



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2010

Economics

Assessment Unit AS 1

Markets and Prices

[AE111]

THURSDAY 3 JUNE, AFTERNOON



AE111

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in all questions **except 1(b) and 1(d)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

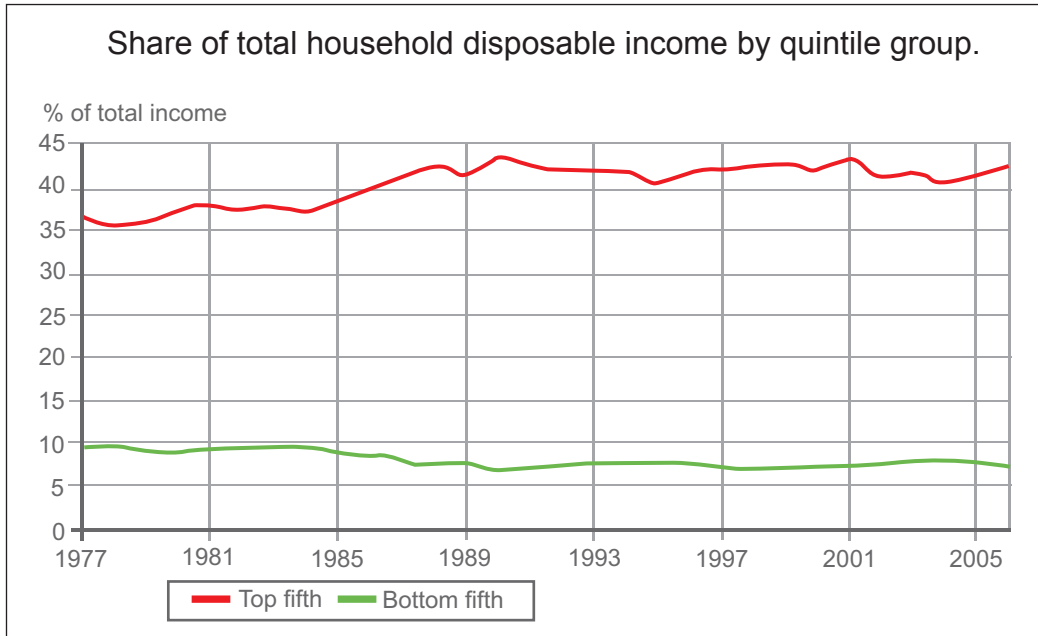
Question 1: Data Response

The following passage was written in spring 2009.

Study it carefully and answer the questions which follow.

“Poverty ranking is all relative”

UK Income Inequality



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Fig. 1

Relative Income Poverty and Social Indicators (2009)

Country	Inequality score (how many times richer the top quintile group are compared to the bottom quintile group)	Obesity (% of population)	Prisoners (number per 100,000 of population)
USA	8.6	31	576
UK	7.2	22	124
Australia	7.0	18	100
Greece	6.2	29	28
Ireland	6.1	18	65
Germany	5.2	19	91
Sweden	4.0	11	64
Norway	3.9	11	52
Denmark	4.3	15	65
Japan	3.4	2	40

Source: *The Spirit Level*, Richard Wilkinson and Kate Pickett

Fig. 2

A report published recently (March 2009) has concluded that relative poverty rates in the UK are the second highest of the major industrialized economies. The report entitled “The State of the Nation” ranked countries according to how many times richer the top fifth of the population (top quintile) were compared to the bottom fifth (bottom quintile). The data, which is summarized in Fig. 1, shows that more people live in relative poverty in the UK than in countries such as Greece and Japan. The report also suggested that almost every social problem, from crime to obesity, stems from one root cause: income inequality.

Some economists however, have questioned the usefulness of the data. One critic stated that “measures of relative poverty tell us very little about material deprivation, since someone in the bottom quintile group in the UK could have a higher real income than someone in the top quintile group in a country such as Rwanda”. “If economists want to compare poverty rates, either between countries or over time, they should use measures of absolute poverty.” 2

At the same time figures published recently by the ONS (**Fig. 1**) show that the gap between the income of the richest and poorest in the UK has remained stubbornly unchanged since Labour came to power in 1997, despite a raft of measures aimed at reducing it. These include the introduction of means-tested benefits, such as the child tax credit and the pension credit, increases in universal benefits such as child allowance, and the introduction of schemes such as the New Deal which aims to help the unemployed find work. 3

However, such measures have been criticized by a right wing politician who said “attempts by government to reduce relative poverty are a waste of its time and taxpayer’s money. Relative poverty is an inevitable feature of a free market economy. Attempts by government to reduce it will only make matters worse by creating disincentives to hard work and enterprise”. 4

- (a) Using the data in **Fig. 1**, compare the changes in the share of total household income of the top quintile group with that of the bottom quintile group, during the period shown. [6]
- (b) Suggest **two** possible reasons for the trends you have just described. [4]
- (c) With reference to the source, explain the distinction between the terms relative poverty and absolute poverty. [6]
- (d) Explain why some economists believe that measures of relative poverty are useless when comparing poverty rates between countries. [4]
- (e) Examine the case for and against the increased use of means-tested benefits as opposed to universal benefits. [8]
- (f) Evaluate the view expressed in the last paragraph that “relative poverty is an inevitable feature of a free market economy and attempts by government to reduce it will only make matters worse”. [12]

Essays:

Answer **one** from **Questions 2, 3 or 4**.

2 “Scarcity is not a problem in developed economies”

- (a) Explain what is shown by a production possibility frontier. [10]
- (b) Analyse some of the factors which may cause an outward shift in an economy’s production possibility frontier. [15]
- (c) Evaluate the view that scarcity is no longer a problem in developed economies. [15]

3 “UK economy in crisis as housing market crashes”

- (a) Explain what is meant by consumer surplus. [10]
- (b) Analyse the likely impact on consumer and producer surplus of the recent fall in house prices. [15]
- (c) Evaluate the view that housing is too important to be left solely to market forces. [15]

4 “Alcohol duty set to rise by 2% a year in real terms in an attempt to reduce binge drinking”

- (a) Explain what is meant by the term externality. [10]
- (b) Analyse why free markets often lead to the over-consumption of demerit goods. [15]
- (c) Evaluate the view that increases in alcohol duty are the most effective method of dealing with binge drinking. [15]