

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

Paper Reference(s)

**6351/01**

# Edexcel GCE

## Economics

### Advanced Subsidiary

Unit 1 – Markets: how they work

Thursday 17 January 2008 – Morning

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 <b>A</b>	
Section <b>B</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**

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**SECTION A**

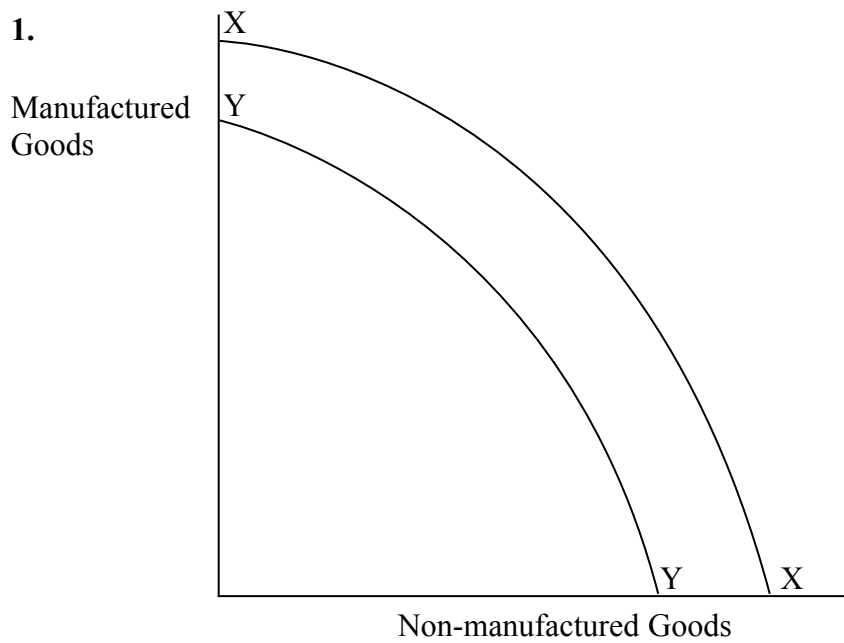
**Answer ALL questions in this section.**

**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 might best explain a movement from production possibility frontier XX to production possibility frontier YY?

- A** Economic growth.
- B** Increased unemployment.
- C** A natural disaster.
- D** Development of new technology.

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



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blank

(a) Answer

(1)

(b) Explanation

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(4)

(Total 5 marks)

Q1

3

Turn over



N 2 9 2 7 1 A 0 3 2 0

2. *Statement one*

“The introduction of a ban on smoking in public places is a good thing, as smoking is anti-social.”

*Statement two*

“Government revenue from taxation on smoking has fallen as a result of the ban on smoking in public places.”

- A Statements one and two are both positive.
- B Statement one is positive and statement two is normative.
- C Statement one is normative and statement two is positive.
- D Statements one and two are both normative.

(a) **Answer**

**(1)**

(b) **Explanation**

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**(4)**

**(Total 5 marks)**

**Q2**



3. When the government decides to spend £10 million on building a new school, a potential opportunity cost is

- A the wages of builders involved in the building project
- B the building of a nearby hospital costing £10 million
- C the salaries of the teachers to be employed by the new school
- D the gain associated with the qualifications the students will get at the new school.

(a) **Answer**

**(1)**

(b) **Explanation**

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**(4)**

**(Total 5 marks)**

**Q3**



4. Gill has calculated that her consumer surplus from buying a camera is £45. Which of the following might cause her consumer surplus to fall to £30?

- A A reduction in the indirect tax on cameras.
- B A fall in the cost of printing the pictures taken.
- C An increase in the cost of manufacturing cameras.
- D A fall in the wages paid to workers who produce cameras.

(a) Answer

(1)

(b) Explanation

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(4)

(Total 5 marks)

Q4



5. The price elasticity of supply of bananas

- A depends on the level of consumer income
- B depends on whether they are a luxury or a necessity
- C is normally negative rather than positive
- D is likely to be greater the longer the period of time under consideration.

(a) Answer

(1)

(b) Explanation

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(4)

(Total 5 marks)

Q5



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6. Which of the following pairs of goods is likely to have a positive cross price elasticity of demand?
- A A Sony Playstation and the games that are played on it.
  - B Airline travel and airline fuel.
  - C Washing powder and shampoo.
  - D A Sony Playstation and Microsoft X Box.

(a) Answer

(1)

(b) Explanation

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(4)

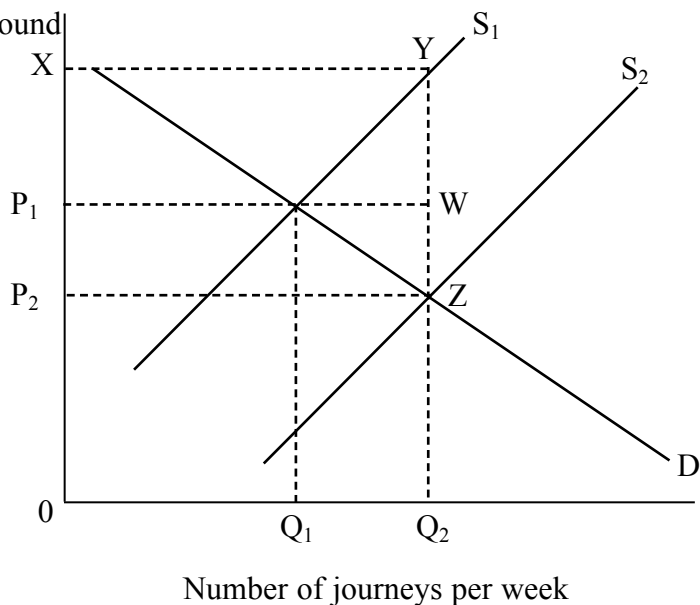
(Total 5 marks)

Q6





7. Price of a journey on London Underground



The government introduces a subsidy to support London Underground which shifts the supply curve from  $S_1$  to  $S_2$ . Which area represents the total government expenditure on the subsidy?

- A  $0P_1WQ_2$
- B  $P_1P_2WZ$
- C  $P_2XYZ$
- D  $0XYQ_2$

(a) Answer

(1)

(b) Explanation

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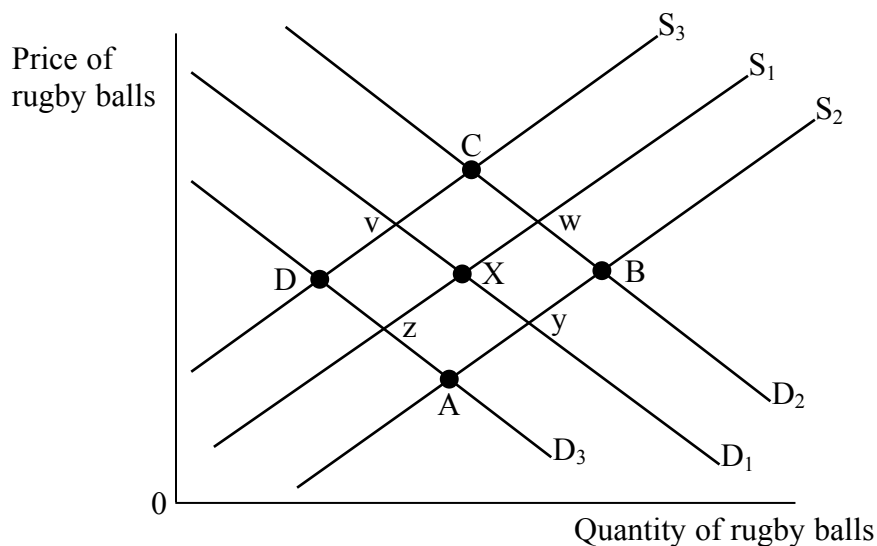
(4)

Q7

(Total 5 marks)



8.



The diagram shows the demand and supply of rugby balls in the United Kingdom. Following the publicity generated by the Rugby World Cup, the number of people playing rugby has increased. At the same time production of rugby balls has switched to a low-wage economy.

If the initial point is X, which of the following points A, B, C, D shows the likely new equilibrium point for rugby balls?

(a) Answer

(1)

(b) Explanation

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(4)

Q8

(Total 5 marks)

TOTAL FOR SECTION A: 40 MARKS



**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, 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                      Price of oil reaches new high**

**Extract 1**

On 14 July 2006, the price of a barrel of oil reached a new record high of \$78.40. Economists believe the price rise is caused by a mismatch in supply and demand. During the 1980s and 1990s, when oil prices were relatively low, oil companies cut back on investment, leaving them with little or no spare capacity. Although they are now rushing to increase their output, it takes years to find and develop new oil fields. In fact, it takes longer now than it used to, because environmental regulations have become stricter and campaigners more vocal in their protests around the world. 5

Meanwhile, on the demand side, the world as a whole and China in particular, has been growing much faster than expected and consuming lots of oil. In the past 15 years China's imports of oil have exceeded that of Japan, making China the second largest importer of oil. China imported 6.5 million barrels of oil per day in 2004, and this is expected to increase to 10.9 million barrels per day by 2025. 10

However, economists do not believe that these price rises can be maintained. Oil stocks are high and spare capacity should increase in the next couple of years as production starts from oil fields now being developed. 15

Source: adapted from "Oil that glisters" *The Economist*, 22 – 28 July 2006 and Energy Information Administration country profile on China



(a) **Apart from price**, identify **two** factors which might affect the demand for oil.

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**(2)**

(b) Using a demand and supply diagram, explain why ‘the price of a barrel of oil reached a new record high of \$78.40’ (*Extract 1, line 1*).

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**(5)**



(c) Is the demand for oil likely to be price elastic or price inelastic? Explain your answer.

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**(4)**

(d) Explain what might happen to the revenue of an oil producer faced with increasing demand and higher oil prices.

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**(3)**

**Turn over for part (e)**





(e) To what extent is the supply of oil price elastic?

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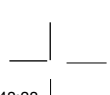
(6)

Leave blank

Q9

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(Total 20 marks)



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

**Question 10**                      **China's selling of chopsticks to Japan**

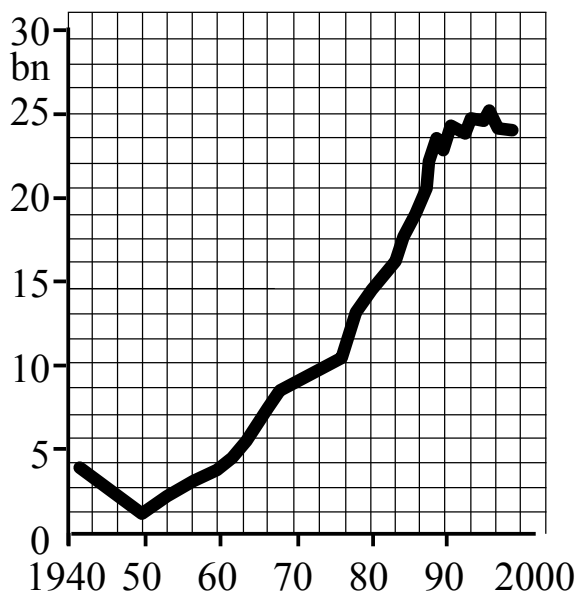
**Extract 1**

From the noodle bars of Hiroshima to the sushi restaurants of Tokyo, a sharp Chinese tax increase on disposable chopsticks is starting to bite.

The use of disposable chopsticks surged in the 1970s and 1980s. They were a symbol of national growth. Even during the tougher times of the 1990s, the Japanese continued to throw away their chopsticks after using them only once. Recession might have curbed the demand for other luxuries, but throwaway chopsticks have, until now, experienced increasing demand.

About 93 per cent of those 25 billion pairs of chopsticks are produced in China, and the Chinese government, worried about deforestation, has imposed a heavy tax on chopstick exports.

China is reportedly considering an end to all chopstick exports in 2008. Where Japan's restaurants and convenience stores used to be able to source the chopsticks at about 0.5 pence each, they are now approaching twice that.



**Figure 1: Number of pairs of chopsticks used in Japan**

With the economics of wooden chopsticks becoming more difficult to sustain, and other sources such as Vietnam unable to match the old prices, Japan is turning to plastic chopsticks.

Kokusai Kako, the Japanese company that makes plastic chopsticks, has doubled production to two million pairs a year, and is anticipating an increase in sales in future years.

Restaurant chains are looking for other ways to satisfy the disposable chopstick addiction. Chopsticks made of domestically-grown bamboo, and even recycled paper, are among the options being considered.

Source: adapted from "Chopstick tussle adds bite to Orient's diplomatic spat" by Leo Lewis, *The Times*, 3 June 2006



N 2 9 2 7 1 A 0 1 5 2 0

(a) Using a demand and supply diagram, explain why the price of chopsticks has nearly doubled in recent years (*Extract 1, Paragraph 4*).

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(5)





(b) Discuss the likely impact of rising chopstick prices on restaurant owners in Japan.

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**(5)**

(c) Using the concept of comparative advantage, discuss why Japan might import chopsticks from China.

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**(4)**

**Turn over for part (d)**



(d) (i) Distinguish between normal and inferior goods.

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(2)

(ii) Using the information provided, discuss the degree to which chopsticks may be considered a normal good.

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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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