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**SECTION A**

**Answer ALL questions in this section.**

**You are advised to spend 30 minutes on this section.**

**You are encouraged to use a diagram in your explanation where appropriate.**

1. **Statement 1** Inequality is typically greater in a market economy than a centrally planned economy.

**Statement 2** It is good to use progressive taxation in a market economy to reduce inequality.

Which of the following best describes the two statements above?

- A Statement 1 is normative and statement 2 is positive.
- B Both statements are positive.
- C Statement 1 is positive and statement 2 is normative.
- D Both statements are normative.

**Answer**

**(1)**

**Explanation**

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**(4)**

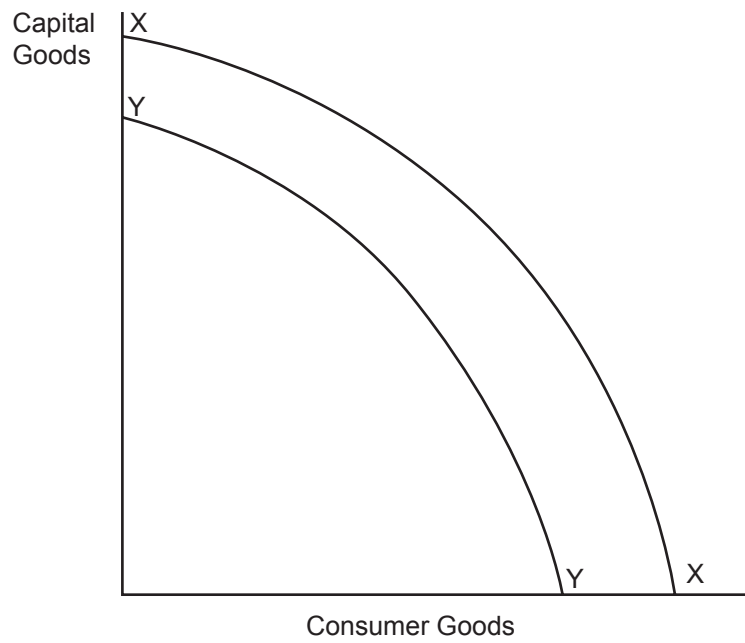
**(Total 5 marks)**

**Q1**



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2.



The diagram above shows a production possibility frontier XX for an Eastern European country in the early stages of economic transition. Which of the following is most likely to cause the production possibility frontier to shift from XX to YY?

- A An increase in demand for both capital goods and consumer goods.
- B Investment spending is insufficient to replace worn out capital goods.
- C A decrease in demand for both capital goods and consumer goods.
- D A decrease in profits for both sectors of the economy.

Answer

(1)

Explanation

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(4)

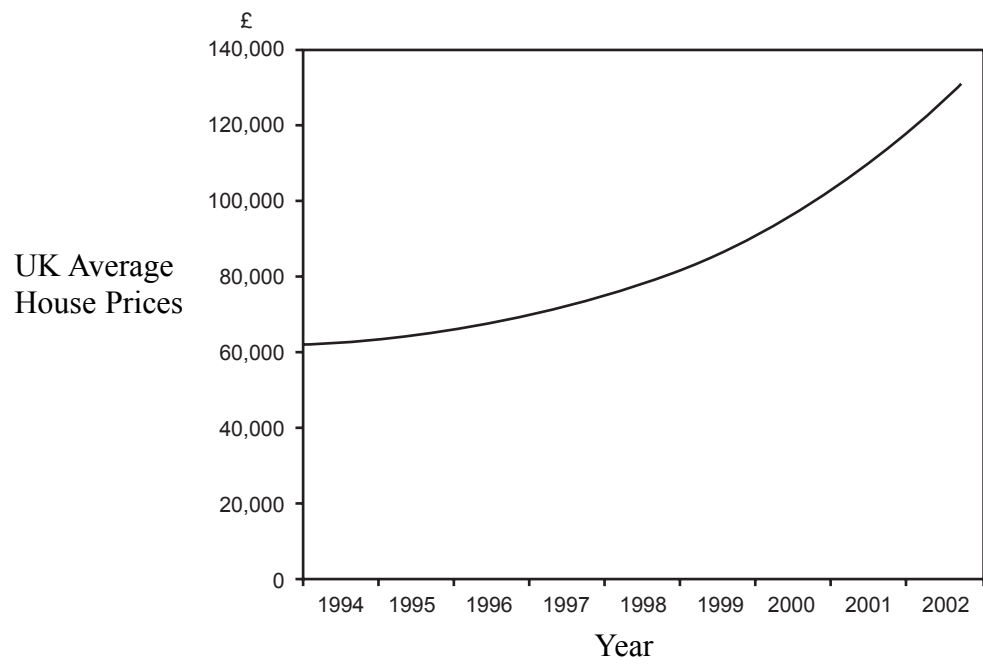
(Total 5 marks)

Q2



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3.



(Source: *Survey of Mortgage lenders*, [www.odpm.gov.uk](http://www.odpm.gov.uk))

The graph above shows the trend in UK average house prices between 1994 and 2002. Which of the following is the most likely explanation of the trend shown?

- A Lower interest rates and more government restrictions on housing development.
- B Increased availability of private rental and council rental accommodation.
- C Lower consumer incomes and an increase in new house construction.
- D Reduced availability of mortgage loans and higher taxes on house purchases.

Answer  (1)

Explanation

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(4)

Q3

(Total 5 marks)



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4. A London theatre sells an average of 1,000 tickets per performance at a price of £20 each. There are still many empty seats for each performance. The owner conducts market research and finds that price elasticity of demand for the theatre's tickets is -2.

If the owner reduces the price of each ticket by 10%, the change in total revenue for each performance is likely to be:

- A +£1600
- B -£1000
- C -£1600
- D +£1000

Answer

(1)

Explanation

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(4)

(Total 5 marks)

Q4



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5.

Food item	Income elasticity of demand
Butter	-0.04
Margarine	-0.44
Fresh potatoes	-0.48
Fresh fruit	+0.48

(Source: National Statistics website: [www.statistics.gov.uk](http://www.statistics.gov.uk)  
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The table shows income elasticity of demand values for selected food items.  
Which of the following can be deduced from the table?

- A The cross price elasticity of demand between butter and margarine is positive.
- B All of these food items can be classified as inferior goods.
- C As incomes rise the demand for fresh fruit also rises but by a smaller proportion.
- D The demand for fresh fruit is price inelastic.

Answer

(1)

Explanation

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(4)

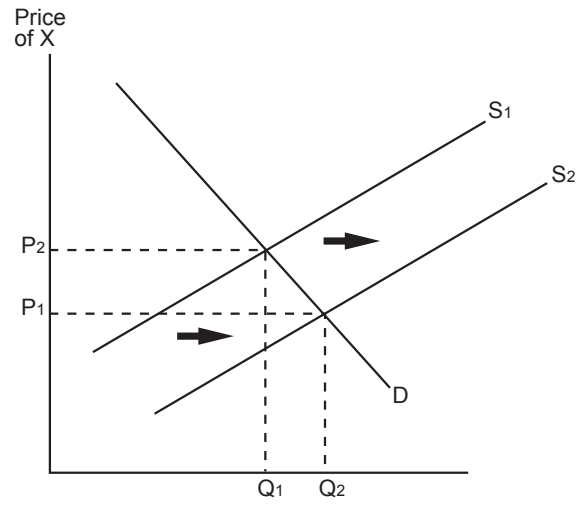
(Total 5 marks)

Q5

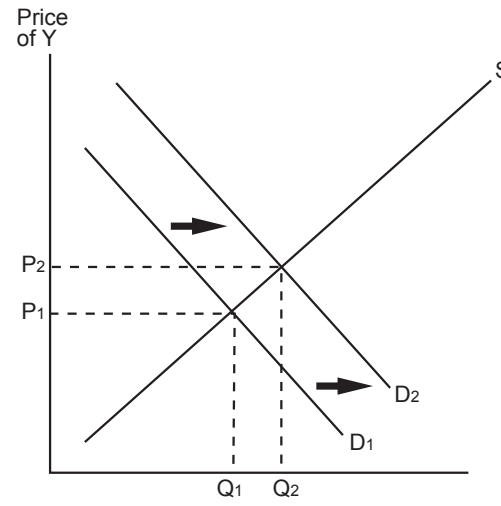


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6.



Quantity demanded and supplied of good X per period



Quantity demanded and supplied of good Y per period

The diagrams show how a shift in the supply of good X results in a shift in the demand for good Y. Which of the following pairs is most likely to be represented by good X and good Y?

- A Tea and coffee.
- B Leather and beef.
- C Rail travel and petrol.
- D Tennis rackets and tennis balls.

Answer

(1)

Explanation

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(4)

(Total 5 marks)

Q6

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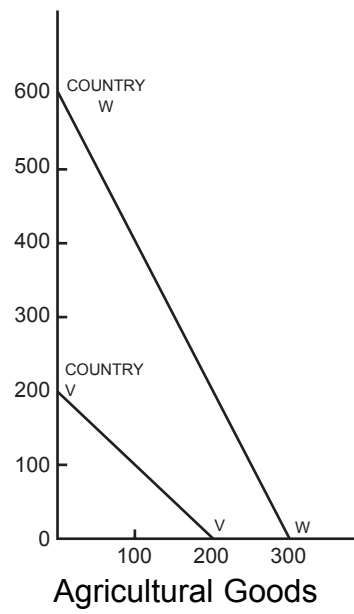
Turn over



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7.

Manufactured Goods



The diagram illustrates the production possibility frontiers of two countries, W and V. Assuming no transport costs or trade barriers:

- A Country V has an absolute advantage in both goods.
- B Neither country could benefit from trade.
- C Country W has a comparative advantage in both goods.
- D Both countries could benefit from trade.

Answer

(1)

Explanation

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(4)

(Total 5 marks)

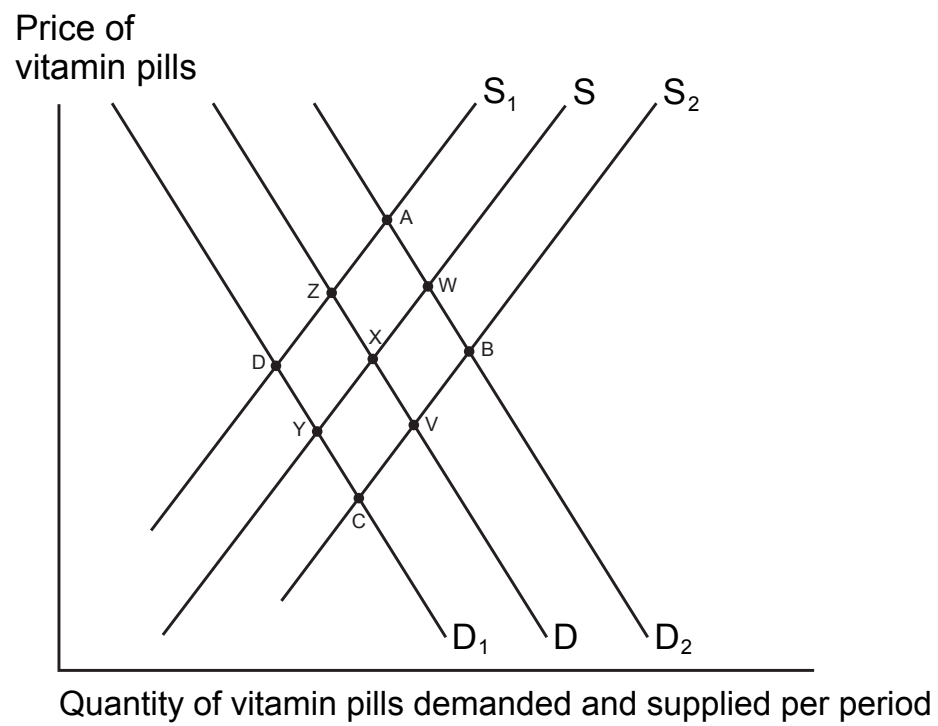
Q7





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8.



The diagram relates to the market for vitamin pills. The initial equilibrium position is indicated by point X.

What will be the new equilibrium position, **A**, **B**, **C** or **D**, following a government medical report that vitamin pills could endanger health, and, at the same time, a major pharmaceutical company entering the market with a new range of vitamin pills?

Answer

(1)

Explanation

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(4)

(Total 5 marks)

Q8

TOTAL FOR SECTION A: 40 MARKS



**SECTION B**

**Answer EITHER Question 9 OR Question 10.**

**Indicate which question you are answering by marking the box (☒). If you change your mind about an answer, put a line through the box (☒) and then indicate your new question with a cross (☒).**

**You are advised to spend 30 minutes on this question.**

**If you answer Question 9 put a cross in this box ☒.**

**Question 9**

**The Music Compact Disc Market**

The average price of a music compact disc (CD) has fallen below £10 for the first time because of two factors. First, the entry of supermarkets into the retail music industry has created a price war with the specialist record stores, as firms battle for market share. Secondly, the growth of internet piracy has led to a slump in sales as people download  
5 music from their computers. Stores used to charge about £13 for new releases but industry figures show that the average price of a CD album has fallen to £9.79.

The price-cutting has contributed to a 7 per cent fall in the value of CD sales to £1.15 billion over the past year. Despite the bargains, even chart-topping CDs are proving hard to sell. Even Radiohead's *Hail to the Thief*, one of the year's biggest hits, registered  
10 disappointing sales.

Specialist music stores such as HMV and Virgin are being forced to stage constant promotions to attract customers. Others have left the industry: the nationwide independent chain Andy's Records went into administration earlier this year and the US-owned Tower Records decided to close its shops in the UK.

(Source: adapted from 'Prices fall as pop fans buy CDs with their cornflakes'  
by Adam Sherwin, *The Times*, 26 June 2003)











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If you answer Question 10 put a cross in this box .

**Question 10**

**UK Tourism Trends**

**Figure 1**

Year	Number of Foreign Tourists Visiting UK (000's)	Number of UK Tourists Visiting Overseas (000's)
1997	10,803	29,138
1998	10,475	32,306
1999	9,826	35,023
2000	9,302	36,685
2001	7,585	38,670
2002	7,744	39,900
1997-2002 % change	-28.3%	

(Source: National Statistics website: [www.statistics.gov.uk](http://www.statistics.gov.uk)  
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The UK tourist industry has been in a deep crisis over recent years, precipitated by foot-and-mouth disease, the terrorist attacks of September 11, and wars in Afghanistan and Iraq. Matters were not helped by a recession in continental Europe and the USA (which the UK appears to have escaped) and a rise in the pound sterling on the foreign exchange market.

- 5 However, the crisis may now be drawing to a close. According to 'Visit Britain', the successor to the British Tourist Board, 70 per cent of UK holiday-makers taking a trip over the next couple of weeks will be doing so domestically. Many British holiday companies and hoteliers report that bookings are growing fast. The warm sunny weather and Visit Britain's television advertising campaign, featuring various members of the Royal Family promoting domestic holidays, appear to be working.

(Source: adapted from 'The sun is out and the sky is looking blue at last for Britain's beleaguered tourist industry', by Terry Kirby, *The Independent*, 16 July 2003)





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- (a) With reference to Figure 1, calculate the percentage change in the number of UK tourists visiting overseas between 1997 and 2002.

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(2)



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