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General Certificate of Secondary Education  
June 2003



**ECONOMICS  
HIGHER TIER  
Paper 1**

**3144/1H**

Thursday 19 June 2003 9.00am to 11.30am

**H**

**No additional materials are required.**  
You may use a calculator.

For Examiner's Use			
Number	Mark	Number	Mark
1			
2			
3			
4			
5			
6			
Total (Column 1)	→		
Total (Column 2)	→		
TOTAL			
Examiner's Initials			

Time allowed: 2 hours 30 minutes

**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 140.
- 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.

**SECTION A**

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

**1**

**Total for this question: 32 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)

(b) (i) What is meant by **profit**?

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(1 mark)

(ii) Explain **two** factors which might cause shops to hold ‘post-Christmas’ sales.

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(4 marks)

(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 1 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

(c) 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)

(d) As the managing director of a large chain of shops, you discover that the demand for many of your goods is **price elastic**.

(i) What is meant by the demand for goods being **price elastic**?

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(2 marks)

(ii) Draw a simple diagram to illustrate your answer.

(2 marks)

(iii) Discuss why knowledge of price elasticity of demand would be useful to the managing director.

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*(6 marks)*

**QUESTION 1 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

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

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

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(1 mark)

(ii) Discuss how a shop which sells both goods could increase its sales.

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(6 marks)

2

**Total for this question: 23 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)*

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

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*(2 marks)*

- (b) (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) Discuss whether or not the Government should be concerned about an increasing deficit on the Current Account.

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*(6 marks)*

**QUESTION 2 CONTINUES ON THE NEXT PAGE**

**Turn over** ►



(c)

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 **two** benefits of a region specialising in the exporting of goods.

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(4 marks)

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

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(4 marks)

3

**Total for this question: 30 marks**

Study the information below and answer the questions which follow.

### Ice Cream Wars

Accusations of market failure in the £400 million market for ice cream sold for immediate consumption have led the Competition Commission to report on the industry three times in the past five years. Rivals, such as Mars, Nestlé and Treats, are hoping that the Commission will rule that Birds Eye Walls' 70% of the market is anti-competitive.

Wall's has achieved this by controlling the ways of supplying ice cream to shops. One way has been to loan 70 000 freezers to retailers so long as they stock only Wall's products. This is likely to be banned. An attempt to increase competition, by insisting that independent distributors should supply any brand of ice cream, led to Wall's selling direct to the shops. This has made it hard for competitors to enter the market and has squeezed out independent distributors who have had their prices undercut and customers attracted away by better offers. The Commission could stop manufacturers from selling direct.

Wall's claims that its market share is due to investment in strong brands and efficient production. Interference by the Commission would lead to less investment, and to the loss of jobs to foreign competitors (such as Mars which produces ice cream in France) who would be the gainers while a British firm would be the loser. In any case, Wall's maintains that it controls only 23% of the market if soft and scooped ice cream were included.

*Sources: adapted from The Financial Times, 10 June 1999, and The Economist, 10 July 1999*

(a) What is meant by the term **market failure**?

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(2 marks)

- (b) Using the information on the page opposite, discuss whether or not the ice cream market is an example of market failure.

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*(4 marks)*

- (c) (i) Using the information on the page opposite, explain how Wall's has used its market power to maintain its position.

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*(4 marks)*

**QUESTION 3 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

(ii) Discuss whether or not Wall's has a monopoly on the sale of ice cream.

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*(6 marks)*

(d) Consider how economies of scale could enable Wall's to reduce its costs.

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*(6 marks)*



4

Total for this question: 30 marks

Study the information below and answer the questions which follow.

**Ford**

When an industry such as that of car manufacturing starts to grow, there is often 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.

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.

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

(a) What is meant by a **horizontal merger**?

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(2 marks)

(b) Many car manufacturers have used both horizontal and vertical mergers in order to grow in size. Explain **one** advantage of each of these types of merger.

Horizontal .....

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Vertical .....

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(4 marks)



(e) Explain how small firms are able to compete in world markets.

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*(5 marks)*



(f) Discuss whether or not the introduction of the euro is likely to increase competition in Europe.

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(8 marks)

30

**TURN OVER FOR SECTION B**

**Turn over** ►

**SECTION B**

Answer **either** Question 5 (pages 20–23) **or** Question 6 (pages 24–27)

**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





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*(15 marks)*

25

**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*







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(15 marks)

25

**END OF QUESTIONS**

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