

Centre No.					Paper Reference						Surname	Initial(s)	
Candidate No.					6	3	5	1	/	0	1	Signature	

Paper Reference(s)

**6351/01**

# Edexcel GCE

## Economics

### Advanced Subsidiary

Unit 1 – Markets: how they work

Friday 8 June 2007 – Afternoon

Time: 1 hour

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
Section A	
Section B	
Total	

Materials required for examination

Nil

Items included with question papers

Nil

**Instructions to Candidates**

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.

Check that you have the correct question paper.

Answer ALL the questions in Section A in the spaces provided in this question paper.

- For each question there are four suggested answers: A, B, C or D.
- When you have selected your answer to the question, write the chosen letter in the box provided.
- You can only offer one answer to each question.
- After making your selection you should offer an explanation of why you have made that choice. Your explanation may include a diagram.

Answer ONE question from Section B in the spaces provided in this question paper.

**Information for Candidates**

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2).

The paper is divided into two sections, A and B; both sections are equally weighted, with the total mark on Section A divided by two.

The total mark for this paper is 40.

There are 20 pages in this question paper. Any blank pages are indicated.

**Advice to Candidates**

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, including your use of grammar, punctuation and spelling.

You are advised to divide your time equally between Section A and Section B.

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**Turn over**



**SECTION A**

**Answer ALL questions in this section.**

**Write the letter of your chosen answer in the box and then explain your choice in the space provided.**

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

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

1. Which of the following is best described as a normative statement?
- A The target for inflation for the Bank of England is lower than that of the European Central Bank.
  - B Healthcare provision in the UK serves fewer patients than the French equivalent.
  - C The government ought to increase the funding for overseas development.
  - D Increasing levels of unemployment can reduce economic growth.

(a) **Answer**

**(1)**

(b) **Explanation**

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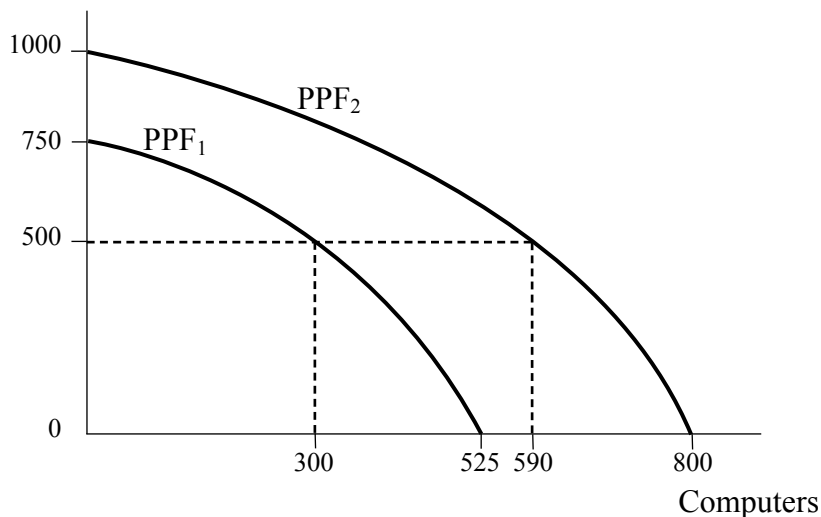
**(4)**

**(Total 5 marks)**

**Q1**



2. Cars



The diagram refers to an economy producing two goods: cars and computers.

If the economy experiences economic growth the change in opportunity cost of producing 500 cars is

- A an increase of 290 computers
- B a decrease of 15 computers
- C an increase of 275 computers
- D a decrease of 275 computers

(a) Answer

(1)

(b) Explanation

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(4)

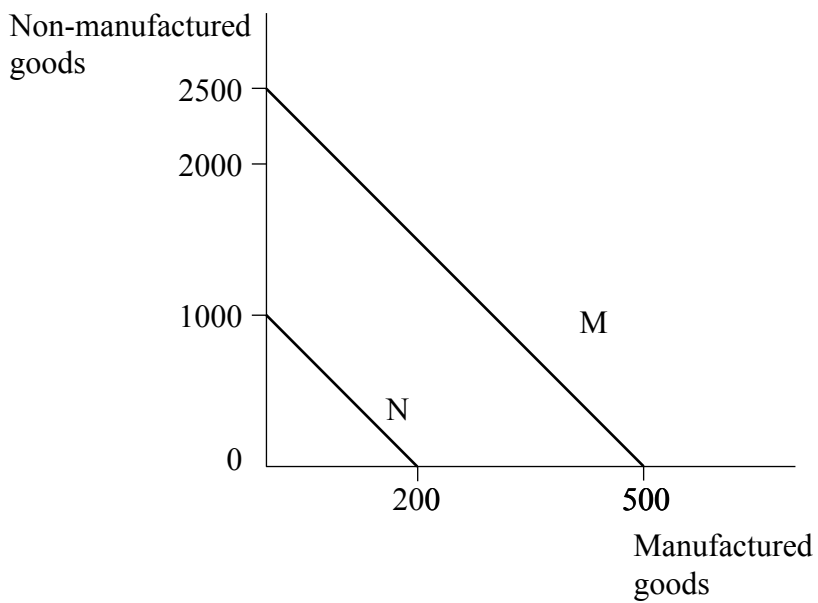
(Total 5 marks)

Q2



M 2 5 1 0 1 A 0 3 2 0

3.



The diagram illustrates the production possibility frontiers of two countries, M and N. It can be concluded that

- A Country M has a comparative advantage in the production of manufactured goods.
- B Country N will specialise in the production of manufactured goods and trade with country M.
- C Neither country will benefit from trade in these goods.
- D Country M will specialise in manufactured goods and trade with country N.

(a) Answer

(1)

(b) Explanation

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(4)

(Total 5 marks)

Q3



4. A café observed an increase in the demand for its coffee following a rise in the price of a cup of tea from £1.20 to £1.50. Assuming the cross price elasticity of demand for coffee with respect to a change in the price of tea is +3, by how much will the demand for coffee have increased?

- A 33%
- B 20%
- C 25%
- D 75%

(a) Answer

(1)

(b) Explanation

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(4)

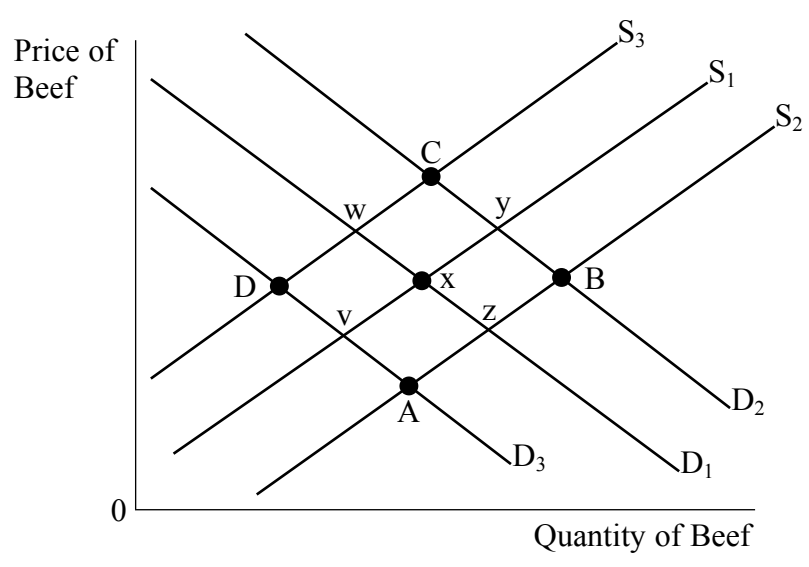
(Total 5 marks)

Q4



5.

### Market for Beef



The diagram relates to the market for beef, a substitute for chicken. The initial equilibrium position is indicated by point X.

An outbreak of Bird Flu results in the demand for chicken falling and, at the same time, the ban on the sales of beef older than three years is removed. What will be the new equilibrium point (A, B, C or D)?

(a) Answer

(1)

(b) Explanation

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(4)

(Total 5 marks)

Q5



6.

	Income Elasticity of Demand	Price Elasticity of Demand
Orange juice	+0.4	-1.6
French bread	+1.4	-1.3
Indian ready meals	+2.1	-0.4
Tinned ravioli	-0.6	-2

The table shows income and price elasticity of demand data for a selection of food and drink items.

From this information we can deduce that

- A The demand for all items is price elastic
- B Orange juice is an inferior good
- C A reduction in income will result in an increase in demand for French bread
- D An increase in the price of Indian ready meals would raise the revenue to the retailer.

(a) Answer

(1)

(b) Explanation

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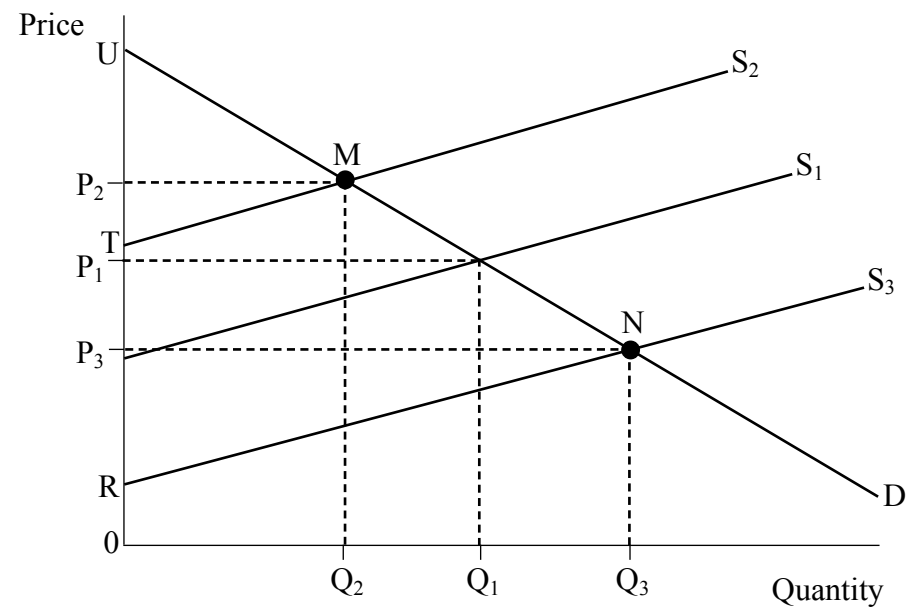
(4)

(Total 5 marks)

Q6



7.



The market for light bulbs is shown in initial equilibrium at  $P_1, Q_1$ . Which area represents the producer surplus after new technological processes are used in manufacturing light bulbs?

- A  $P_3 N R$
- B  $P_2 M U$
- C  $P_2 M T$
- D  $P_3 N U$

**Please write your answer and explanation on the next page.**





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(a) **Answer**

**(1)**

(b) **Explanation**

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**(4)**

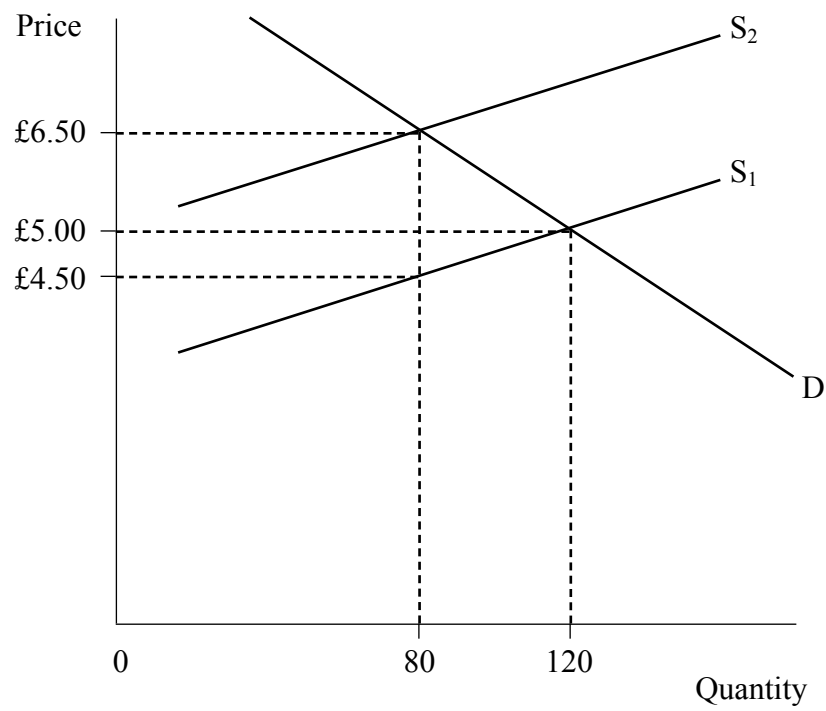
**(Total 5 marks)**

**Q7**



8.

### Market for Cigarettes



The government increases the level of taxation on cigarettes.

What is the incidence of this increase in taxation on consumers and producers?

	Consumers	Producers
<b>A</b>	£120	£40
<b>B</b>	£120	£0
<b>C</b>	£180	£60
<b>D</b>	£600	£0

**Please write your answer and explanation on the next page.**



Leave blank

(a) Answer

(1)

(b) Explanation

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(4)

(Total 5 marks)

Q8

TOTAL FOR SECTION A: 40 MARKS

11

Turn over



**SECTION B**

Answer EITHER Question 9 OR Question 10.

Write your answers in the spaces provided.

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 Price of Orange Juice****Extract 1**

A carton of orange juice could be set for a steep price rise after the wholesale price of orange juice rose to its highest level for sixteen years following a poor harvest in Florida, the world's second-largest grower, and speculative buying by traders.

“The 2004 and 2005 crops in Florida were ravaged by three hurricanes that reduced production from anywhere between 35–45 per cent” said James Cordier, head trader at Liberty Trading. 5

The price of juice has tripled since 2004 and since the start of 2006 prices have soared by 50 per cent.

The driver of higher prices has been concern for growers in Florida, where the vast majority of oranges in the United States are harvested. A series of devastating hurricanes have ripped up orange groves, damaging trees and reducing output. 10

Elizabeth Steger forecast the Florida harvest to be 123 million boxes of oranges in 2007, below the 153 million boxes achieved in 2006.

Source: adapted from the *Bahrain Tribune* 21st August 2006





(b) Explain two factors, **other than those referred to in the extract**, that could influence the demand for oranges.

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(4)

(c) Using the theory of comparative advantage to support your answer, discuss why Florida is the one of the world's largest suppliers of oranges.

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(5)





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

**Question 10 Sparkling diamonds soaring in popularity**

**Extract 1**

Rising incomes will lead to a huge increase in global demand for diamonds, forcing prices up by a third in the next few years.

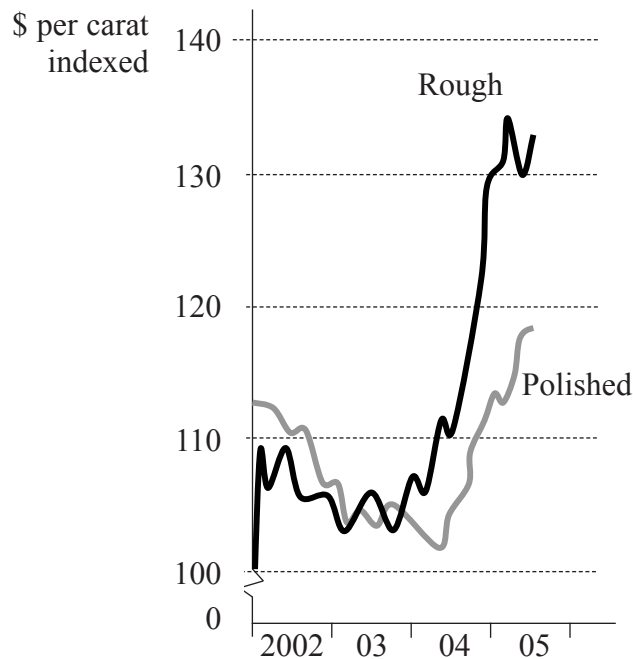
In May 2005, James Picton warned an international conference that demand would rise by 50 per cent by 2012, to £7.7 billion. This increase is equal to the combined annual production of Russia and Botswana, the world's biggest diamond producers. Meanwhile reserves in Australia and Canada are declining. 5

Picton said 'You have supply going up 1 per cent a year on average, and demand growing by at least 5 per cent a year', but this remains a conservative estimate and the real increase in demand could be much higher. In addition, the demand for other gems such as emeralds and sapphires has fallen. 10

Picton stated that there was also a big increase in demand for polished diamonds in the Chinese and Indian markets, where consumer incomes have grown sharply.

Source: adapted from original by Dan Box, *The Sunday Times*, 22 May 2005

**Figure 1 Rough and polished diamond prices**



Source: adapted from *The Sunday Times*, 22 May 2005 and WWC International Diamond Consultants Ltd









Leave blank

(b) Examine the likely effect on consumer surplus of an increase in demand for diamonds.

Lined area for student response

(4)



M 2 5 1 0 1 A 0 1 8 2 0

(c) With reference to the extract and other knowledge:

(i) Explain what is meant by *income elasticity of demand*.

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(2)

(ii) Using this concept, contrast the impact of an increase in income on the demand for diamonds with that on the demand for emeralds and sapphires.

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(4)

Turn over for part (d)



(d) Discuss **one** advantage and **one** disadvantage for a country like Botswana specialising in the production of diamonds.

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(4)

Q10

(Total 20 marks)

**TOTAL FOR SECTION B: 20 MARKS**

**TOTAL FOR PAPER: 40 MARKS**

**END**

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