



**GCE AS/A level**

1132/01

**ECONOMICS – EC2**

A.M. WEDNESDAY, 18 January 2012

2 hours

### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a 12 page answer book.

### **INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

### **INFORMATION FOR CANDIDATES**

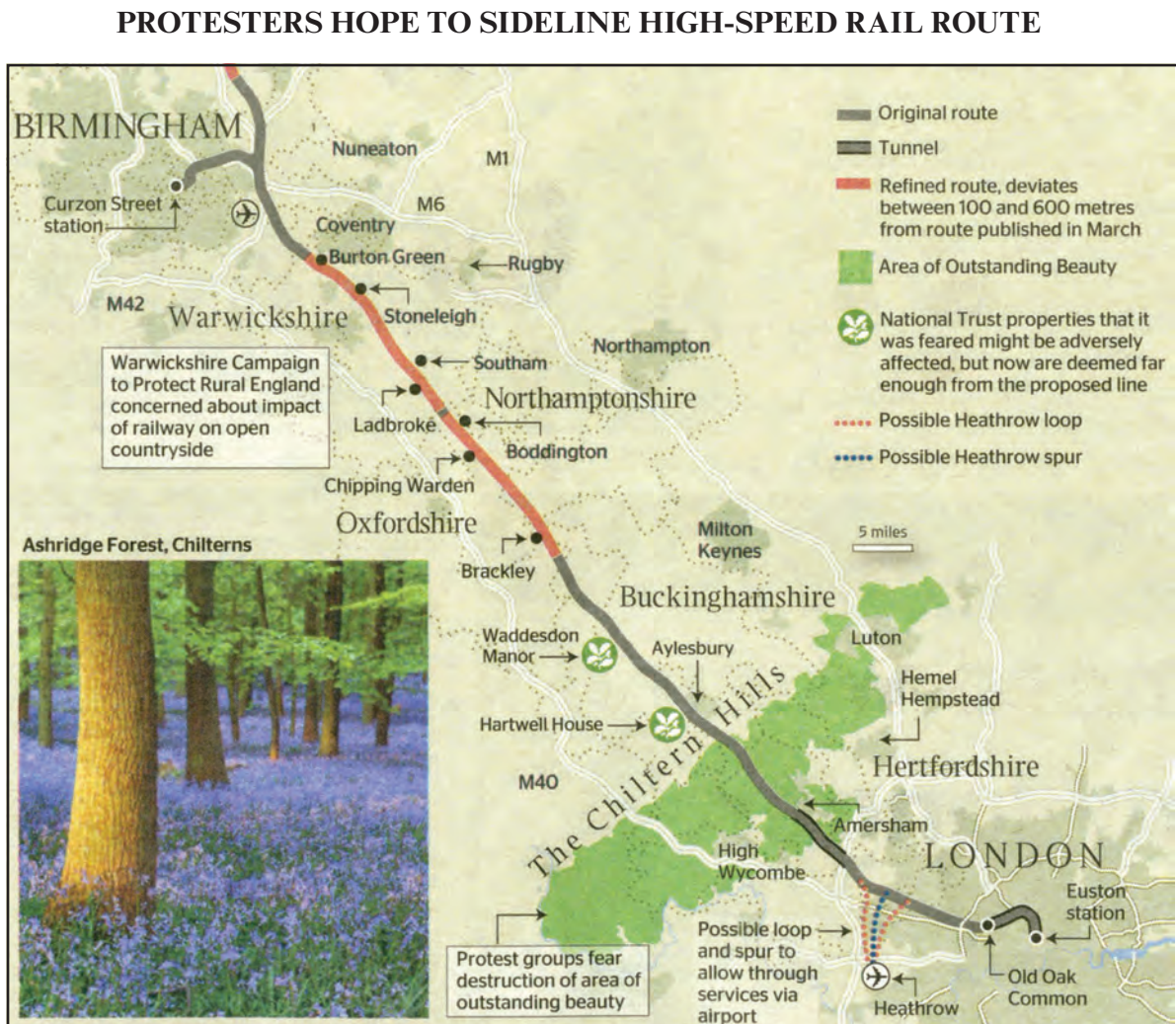
The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (b) and Section C part (b).

## SECTION A

Answer **all** the questions in this section.

1. Study the information below and then answer the questions that follow.



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- The UK's coalition government is committed to improving the country's infrastructure, especially the rail network, through the proposals to build high speed rail links. One of these is the route between London and Birmingham, which cuts straight through the Chiltern Hills, an area of outstanding natural beauty (see map above). Along with similar rail construction projects linking Leeds and Manchester the total cost would be £20bn, with £16bn of this coming from the Government and the rest from the private sector. The Government believes that the economy will benefit enormously from these and other projects such as the development of high speed internet broadband networks. The rail improvements would start in 2015 and be completed by 2027. These projects would be indirectly financed by large cuts in government spending on welfare payments and also by higher VAT.

15 There is already strong opposition to the London to Birmingham development from both the Chiltern Society and the Campaign to Protect Rural England. Both these pressure groups believe that building the high speed rail link will impact negatively on the countryside and lead to falling house prices. The Chiltern Society has said: ‘the Chilterns is a unique area of special ancient countryside, the like of which there is not anywhere else in the country’. Others believe that more people and goods on the rail network rather than on the UK’s congested motorways will be more beneficial to the environment.

20 However, rail fares will have to get much cheaper if people are going to abandon their cars more often, despite the worsening road congestion problems. The cheapest peak time ticket from London to Birmingham on the train is about £55 per person, but driving would only cost £15-£20 in petrol. Part of the reason for this is that most roads in the UK are free at the point of use with no tolls. The question is, can the Government afford big subsidies to reduce rail fares to a level where they are competitive with the cost of using a car?

- (a) With reference to the first paragraph of the data, identify the injections into and withdrawals from the circular flow of income resulting from the Government’s policy announcements. [4]
- (b) (i) Explain the private costs and private benefits to the train operating companies which will run services on the new high speed rail network. [4]
- (ii) Define external costs and discuss whether the building of the London to Birmingham rail link will increase or reduce external costs. [6]
- (c) How could projects, such as building improved rail and telecommunications infrastructure, help the UK achieve its macroeconomic objectives? [10]
- (d) With the aid of a diagram, use the concept of price elasticity of demand to evaluate the effects of a government subsidy designed to reduce rail fares. [6]
- (e) Discuss whether rail subsidies or the introduction of road tolls are the best way to reduce road congestion. [10]

**SECTION B**

*Answer one question from this section.*

**2. NEW CAR SALES DROP 22% IN OCTOBER 2010 AS PETROL PRICES HIT RECORD LEVELS**

- (a) Define cross price elasticity of demand and explain why a firm needs to be aware of the cross elasticity relationships between different products. [8]
- (b) Using demand and supply diagrams, discuss whether the increase in petrol prices is likely to be the main factor causing a fall in the sales of new cars. [12]

**3. INTERNET ACCESS GIVES THE PATIENT AN EDGE OVER DOCTORS**

- (a) With the use of examples, explain why asymmetry of information might lead to market failure. [8]
- (b) Evaluate the view that health care should be free at the point of consumption. [12]

**4. VENEZUELA IMPOSES MAXIMUM PRICES AS FOOD PRICES RISE RAPIDLY**

- (a) Explain why food prices might have increased rapidly in recent years. [8]
- (b) Discuss, with the aid of a diagram, whether government imposed maximum price schemes, such as those in Venezuela, are likely to be beneficial to consumers and producers. [12]

**SECTION C**

*Answer one question from this section.*

**5. CONSUMER SPENDING RISES AHEAD OF INCREASE IN VAT**

- (a) Explain the main factors that affect the level of consumption in an economy. [8]
- (b) Discuss the view that investment is more important to an economy than consumption. [12]

**6. TAXES RISE AND GOVERNMENT SPENDING IS CUT TO REDUCE BUDGET DEFICIT**

- (a) Define fiscal policy and explain, with examples, the main categories of government spending. [8]
- (b) Should the government raise a greater proportion of its revenue from indirect taxes such as VAT and less from direct taxes such as income tax? [12]

**7. WORLD TRADE ORGANISATION WARNS AGAINST PROTECTIONISM**

- (a) Explain, with aid of a diagram, how tariffs reduce imports. [8]
- (b) Discuss whether the imposition of tariffs is the best way to protect domestic markets. [12]

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