Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2013

Economics

Assessment Unit AS 1

Markets and Prices

[AE111]

AE111

TUESDAY 15 JANUARY, AFTERNOON

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.

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Question 1: Data response

The following passage was written in April 2011.

Study it carefully and answer the questions which follow.

UK petrol prices at record highs as oil prices continue to rise

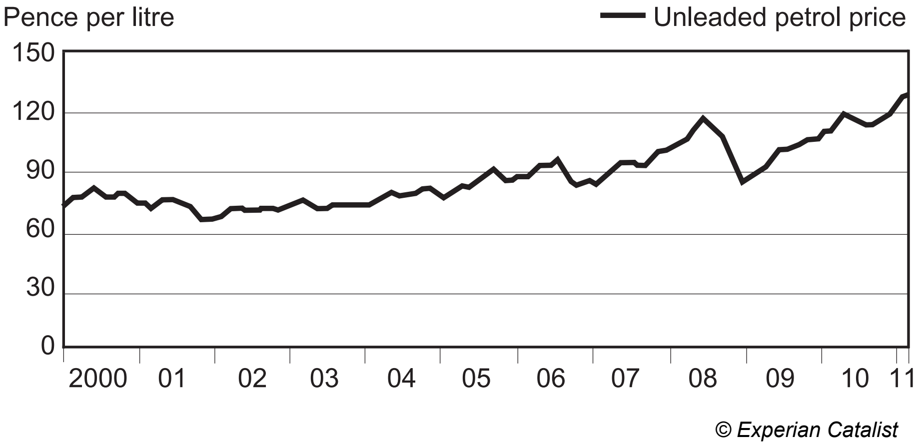

Fig. 1: UK unleaded petrol prices January 2000 to March 2011

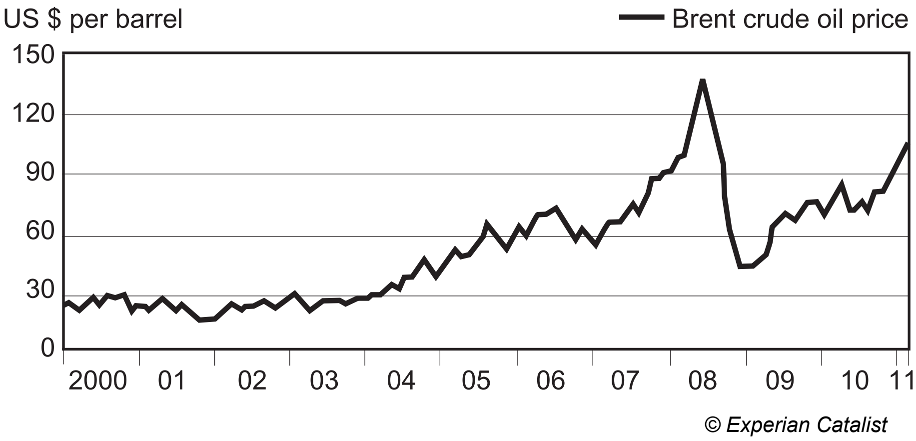

Fig. 2: Brent crude oil prices January 2000 to March 2011

A new report published today (April 27th 2011) shows that UK motorists are paying some of the highest petrol prices in Europe. The report on fuel prices by the Automobile Association (AA) claimed that average petrol prices in the UK climbed to a "new record high, despite the 1p cut in fuel duty in the recent budget". In the last year the average price of unleaded petrol has increased by 15p to £1.30 per litre. *(Paragraph 1)*

While increased taxes have undoubtedly played their part in the rising petrol prices, the main driving force behind the increase is the rapid rise in the price of crude oil. The price of crude has risen from less than $50 a barrel in early 2009 to $110 today. The high oil price has been caused by a number of factors, not least the heavy demand from countries such as China and India, and higher than expected energy needs in the West. At the same time there have been supply disruptions following the political unrest in oil producing countries such as Libya and Bahrain. *(Paragraph 2)*

The AA report warns that the rising petrol prices are forcing motorists off the roa s of unleaded petrol falling by 13% in the last year. A spokesman for the AA stated e demand for petrol is much more price elastic than we previously thought, with sales falling far faster than we expected. We are seeing record levels of people walking and b People are combining journeys or making shorter ones or just simply staying at home, tho how much of this is due to the price rises is difficult to tell". *(Paragrap*

Lobby group Fair Fuel UK has threatened to blockade roads and streets unless the government introduces a fuel price stabiliser. This would reduce the excise duty on fuel when prices rise and increase it when prices fall. Steve Carroll, a trucker and veteran of previous fuel price protests, stated "the road haulage industry and the ordinary motorist are being strangled to death by rises in VAT and fuel duties. This has the potential to damage the wider economy because road transport allows trade and shopping to flourish. It is within the government's power to loosen the noose from around the industry's neck and secure the long-term future of this industry and the UK economy". *(Paragraph 4)*

However, not everyone supports the move to lower fuel prices! Green campaigners point out that higher fuel prices mean fewer journeys. This in turn means less pollution, fewer road accidents and shorter traffic jams. Pressure group Green Alliance has suggested that cutting fuel duties by the introduction of a fuel price stabiliser could cost taxpayers as much as £6 billion a year. They also warned that the introduction of the stabiliser could encourage oil companies to push the price of petrol even higher in an attempt to make bigger profits at the expense of the taxpayer. *(Paragraph 5)*

Source: adapted from various sources April 2011

(a) Using the information in Fig. 1 and Fig. 2, compare the trends in the price of unleaded petrol with that of Brent crude oil between January 2000 and March 2011. [6]

(b) Explain the relationship between the price of unleaded petrol and the price of crude oil. [4]

(c) Using demand and supply analysis, explain the factors which have led to the increase in crude oil prices since 2009. (Paragraph 2) [8]

(d) Using the information in Paragraph 1 and Paragraph 3, estimate the price elasticity of demand for unleaded petrol in the UK. [4]

(e) Explain why some economists might question the accuracy of this estimate. [6]

(f) Critically examine the proposal to introduce a fuel price stabiliser. (Paragraphs 4 **and** 5.) [12]

Essays:

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

2 Population growth puts strain on nation's resources

(a) Explain what is shown by a production possibility curve (frontier). [10]

(b) Explain some of the factors which could cause a rightward shift in a country's production possibility curve. [15]

(c) Critically examine the view that the government should attempt to influence population growth in the UK. [15]

3 Government failure is worse than market failure

(a) Explain what is meant by the term market failure. [10]

(b) Explain why the free market would fail to provide sufficient public goods. [15]

(c) Critically examine the view that government intervention to correct market failure is likely to make matters worse. [15]

4 Gap between rich and poor widens

(a) Explain what is meant by price elasticity of supply. [10]

(b) With the aid of an appropriate diagram, explain how the price elasticity of supply for labour influences how wages are divided between economic rent and transfer earnings. [15]

(c) Critically examine some of the policies the government could implement to reduce income inequality. [15]