

General Certificate of Education
June 2008
Advanced Extension Award



ECONOMICS

6841

Tuesday 24 June 2008 9.00 am to 12 noon

For this paper you must have:

- a 16-page answer book.

You may use a calculator.

Time allowed: 3 hours

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is 6841.
- Answer **all** parts of Question 1 from Section A, **one** question from Section B and **one** question from Section C.
- **At the very start of the examination**, detach page 5 by tearing along the perforations.

Information

- The maximum mark for this paper is 160.
- The marks for questions are shown in brackets.
- Section A carries 50% of the total marks for the paper. Sections B and C each carry 25% of the total marks for the paper.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend 90 minutes on Section A, 45 minutes on Section B and 45 minutes on Section C.

SECTION A: Interpreting Economic Data

Study the data on pages 2–4 and then answer **all** parts of Question 1 which follows on page 5.

Total for this question: 80 marks

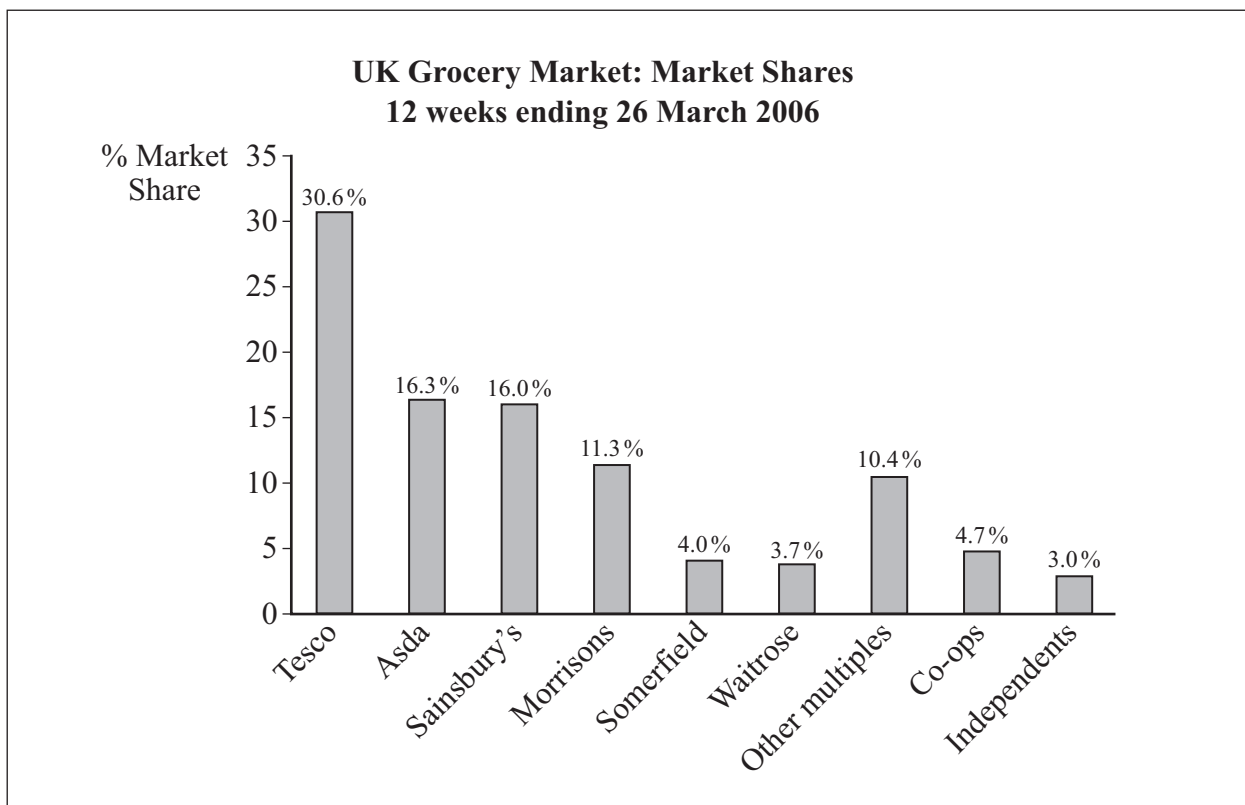
1 SUPERMARKETS, ORGANIC FOOD AND FAIRTRADE

Extract A: Recent changes in the sale of groceries in the UK

Between 2000 and 2006, grocery sales increased by nearly 17 per cent in real terms to an estimated total of £123.5 billion. At the same time, the real price of food, a major component of grocery sales, declined by around 7 per cent. The growth in sales occurred both at supermarkets (26 per cent) and at convenience stores (19 per cent). By contrast, sales at specialist grocery stores, such as butchers and greengrocers, increased by only 1 per cent in real terms over the period. 1
5

While grocery sales increased, the number of grocery outlets declined. The number of supermarkets, convenience stores and specialist grocery stores fell by 2 per cent, 8 per cent and 7 per cent respectively. However, the number of stores operated by the four largest grocery retailers (Asda, Morrisons, Sainsbury's and Tesco) more than doubled over the seven-year period. 10

Extract B: Market shares within the UK grocery market, 2006 (excluding convenience stores)



Source: TNS Worldpanel, March 2006

Extract C: The growth in sales of organic and fairtrade food

UK grocery retailing is being affected by the growth in sales of organic and fairtrade food. While the two should not be confused, the growth in sales of organic and fairtrade food reflects the distinction between people's actions as consumers and their actions as citizens. 1

Economists generally assume that consumers are selfish. But as citizens, people often consider the well-being of society. Some economists now believe that sales of organic and fairtrade food have reconciled this conflict. 5

Organic food is produced according to legally regulated standards. For crops, it means they are grown without the use of chemical pesticides and fertilisers, and that they are processed without radiation and food additives. For animals, it means they are reared without the routine use of antibiotics and without the use of growth hormones. 10

The aim of fairtrade is to address 'the injustice of low prices' by guaranteeing that farmers in poor countries receive a fair price for their goods. It means paying producers an above-market fairtrade price for their produce, provided they meet particular labour and production standards. The market for fairtrade products is much smaller than that for organic products, but is growing much faster: it increased worldwide by 37% to reach €1.1 billion (\$1.4 billion) in 2005. 15

Value of sales of fairtrade food in the UK, 1999 – 2004		Value of sales of organic food, and share of total food market in the UK, 1999 – 2004	
		Value of sales (£m)	Market share (%)
1999	£22 m	390	0.7
2000	£33 m	605	1.0
2001	£51 m	805	1.3
2002	£63 m	920	1.5
2003	£92 m	1015	1.6
2004	£140 m	1119	1.7

Source: www.fairtrade.org.uk Source: www.soilassociation.org

Extract D: The case against fairtrade

The standard economic argument against fairtrade goes like this: the low price of commodities such as coffee is due to over-production, and ought to be a signal to producers to switch to growing other crops. Paying a guaranteed fairtrade premium, in effect a subsidy, both prevents this signal from getting through and, by increasing the short run average price paid for coffee, encourages more producers to enter the market. This then drives down the price of coffee even further, making all farmers poorer. Fairtrade does not address the basic problem, argues Tim Harford, author of *The Undercover Economist*, which is that too much coffee is being produced in the first place. 1 5

Source: adapted from an article in *The Economist*, 7 December 2006

Turn over ►

Extract E: Supermarkets and fairtrade

Extract E has been removed due to third-party copyright constraints.

It was adapted from an article in The Spectator on 5 November 2005.

Extract F: Are supermarkets good or bad for the economy?

Extract F has been removed due to third-party copyright constraints.

It was adapted from an article in The Independent on 28 February 2007.

You may detach this page by tearing along the perforations.

Question 1

- 1 (a) Explain **two** possible economic reasons for the changes in the UK grocery market that are described in **Extract A**. *(10 marks)*
- (b) **Extract B** provides information on the structure of the UK grocery market in 2006.
- Explain **two** ways in which a business operating in the grocery market may compete for market share. *(10 marks)*
- (c) Evaluate the view expressed in **Extract D** that fairtrade schemes disadvantage **all** farmers. *(20 marks)*
- (d) ‘Supermarkets sell fairtrade food at premium prices, with profit margins to match’ (**Extract E**, lines 9–10).
- Evaluate the view that the UK government should regulate the prices charged **and** the profits earned by supermarkets on **all** their products. *(20 marks)*
- (e) Assess the extent to which supermarkets improve the **macroeconomic** performance of high-income countries such as the UK. *(20 marks)*

SEE PAGE 7 FOR QUESTIONS 2–5

Turn over ►

There are no questions printed on this page

SECTION B: Markets and Market Failure

Answer **EITHER** Question 2 **OR** Question 3 from this section.

- 2 ‘An individual neither intends to promote the public interest, nor know how much he is promoting it ... He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention ... It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love.’

Source: adapted from ADAM SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776

Do you agree that the ‘invisible hand’ of the market always ensures an efficient **and** equitable allocation of society’s scarce resources? Justify your answer. (40 marks)

- 3 ‘Climate change presents a unique challenge for economics: it is the greatest and widest-ranging market failure ever seen. Reducing the adverse economic effects of climate change requires the international management of common economic resources to avoid free riding.’

Source: adapted from the *Stern Review of The Economics of Climate Change*, October 2006

Critically evaluate the views expressed in this statement. (40 marks)

SECTION C: The National and International Economy

Answer **EITHER** Question 4 **OR** Question 5 from this section.

- 4 ‘Inflation is always and everywhere a monetary phenomenon.’

Source: MILTON FRIEDMAN, *The Counter-Revolution in Monetary Theory*, 1970

Discuss whether monetary growth is the sole cause of inflation. (40 marks)

- 5 ‘In 1971, the US Treasury Secretary told a delegation of European politicians, who were worried about the effect of a fall in the dollar’s exchange rate against European currencies, that ‘the dollar is our currency, but your problem’. This statement is just as true today as it was in 1971.’

Evaluate the view that a significant fall in the dollar’s exchange rate causes more problems for countries such as the UK than it does for the USA. (40 marks)

END OF QUESTIONS

There are no questions printed on this page

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Extract C: Statistics used with kind permission of the Soil Association. For further information visit: www.soilassociation.org.

Extract D: © The Economist Newspaper Limited (7 December 2006)

Question 3: Stern Review text reproduced under the terms of the Click-Use Licence.

Question 4: Wincott Foundation Lectures, published as an occasional paper by Institute of Economic Affairs.

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