THIS IS A NEW SPECIFICATION

OCR
RECOGNISING ACHIEVEMENT

ADVANCED SUBSIDIARY GCE

ECONOMICS

Markets in Action

F581

Candidates answer on the Question Paper

OCR Supplied Materials:
None

Other Materials Required:
- Calculators may be used.

Friday 28 May 2010
Afternoon

Duration: 1 hour 30 minutes

Candidate Forename		Candidate Surname	

Centre Number						Candidate Number				

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided. If additional space is required you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Saudi Arabia's Oil Policy Unresolved

Saudi Arabia's oil policy is a strong influence on price trends in the highly volatile world oil market. Since the price of oil began its relentless rise in 2007 – reaching US$147 per barrel in June 2008 – there has been speculation as to what are the future intentions of Saudi Arabian oil producers and the government.

Until about 2003 Saudi Arabia's oil policy was to encourage reasonably low prices (US$25 per barrel maximum) and to maintain price stability by holding a cushion of excess productive capacity. This was to provide quickly available supplies to counteract any political events that might otherwise lead to sudden price increases.

Since 2003, this policy has come under increasing pressure for two reasons. These are:

- a need to expand Saudi Arabia's public sector, particularly the provision of education, and to create more jobs for the local population. This clearly requires additional revenue to be generated from oil sales.
- a concern that Saudi Arabia's price stability policy was being undermined by the growing tendency of governments in oil consuming countries to use oil products as a means of raising additional tax revenue.

Consequently, Saudi Arabia's oil policy is now one of achieving higher revenue through higher prices... but just how high this should be, is still unresolved. This uncertainty has not been good news for millions of road users in the UK.

In June 2008, the International Energy Agency (IEA) published revealing statistics on how British motorists were clearly driving less following a doubling in the price of oil. According to the IEA's survey, from March 2007 to March 2008, the price of unleaded petrol increased from 92.8 pence to 106.8 pence per litre. Over the same period, petrol stations saw a fall in sales from 445 000 to 350 000 barrels a day. This amounted to an approximate 15% increase in price and a 21% fall in daily sales.

By August 2008, the price of diesel reached 135 pence per litre, with some analysts forecasting a price of 200 pence per litre by the end of 2009. At the same time, OPEC, the oil producers' association, was forecasting a fall in oil demand for 2009.

Rocketing diesel prices have been particularly bad news for the UK's thousands of truck operators and bus companies. These heavy users of diesel fuel have been adversely affected by the rising price of diesel and have repeatedly urged the government to make a substantial cut in the indirect taxes on fuel. They claim that some companies are being driven out of business. The basis of the claim is that truck operators, especially, can no longer compete with companies in the rest of the European Union. Customers and jobs were being lost whilst the government was raking in many billions of pounds of additional tax revenue.

These claims are not supported by environmental pressure groups which believe that high fuel prices are having a positive effect in getting road users to think more about whether their journeys are necessary or whether they should use public transport instead of a car. The reduction in CO_2 emissions due to less vehicle use is particularly welcomed by such pressure groups.

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1 **(a)** Describe what is shown by a production possibility curve.

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..... **[2]**

(b) Using a production possibility curve diagram, show how Saudi Arabia could expand its provision of education, whilst cutting back on the resources it allocates to oil production.

[4]

2 **(a)** Using information from the case study, state and explain the **two** factors which have affected the supply of Saudi Arabian oil.

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..... **[4]**

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(b) Use a diagram to show how the producer surplus of Saudi Arabian oil producers changes with an increase in the price of oil.

[4]

(c) Comment on whether Saudi Arabian oil producers increasing supply is likely to reduce world oil prices.

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3 OPEC has forecast that in 2009 there will be a fall in world demand for oil.

Using a demand and supply diagram, analyse the likely effects of this on the market for oil.

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4 **(a)** Define the term 'price elasticity of demand.'

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(b) Using the information in the case study (lines 19–24), comment on the price elasticity of demand for unleaded petrol from March 2007 to March 2008.

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5 Explain why the price of petrol and diesel fuel may not reflect the true costs of their use.

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6 Discuss whether indirect taxes on petrol and diesel fuel in the UK should be **reduced**. **[18]**

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..... [18]

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Additional pages. If you use this space, please make sure your answers are numbered carefully.

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