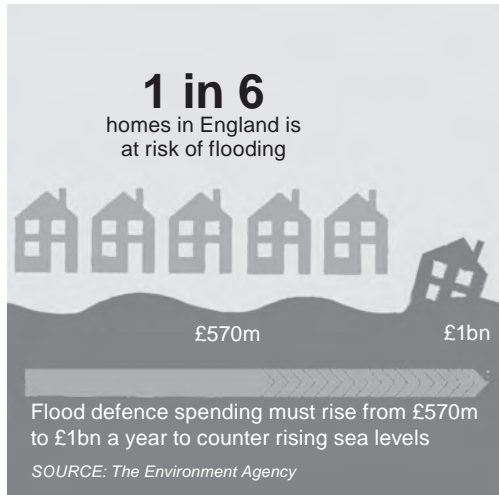
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Total Mark / 3

6.

One in six homes in the UK is under threat of flooding. The Environment Agency says that £20 billion is needed to protect properties from rising seas, which are expected to be up to 65cm higher by 2070.



Using the data concerning flood defences, explain what is meant by a public good.

[4]

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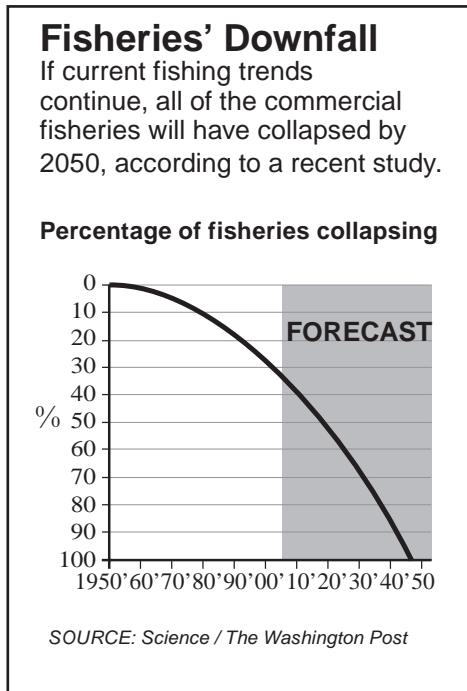
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Total Mark

/ 4

7.



A major international study found that about a third of all fish stocks worldwide have collapsed and that if current trends continue, all fish stocks will have collapsed by 2050. With reference to the data, explain why over-fishing might be seen as an example of market failure. [4]

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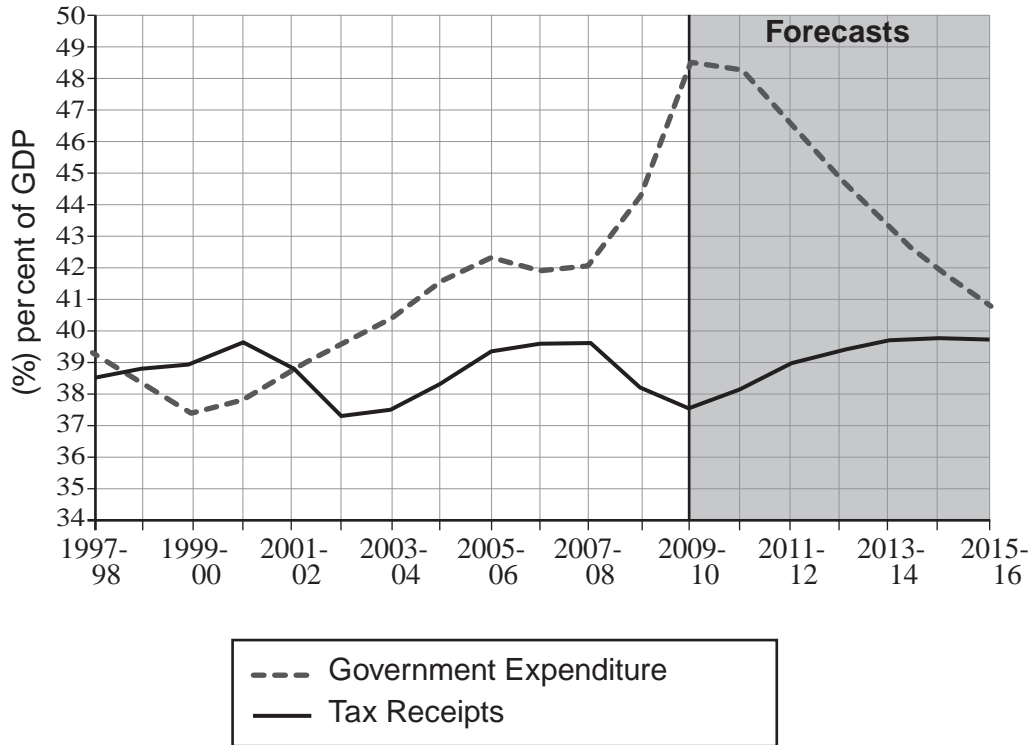
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Total Mark / 4

8. COMPREHENSIVE SPENDING REVIEW OCTOBER 2010

In 2010 the Government announced its plans for Government spending and borrowing until 2015. Cuts in Government spending totalling £81 billion and various tax rises such as increasing VAT to 20% are designed to reduce the budget deficit as a percentage of Gross Domestic Product (GDP).

Tax Receipts and Government Expenditure



However, the Government intends to:

- protect high value transport maintenance and investment, including over £10 billion on road, regional and local transport schemes;
- ensure the UK remains a world leader in science and research by maintaining the science budget of £4.6 billion;
- increase adult apprenticeship funding by £250 million a year by 2014-15.

Source: HM Treasury

(a) Distinguish GDP from GNP (Gross National Product).

[2]

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(b) Using an aggregate demand and aggregate supply diagram, evaluate the likely effects on the UK economy until 2015 of the measures taken by the Government in 2010. [10]

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Total Mark / 12

Turn over.

9. CURRENCY WARS LOOM LARGE IN THE GLOBAL ECONOMY

Many leading economies are trying to boost their exports to aid recovery from the global downturn. The United States has long believed that the Chinese government has an exchange rate policy to manipulate its currency (the yuan) so as to keep it artificially low. This partly explains the large Chinese trade surplus with the United States. China is the biggest exporter in the world and now other countries are tempted to do the same with their currencies because of what is seen as China's unfair advantage.

- (a) Explain, with the aid of a diagram, how a country may be able to keep its country's exchange rate below the level it would be in a free market. [4]

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(b) Discuss the advantages **and** disadvantages of China’s low exchange rate policy for **both** China and the global economy. [8]

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Total Mark / 12

For continuation only.

A series of horizontal dotted lines provided for writing the continuation of the answer.