

General Certificate of Education
June 2003
Advanced Subsidiary Examination



ECONOMICS **ECN1/2**
Unit 1 Part 2 Data Response: Markets and Market Failure

Friday 6 June 2003 Morning Session

In addition to this paper you will require:

- an 8-page answer book;
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: 1 hour for papers ECN1/1 and ECN1/2 together

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

- You are advised to spend at least 45 minutes on paper ECN1/2.

Copyright © 2003 AQA and its licensors. All rights reserved.

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

1

Total for this question: 25 marks

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A: The price of copper and stocks of copper on the London Metal Exchange, Jan – Nov 2001

□
□
The extract from the Financial Times (7 December, 2001) is not reproduced □
here due to third-party copyright constraints.□

□
The full copy of this paper can be obtained by ordering ECN1/2□
from AQA Publications □
Tel: 0161 953 1170□

Extract B: The copper market in 2001

□
□
The extract from the Financial Times (19 March, 2002) is not reproduced here □
due to third-party copyright constraints.□

□
The full copy of this paper can be obtained by ordering ECN1/2□
from AQA Publications □
Tel: 0161 953 1170□

Extract C: The benefits and costs of recycling copper

□
□
The extract from the Financial Times (19 March, 2002) is not reproduced here □
due to third-party copyright constraints. □
□
The full copy of this paper can be obtained by ordering ECN1/2 □
from AQA Publications □
Tel: 0161 953 1170 □

Question 1

- (a) Compare the changes in the price and stocks of copper, shown in **Extract A**, that occurred between January and November 2001. *(4 marks)*
- (b) Using a demand and supply diagram and the information in **Extracts A and B**, explain the change that occurred in the price of copper during 2001. *(6 marks)*
- (c) In the light of the negative externalities produced by the recycling process, assess the view that only newly-mined copper, and **not** recycled copper, should be used as an industrial raw material. *(15 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

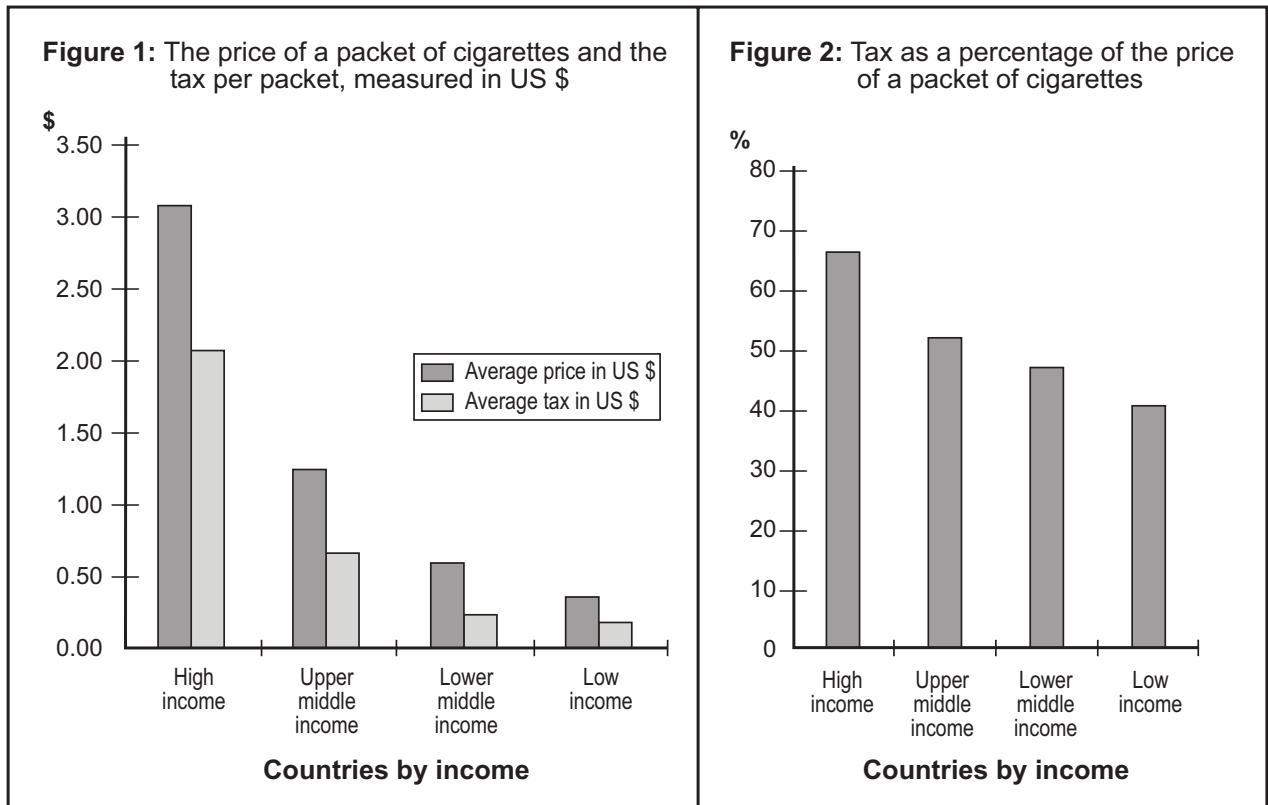
OR

2

Total for this question: 25 marks

Study Extracts D and E, and then answer all parts of Question 2 which follows.

Extract D: Cigarette prices and taxation on cigarettes in groups of countries with different average incomes, 1996



Source: *The Economics of Tobacco Control* (The World Bank Group), accessed on www1.worldbank.org/tobacco/book/html/chapter4.htm, 12 May 2002

Note

The following are examples of countries in each income group.

High income: the USA, the UK
 Upper middle income: Malaysia, Hungary
 Lower middle income: Algeria, Bulgaria
 Low income: Ethiopia, Vietnam

Extract E: Smoking for Britain

Pity British smokers: forced onto the pavement outside their place of work to light up a cigarette. Still, at least the government is doing its bit to help smokers quit their habit. The National Health Service (NHS) last month approved Zyban, a new anti-smoking drug, and the government has also made a packet of cigarettes more expensive in Britain than in almost any other country.	1 5
High cigarette taxes are supposed to stop Britons smoking and raise money for the NHS. The government says that smoking-related ailments are a heavy burden on the NHS. It estimates the burden to be around £1.5 billion a year. Smokers, the argument runs, should therefore pay for the full costs of their pleasures. Higher taxes are supposed to encourage quitting, thus helping both the ex-smokers and the NHS's finances.	10
But perhaps the government should think again. First, the price elasticity of demand for cigarettes may make a tobacco tax ineffective. Second, nearly a decade ago, tobacco taxes were scrutinised by American economists. They found that a decline in smoking would indeed reduce the costs of treating smokers' ailments. However, it would also have less obvious effects. Smokers tend to die younger than non-smokers, by nearly a decade. Non-smokers require, on average, even greater spending than smokers for other chronic ailments. So, by reducing smokers' life expectancy, tobacco saves government money. Similarly, last year, a consultancy commissioned by a large American tobacco company studied the effects of smoking on the Czech Republic's finances. It found that premature deaths from smoking saved the government around £100m in 1999. In Britain, where the state pays a greater share of health costs, the savings are bound to be higher than in America – even without considering the pension benefits that go unclaimed by dead smokers. So poorer people, who smoke most, are probably subsidising the health care of the better-off, who have largely given up.	15 20

Source: adapted from the Economist, 2 May 2002

Question 2

- (a) **Figures 1 and 2** in **Extract D** show the price of a packet of cigarettes, and the tax per packet, in countries with different average incomes. Compare cigarette prices and taxes in the different groups of countries. *(4 marks)*
- (b) Using a demand and supply diagram and the concept of elasticity, explain why a tobacco tax may be relatively ineffective in reducing consumption of cigarettes (**Extract E**, lines 11–12). *(6 marks)*
- (c) Evaluate the economic case **for** and **against** the UK government further increasing the tax on tobacco in order to reduce smoking. *(15 marks)*

END OF QUESTIONS