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General Certificate of Secondary Education  
June 2003



**ECONOMICS  
FOUNDATION TIER  
Paper 1**

**3144/1F**

Thursday 19 June 2003 9.00am to 11.00am

**F**

<p><b>No additional materials are required.</b> You may use a calculator.</p>
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Time allowed: 2 hours

**Instructions**

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- This paper is divided into **two** Sections.
- Answer **all** questions from **Section A**.
- Answer **one** question from **Section B**.
- Answer all questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want marked.

**Information**

- The maximum mark for this paper is 100.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to present relevant information in a form that suits its purposes. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

For Examiner's Use			
Number	Mark	Number	Mark
1			
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Total (Column 1)	→		
Total (Column 2)	→		
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Examiner's Initials			

## SECTION A

Answer **all** questions in the spaces provided.

1

Total for this question: **19 marks**

Study the information below and answer the questions which follow.

**Transport Policy**

Government transport policy is based on:

- more use of public transport;
- less use of the car;
- more use of cycle routes.

This is partly because the government wants to achieve large reductions in pollution. In the case of road transport, this means making the social costs of transport equal to the private costs.

This can be done in three ways:

- increasing the price of fuel through higher fuel tax;
- making the rate of Vehicle Excise Duty (Car Tax) dependent on the size of the vehicle's engine;
- introduction of charges for using the road.

*Source: adapted from Teaching Business and Economics, Summer 2001*

- (a) (i) Give an example of public transport.

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(1 mark)

- (ii) State **one** reason why the Government might encourage cycling.

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(1 mark)

- (b) Social Costs = Private Costs + External Costs.

- (i) Give **two** examples of the private costs of road transport.

1.....  
2.....  
(2 marks)

- (ii) Give **two** examples of the external costs of road transport.

1.....  
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(2 marks)

(iii) Why are governments keen to reduce the external costs of road transport to society?

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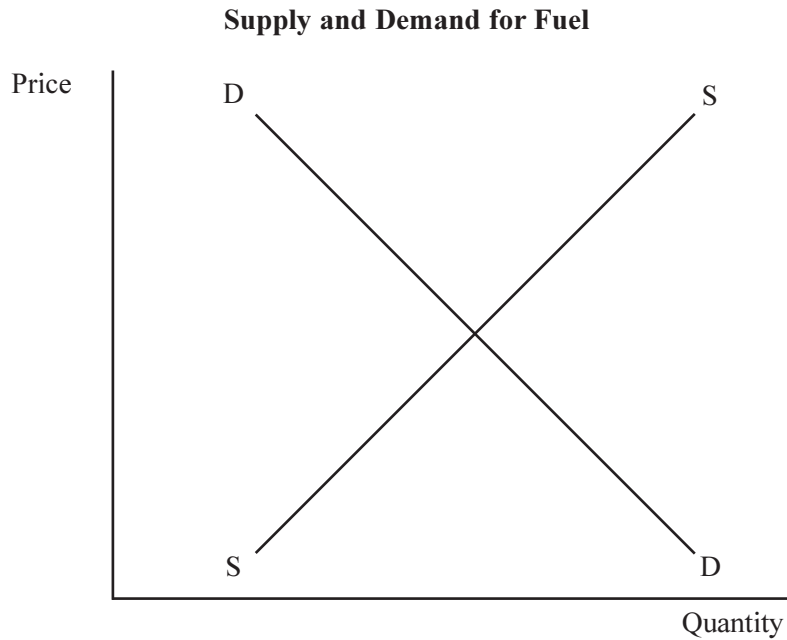
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(3 marks)

(c) Draw and label the diagram below to show how an increase in taxes on fuel could increase the cost of fuel. Explain your diagram in the space provided.



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(4 marks)

**QUESTION 1 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

(d) Discuss whether or not higher fuel taxes would reduce the number of cars on the road.

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(6 marks)

2

Total for this question: 16 marks

Study the information below and answer the questions which follow.

**Car firms get bigger**

When car manufacturing started to grow, there was a very large number of firms. Originally, Europe had over 200 car producers.

Over the years, the smaller firms have lacked the resources, new technology and economies of scale that were needed to reduce costs and to sell at a competitive price. As a result, many of the smaller and more specialist producers were less efficient than foreign competitors.

This did not matter while they were protected from competition by governments, but in world markets they were no longer able to exist. This led to horizontal mergers, e.g. Ford bought Aston Martin, Jaguar and Volvo.

Sources: adapted from *The Guardian*, 19 August 2000, and [www.economist.com](http://www.economist.com)

(a) How many car producers did Europe originally have?

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(1 mark)

(b) (i) What is meant by **economies of scale**?

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(2 marks)

(ii) Use an example to explain how large firms are able to reduce costs.

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(2 marks)

(c) Using the information on the opposite page, explain why smaller car firms find it difficult to exist in a world market.

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(2 marks)

(d) (i) What is meant by **mergers**?

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(1 mark)

(ii) Apart from a **horizontal** merger, explain how a business could grow in size.

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(2 marks)

**QUESTION 2 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

(e)

**Effects of the euro**

The start of the single currency, the euro, is likely to make competition even greater in Europe, leading to the survival of only the most efficient producers. The euro will mean that there is a single market with free movement of:

- goods;
- services;
- people;
- capital.

Sources: adapted from *The Guardian*, 19 August 2000, and *www.economist.com*

Discuss the likely effects of the introduction of the euro on car buyers and producers.

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(6 marks)

3

Total for this question: 20 marks

Study the information below and answer the questions which follow.

**Consumers hunt down bargains in post-Christmas sales**

One shopper said, "I've got money to spend and I am going to spend it. I've brought £200 and I hope there are enough bargains so that I do not leave with any of it in my purse".

The first day of the sales saw consumers waiting for hours for the shops to open. Within minutes of the shops opening, many of the goods with the biggest reductions had been sold. Often there was only one, or perhaps a very small number, of these for sale. Among the popular items were TVs, DVD players, furniture and champagne. Sales of winter coats were up by 10 per cent due to the cold weather.

Large shops were hoping that these post-Christmas sales together with the record pre-Christmas purchases would help to boost profits.

Source: adapted from *The Daily Telegraph*, 28 December 2001

(a) (i) What is meant by **effective demand**?

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(1 mark)

(ii) From the information, give **one** example of **effective demand**.

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(1 mark)

(iii) "Sales of winter coats were up by 10 per cent due to the cold weather." Explain **two other** factors that could lead to an increase in sales of winter coats.

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(4 marks)

QUESTION 3 CONTINUES ON THE NEXT PAGE

Turn over ►



(b) Suggest **two** reasons why items such as TVs, DVD players, furniture and champagne would be popular buys in the sales.

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(4 marks)

(c) TVs and DVD players are **complementary** goods.

(i) What is meant by **complementary** goods?

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(1 mark)

(ii) Explain why a fall in the price of TVs might lead to a rise in the price of DVD players.

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(3 marks)

(iii) Apart from cutting the price of TVs, discuss how a shop selling both goods could increase its sales.

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(6 marks)

20

**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ►

4

**Total for this question: 20 marks**

Study the information below and answer the questions which follow.

<b>UK Current Account (£ billion)</b>			
	<b>1998</b>	<b>1999</b>	<b>2000</b>
Visible Trade Balance	-20.5	-26.2	-28.2
Invisible Trade Balance	20.5	16.3	14.8
UK Current Account	0.0	-9.9	-13.4

Source: adapted from *National Statistics Office*, [www.statistics.gov.uk](http://www.statistics.gov.uk)

(a) (i) What is meant by the term **Visible Trade**?

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*(1 mark)*

(ii) By how much did the **Visible Trade Balance** change between 1998 and 2000? Show your workings.

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*(2 marks)*

(b) (i) What is meant by the term **Invisible Trade**?

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*(1 mark)*

(ii) Give **two** examples of items included in the Invisible Trade Balance.

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*(2 marks)*

- (c) (i) Suggest **two** reasons why the deficit on the UK's Current Account increased between 1998 and 2000.

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(4 marks)

- (ii) Explain **one** effect that the increase in the deficit on the Current Account may have on the UK economy.

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(2 marks)

**QUESTION 4 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

(d)

Over two thousand companies in the North East each export, on average, goods to the value of £4100. This is twice as much per company as the next best region in the UK. In addition, the North East was the only region where the number of exporting companies increased in recent years.

*Source: adapted from The Journal Business Magazine, December 2001*

- (i) The North East has always specialised in exporting goods to other regions and countries. Explain **one** benefit of a region specialising in the exporting of goods.

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*(2 marks)*

- (ii) Discuss ways in which an increase in the number of exporting companies might be important for the economy of the North East.

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*(6 marks)*

**SECTION B**

Answer **either** Question 5 (pages 16–19) **or** Question 6 (pages 20–23)

**5****Total for this question: 25 marks**

Study **Items A, B** and **C** and then answer **all** parts of the question.

**Item A****The UK Hotel Market**

Although there are many thousands of independently run hotels and guest houses, the market is dominated by a few large hotel chains. The largest of these is Best Western with 366 hotels, closely followed by Whitbread with 335. The five largest hotel companies have 65.6% of the market.

London is the UK's major business and tourist centre. Since 1995, it has gained an extra 12 000 hotel rooms. In addition, the big companies have spent millions of pounds on modernising older hotels as well as on building several new ones. These new hotels cater for the high value end of the market, charging between £300 and £500 a night.

*Sources:* adapted from *Thistle Hotels plc Annual Report 2001*, and *Weekly Briefing*, 15 October 2001

**Item B****Hotel Room Occupancy**

The UK hotel industry was looking forward to a good year in 2001. The previous year, 2000, had seen increased demand for hotel rooms in both London and other parts of the country, with 20% of profits for one of the major hotel companies being earned in September and October.

	% of rooms occupied per night
All UK Hotels	80.50%
London Hotels	90.00%

*Source:* adapted from *Weekly Briefing*, 15 October 2001

**Item C**

**Difficult Times for UK Hotel Industry**

The industry has been severely hit by:

- the foot and mouth outbreak which has given many people overseas the impression that all of the UK is affected;
- the attack on the World Trade Centre and the sharp fall in air travel especially from North America.

One hotel in the Lake District had over £70 000 worth of tourist cancellations in the first few weeks of foot and mouth.

De Vere Hotels lost over £1 million because the golf match between Europe and the USA in September 2001 was not played.

To keep hotels open, and to try to avoid making people unemployed, many hotels are now offering cut-price holidays.

*Sources:* adapted from *Financial Times*, 5 October 2001 and *Weekly Briefing*, 15 October 2001

- (a) Using **Items A, B** and **C** and your own knowledge of economics, discuss how successful the UK's hotel industry has been between 1995 and 2002.

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*(15 marks)*

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**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ►

6

**Total for this question: 25 marks**

Study **Items A, B** and **C** and then answer **all** parts of the question.

**Item A****Job prospects return to 30 year low**

Job prospects in Britain have suffered one of the biggest falls in more than 30 years. In December 2000, companies, on average, expected to take on 12 per cent more workers in the first quarter of 2001. In December 2001 they did not expect to take on any extra workers. Increases in health spending and low interest rates mean that healthcare and house building show strong signs of confidence, but manufacturing is likely to see a drop in output.

Some economists expect unemployment to rise in 2002 by between 100 000 and 200 000. Despite this, most forecasters are confident about overall economic prospects.

*Source: adapted from The Sunday Times, 31 December 2001*

**Item B****Failure of interviews for jobseekers**

The government policy of making those claiming unemployment benefit learn about job vacancies has no effect on their chances of finding work, according to official research.

The government has spent £30 million on a scheme which enables people to claim benefit and get employment advice at the same time. The aim is to get more people on benefits into work.

The research showed that:

- many people failed to turn up for the employment advice meeting;
- only half of those unemployed for 10 months had been given a second meeting;
- at many of the meetings, job options were not discussed.

*Source: adapted from The Daily Telegraph, 2 January 2002*

**Item C**

**Business benefits from training**

The government is keen to highlight the importance of workforce training and development and the benefits it can bring to both employees and employers. It is spending large sums of money on training programmes for young people and adults.

A survey of over 800 small and medium-sized companies across the UK has shown that a lack of training can badly affect business. Most employees claimed that they had received little or no training in the past year. Ninety per cent of employees and employers, however, thought that training:

- increased job satisfaction;
- reduced the possibility of employees leaving the business;
- developed new skills and made employees more productive;
- led to businesses increasing their profits twice as fast as those who ignored training;
- led to increased employment in both the business and the local area.

Overall, training is important if business in the UK is to maintain its ability to compete in the world economy.

*Source:* adapted from *The Valley*, October 2001

- (a) Using **Items A, B** and **C** and your own knowledge of economics, discuss how government policies and schemes could affect employment.

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**QUESTION 6 CONTINUES ON THE NEXT PAGE**

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(10 marks)

- (b) Explain how training schemes could reduce the level of unemployment. Discuss whether or not training schemes are the best way to reduce unemployment.

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*(15 marks)*

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**END OF QUESTIONS**

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