

General Certificate of Education  
January 2007  
Advanced Subsidiary Examination



**ECONOMICS**  
**Unit 3 Markets at Work**

**ECN3**

Thursday 18 January 2007 9.00 am to 10.00 am

**For this paper you must have:**

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour

**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 ECN3.
- Choose **one** of the Options and answer **all** parts of the question on that Option.

**Information**

- The maximum mark for this paper is 40.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise relevant information clearly and to use specialist vocabulary where appropriate.

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Choose **one** of the Options and answer **all** parts of the question on that Option.

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## OPTION 1: THE HOUSING MARKET

**Total for this question: 40 marks**

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

### **Extract A: Boom in second homes is next big thing in property**

Britons could be about to embark on an unprecedented spree of second-home buying over the next 10 years. And the boom is expected to create a rash of unlikely property hotspots in once unfashionable outposts such as Southend-on-Sea in Essex and Bradford city centre.	1
According to a recent report, not only will new second-home owners be predominantly younger than the typical late-middle-aged two-home family of today, they will also be more likely to choose their second dwelling in Britain, with domestic demand outstripping that for villas and apartments in the traditional playgrounds of France and Spain. Global warming will also play its part, making outlying areas of north-west Scotland and the Borders rival Cornwall and Devon in popularity. Fears over flooding and forest fires, currently wreaking havoc across much of continental Europe, are also expected to keep people at home, it was claimed.	5 10
But while traditional beauty spots will benefit, particularly those in National Parks and along heritage coasts, the rapidly increasing demand will create new hotspots, the report said. The regenerated centres of Victorian industrial cities, such as Bradford in West Yorkshire, are expected to be much in demand as investment properties.	15
Birmingham and other popular university cities will benefit from parents with equity in their first homes purchasing on behalf of student offspring. The once-fading resort of Southend is also hotly tipped as an investment area because of its 12 per cent house-price growth, proximity to London and high quality of life.	20
It is a similar story for the new urban work bases. While central London remains the most popular place for a second home, the gap is being narrowed among the 'rural set' working in cities such as Glasgow, Liverpool and Newcastle. Many well-off workers are expected to give up the daily commute along crowded motorways and spend the working week living in city centres.	25
According to Seirian Hanner, who carried out the research, the main driver behind these trends is 'increasing wealth'. She estimates that Britons will be '73 per cent richer' over the next 20 years. Accessibility is a reason why Britain is becoming increasingly popular despite the low-cost airline revolution. "Although Britons are feeling increasingly comfortable in Europe, they also like to be familiar with the local environment," she says. Other factors are fears over security when travelling abroad, the changing structure of the family and global warming. The Environment Agency predicts that summer weather in Cornwall in 2050 will be similar to present-day southern France, and cities like Durham can expect over seven days more sunshine per year. Couples who already own two properties when they get together, will be heavily represented among new domestic holiday-home owners.	30 35

Source: adapted from an article by JONATHAN BROWN, *The Independent*, 25 August 2005

**Extract B: Predictions**

Research by the 'Future Foundation' consultancy on behalf of Direct Line Insurance forecasts that the market for second homes is set to expand by 24 per cent to £53 billion by 2015. There will be 77 000 new UK holiday-home owners, making 405 000 in total. The number of overseas second homes will grow from 178 000 in 2005 to 249 000 in 10 years. Two-thirds will be in mainland Europe. Typical locations in the UK include:		1 5
Bradford city centre	Apartment with one bedroom in converted industrial building	£99 950
Lynton, Exmoor	Two-bedroom terraced cottage near Exmoor National Park	£167 500
Southend-on-Sea	Three-storey family house on the seafront	£299 995

Source: adapted from an article by JONATHAN BROWN, *The Independent*, 25 August 2005

*Question 1*

- (a) Define the term 'wealth' (**Extract A**, line 27). (3 marks)
- (b) Using **Extract A**, briefly explain **two** factors which might influence a decision to buy a second home. (4 marks)
- (c) Use the concept of cross elasticity of demand to explain the likely relationship between the markets for second homes in the UK and second homes abroad. (8 marks)
- (d) With the help of a supply and demand diagram, analyse the likely effects of an increase in demand for second homes on the wider housing market in the UK. (10 marks)
- (e) Changes in the market for second homes, such as those discussed in the data, will have both microeconomic and macroeconomic effects. Identify the main effects and evaluate their economic impact. (15 marks)

**Turn over for the next question**

**Turn over ►**

**OPTION 2: THE ENVIRONMENT****Total for this question: 40 marks**

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

**Extract C: MSP proposes plastic bag charge**

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**Extract D: Scots count cost of plastic bags**

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**Extract E: Facts you won't be told about the Irish carrier bag tax**

<ul style="list-style-type: none"> <li>● 80% of carrier bags are re-used at least once at home; so while fewer carrier bags are leaving Irish shops they have been replaced by increased sales of bin liners, refuse sacks and nappy disposal bags.</li> </ul>	1
<ul style="list-style-type: none"> <li>● Customs and Excise record 'no statistically significant change' in the tonnage of plastic bags shipped to Ireland before and after the tax.</li> </ul>	5
<ul style="list-style-type: none"> <li>● A major department store chain claims that it used to send four 5-foot pallets of plastic bags to Ireland each week but now it sends four 40-foot containers of paper alternatives. Because paper is water sensitive, these consignments have to be wrapped in large amounts of plastic.</li> </ul>	
<ul style="list-style-type: none"> <li>● The trade body representing small and medium retailers claims that an average of 450 wire baskets and trolleys are now stolen from each member firm each month, costing €24.3 million per year to replace, and with their own environmental as well as economic impact.</li> </ul>	10

Source: website of the Carrier Bag Consortium, [www.carrierbagtax.com](http://www.carrierbagtax.com), accessed on 21 September 2005

*Question 2*

- (a) Define the term 'indirect tax' (**Extract C**, line 24). *(3 marks)*
- (b) Using the extracts, briefly explain **two** factors which might influence a decision to take home plastic bags. *(4 marks)*
- (c) Use the concept of cross elasticity of demand to explain the likely relationship between the markets for plastic bags and paper bags. *(8 marks)*
- (d) With the help of a supply and demand diagram, analyse the likely effects of the proposed plastic bag tax on the market for durable 'bags for life' in Scotland. *(10 marks)*
- (e) New environmental taxes, such as those discussed in the data, will have both microeconomic and macroeconomic effects. Identify the main effects and evaluate their economic impact. *(15 marks)*

Turn over ►

### OPTION 3: THE ECONOMICS OF SPORT AND LEISURE

**Total for this question: 40 marks**

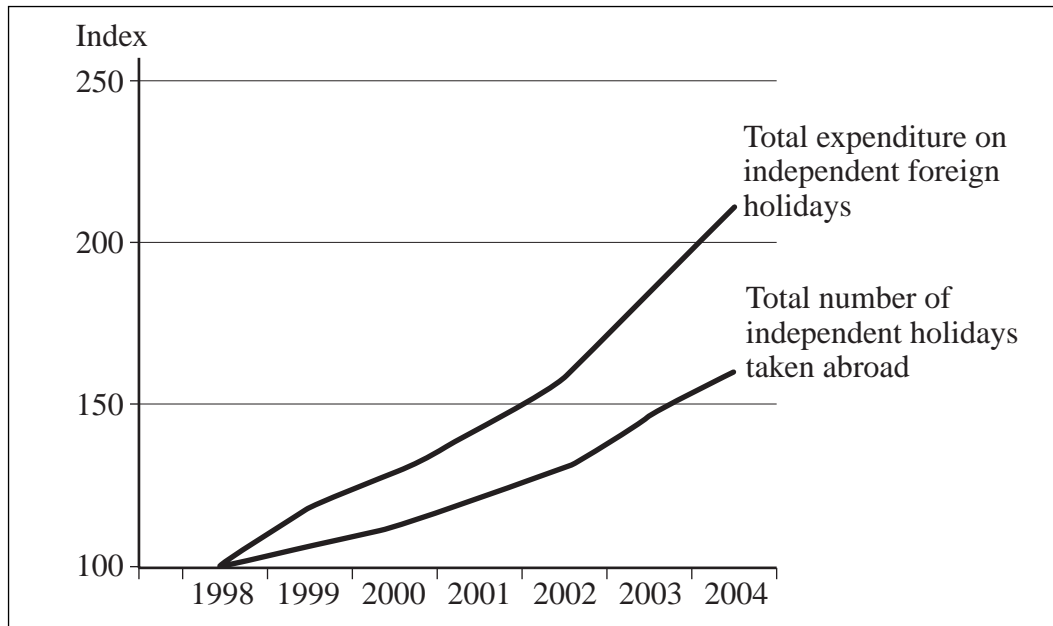
**3 Study Extracts F and G, and then answer all parts of Question 3 which follows.**

#### **Extract F: Cheap flying and the internet wrap up the package holiday**

It created economies of scale that made foreign holidays affordable for the masses, and it transformed large parts of the Mediterranean coastline. However, the great British package holiday now appears to be going out of fashion faster than string vests and knotted handkerchiefs. The number of Britons organising their own holidays abroad overtook those bought through a tour operator for the first time last year, a new survey claimed yesterday. More than 22 million trips were booked independently in 2003, 53 per cent of the total. The gulf is expected to widen even further this year with 24 million independent travellers making up 55 per cent of the market.	1 5
The turnaround in the way Britons purchase holidays has mainly been due to the rise of the internet and also growing sophistication among travellers. They are increasingly taking advantage of budget airlines to reach their destinations and then organising their own accommodation.	10
The most popular destinations for the independent traveller are areas serviced by cheap flights. France is the most popular and then Spain, but the USA, with its relatively cheap accommodation, is third. The survey claims that in the past six years, the number of people booking their own holidays has grown by 60 per cent, with expenditure more than doubling from £5.5 billion in 1998 to an estimated £11.7 billion in 2004. The vast majority of independent travel is booked on the internet, with only 27 per cent booked through a travel agent. Low-cost airlines have also helped, especially as three-quarters of all independent holidays are taken from the UK by air.	15 20
One other reason for the popularity of DIY holidays is flexibility, together with people's desire to get more from their trips. While 'a place to relax and unwind' remains the number one priority for 61 per cent of travellers, most British tourists want more than just a beach holiday. Of the 1100 or so travellers questioned, 'an interesting landscape' was a must for 42 per cent, followed by 'experiencing a different culture' and 'cities, heritage or architecture' (both 40 per cent). Only then did 'hot weather' (39 per cent) and 'a beach and a pool' (36 per cent) become the next priority. Britons' reputation for wanting to create their own enclaves on foreign soil also appears unfounded. Only 13 per cent said they picked a place because it had 'familiar food' and 7 per cent because it had 'other Brits around'. 'Good shopping', often cited as a reason for a city break, was only a priority for 14 per cent in the survey.	25 30
The changing tastes of the British public have led leading tour operators to 'unbundle' package holidays and offer flights and accommodation separately on the internet. Thomson has launched its own website and MyTravel and First Choice have subsidiary websites. Keith Betton of the Association of British Travel Agents said, "These predictions for independent travel are impressive and underline the reason why our members are adapting quickly".	35

Source: adapted from an article by RICHARD ALLEYNE, *The Daily Telegraph*, 5 November 2004

**Extract G: Independent holidays: total expenditure and total number of holidays taken abroad, 1998=100**



Source: International Passenger Survey/Mintel; quoted by RICHARD ALLEYNE in *The Daily Telegraph*, 5 November 2004

*Question 3*

- (a) Define the term 'economies of scale' (**Extract F**, line 1). (3 marks)
- (b) Using **Extract F**, briefly explain **two** factors which might influence a decision to take a non-package (independent) holiday. (4 marks)
- (c) Use the concept of cross elasticity of demand to explain the likely relationship between the markets for cheap flights and holiday accommodation. (8 marks)
- (d) With the help of a supply and demand diagram, analyse the likely effects of an increase in independent internet bookings on the market for package holidays abroad. (10 marks)
- (e) Changes in the pattern of tourism, such as those discussed in the data, and changes in the level of tourism, will have both microeconomic and macroeconomic effects. Identify the main effects and evaluate their economic impact. (15 marks)

**END OF QUESTIONS**

**There are no questions printed on this page**

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