

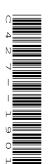
Friday 18 January 2019 - Afternoon

LEVEL 3 CAMBRIDGE TECHNICAL IN BUSINESS

05878 Unit 10: Economics for business

Duration: 2 hours

C427/1901



a calculator

First Name						ast Nar	ne			
Centre Number						Cano Num	didate ber			
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INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number, candidate number and date of birth.
- Answer **all** the questions.
- · Write your answer to each question in the space provided.
- Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number(s).

INFORMATION

- The total mark for this paper is **90**.
- The marks for each question are shown in brackets [].
- This document consists of 16 pages.

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Question No	Mark
1	/30
2	/22
3	/11
4	/11
5	/16
Total	/90

Read the scenario below.

Text 1: Goodwill UK

Stephanie Gatiss is the Manager of a charity shop located in Oakdean, a large town in the East of England. The shop is one of many owned by a national charity called *Goodwill UK*. The charity raises money by selling new and used furniture. Many of these products are donated to the charity by firms and households. *Goodwill UK* aims to help UK citizens who are less well off by:

- selling all items of furniture at very low prices
- making financial donations to help people in particular need.

Oakdean is a poor town; its Gross Domestic Product (GDP) is 11% below the UK average and its unemployment rate is significantly above the UK average.

Stephanie is a full-time employee of *Goodwill UK*. She is supported in her role of Manager at the Oakdean charity shop by Jeremy Lewes, a part-time Assistant Manager, and two other part-time employees. There are also a number of volunteers who help out in the charity shop. Volunteers are not paid. Most of the volunteers are members of the local community who are trying to find paid employment. Volunteering helps them gain valuable work-based experience.

When not serving the flow of local customers, the employees and volunteers at the Oakdean charity shop spend most of their time receiving and checking the donated furniture. Most of the donated furniture is as good as new, and sells quickly. It is up to Stephanie or Jeremy to set the selling price of each item of furniture. When setting the price, they try to maintain a balance between what customers in their area can afford to pay, and raising as much money as possible for the charity so that it can support local residents in particular need.

Good quality donations of furniture usually sell within a couple of hours of going on sale. Although Stephanie has advertised locally for more donated furniture, supply cannot keep up with demand. Stephanie is trying to solve this problem by buying inexpensive furniture from abroad. Stephanie has heard about a company, based in Hungary (in Eastern Europe), that manufactures low-cost furniture such as beds, tables and cupboards. She is keen to investigate the possibility of buying imported low-cost furniture, not only for the Oakdean charity shop but for the other *Goodwill UK* shops across the country.

In addition, Stephanie has decided that the Oakdean charity shop should start a house clearance service. This will involve *Goodwill UK*'s employees or volunteers who work at the Oakdean charity shop visiting a property to collect unwanted furniture. Stephanie has already produced some ideas for promotional material which will be included on posters in the shop, in the local newspaper and on *Goodwill UK*'s website.



Stephanie knows that the house clearance service will require additional investment, including a van and some lifting equipment.

Text 2: Taxation in the UK

It is estimated that the UK government collected £744bn in taxation during 2018. 57% of this came from direct taxation and 43% came from indirect taxation. Economists assume that most direct taxation is progressive and most indirect taxation is regressive.

The impact of any change in taxation will, to a large extent, depend on whether the taxation is progressive or regressive. In addition it will depend on the size of the multiplier. Research shows that the size of the multiplier is not the same for all households and consumers (see **Table 1**).

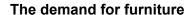
Household group	Estimated size of the multiplier
Richest third of households	0.4
Middle third of households	0.9
Poorest third of households	1.3

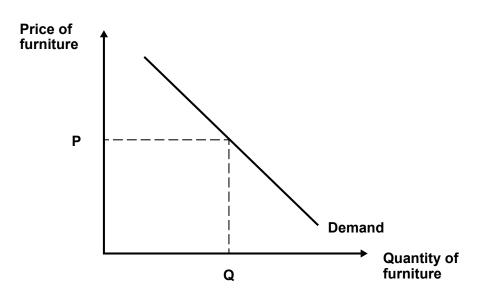
Table 1

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Answer all the questions.

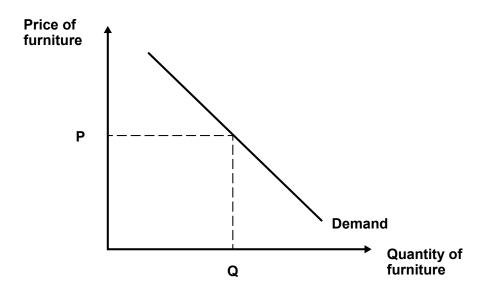
- 1 Stephanie Gatiss is investigating the buying behaviour of the customers at the Oakdean shop. She has drawn a demand curve labelled with price (P) and quantity demanded (Q).
 - (a) (i) On the diagram below, show the effect on quantity demanded of a fall in price of furniture.





(ii) On the diagram below, show the effect on quantity demanded of a fall in consumer income.

The demand for furniture



[2]

[2]

keep changing.

(b) Stephanie is concerned that a lack of market equilibrium will mean that prices will need to

	(i)	State what is meant by the phrase 'market equilibrium'.	
		[2	
	(ii)	The supply of furniture to the Oakdean charity shop cannot keep up with the deman for it.	ıd
		Explain how Stephanie could change the price of the furniture to solve this problem.	
(c)		phanie has calculated the income elasticity of demand for the furniture which <i>Goodwi</i> sells to be +1.2.	ill
	Ехр	lain why this information may be of use to Stephanie.	
		[[61

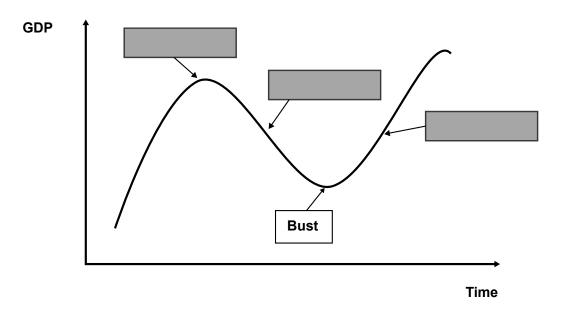
(d) Stephanie has identified some benefits and costs of importing furniture from Hungary.

Benefits	Costs
There is free trade between the UK and Hungary because it is currently a member of the EU	The factory in Eastern Europe is about 2000km away from <i>Goodwill UK</i> 's shops
The company in Hungary can supply furniture quickly, because it is not very busy at the moment	Problems caused by the different languages and culture in Hungary and the UK
Labour costs in Hungary are lower than in the UK	Having to deal with two currencies

Which benefit and which cost is likely to have the greatest impact on Goodwill UK? Give reasons for your choices. [16]

2 (a) The diagram below shows a typical business cycle.Fully label the business cycle diagram by filling-in the three shaded boxes.

The business cycle



(b) Economic growth is measured by changes in the size of a country's GDP.Evaluate how *Goodwill UK* might be affected by low levels of economic growth in the UK.

[3]

[8]

(i)	Complete the table below by giving one examan indirect tax.	ple of a direct tax and one example of
(i)	Complete the table below by giving one examan indirect tax. Type of taxation	pple of a direct tax and one example of Example
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(ii)	Type of taxation Direct	Example [2] affect the impact of changes in a reduction in UK taxation.
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	Type of taxation Direct Indirect Refer to Text 2. The size of the multiplier may taxation.	Example [2] affect the impact of changes in a reduction in UK taxation.

(c)

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3 (a)	State	e two measures of inflation.
	1	
	2	
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		[2]

(b) The Bank of England has forecast that inflation in the UK will increase during 2019.

Analyse three likely effects of inflation on Goodwill UK. [9] 3.....

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4	(a)	The Bank of England is expected to increase interest rates in the near future.
		Analyse the impact of higher interest rates on Oakdean charity shop's proposed house clearance service.
		[9]

5

2	
	e a policy objective that focuses on reducing untry. It has already announced in the nation
We will improve the benefits system so that the unemployed can easily and quickly receive the money they need so long as they are actively looking for work."	"More funding will be provided to local training centres so that support is given to the poorest areas of our country to help those who are unemployed to search for work and be successful in
	finding jobs."
	finding jobs."
aluate the likely effects of this policy chang	

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END OF QUESTION PAPER



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