

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education  
June 2006

**ECONOMICS**  
**Higher Tier**  
**Paper 1**

**3144/1H**  
**H**



Friday 23 June 2006 9.00 am to 11.30 am

**You will need no other materials**  
You may use a calculator.

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 in **Section A**.
- Answer **one** question from **Section B**.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want marked.
- If you need additional space, you should continue your answers at the end of this book indicating clearly which question you are answering.

**Information**

- The maximum mark for this paper is 147.  
7 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

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

**SECTION A**

Answer **all** questions in this Section.

Answer the questions in the spaces provided.

**Total for this question: 28 marks**

**1** Study the information below and answer the questions that follow.

**Item A**

**AMN Limited**

AMN Limited provides a range of specialist engineering services. Some of these are provided by only a few other companies in the world. It provides:

- low cost manufacturing processes;
- economies of scale to all its customers;
- product research and development.

(a) Explain why it could be an advantage to AMN Limited to have only a ‘few other companies’ providing the same service.

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*(4 marks)*

(b) (i) What is meant by the term ‘economies of scale’?

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*(2 marks)*

(ii) Discuss how economies of scale could benefit the customers of a firm.

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*(4 marks)*

**Question 1 continues on the next page**

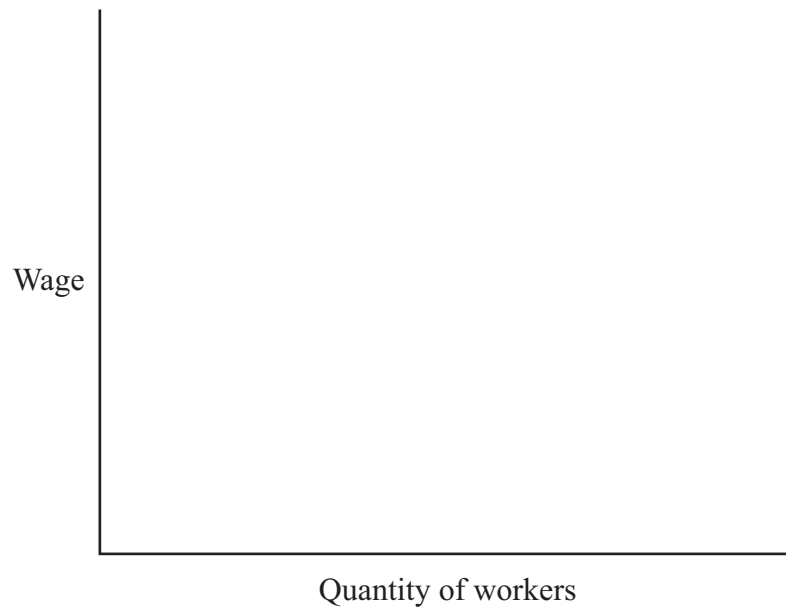
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**Item B****Training and the workforce**

AMN Limited sees training as being very important for keeping its workers up-to-date. The company also sees it as a way of attracting and keeping workers. This is very important when the number of skilled workers is in short supply.

(c) On the diagram below:

- (i) Draw and label the supply curve for skilled workers who are in short supply. *(2 marks)*
- (ii) Show the effect on supply of training more skilled workers. *(2 marks)*



(d) Discuss why the Government would want a better trained workforce.

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*(6 marks)*

**Question 1 continues on the next page**

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**Item C**

**Specialisation**

AMN Limited has an Aerospace Division which specialises in parts for helicopters and ejector seats. This has allowed it to gain good relations with companies such as Landsouth Helicopters.

To help it become more efficient the Aerospace Division has reduced the number of its suppliers from thirty firms to just one. This supplier provides its own stock at the factory thus allowing the Aerospace Division to use its money for investment in new machines rather than being tied up in unused stock.

(e) (i) What is meant by the term ‘specialisation’?

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*(2 marks)*

(ii) Suggest **one** advantage to a company of specialisation.

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*(2 marks)*

(f) Using an example from **Item C**, explain what is meant by ‘opportunity cost’.

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(4 marks)

<b>28</b>

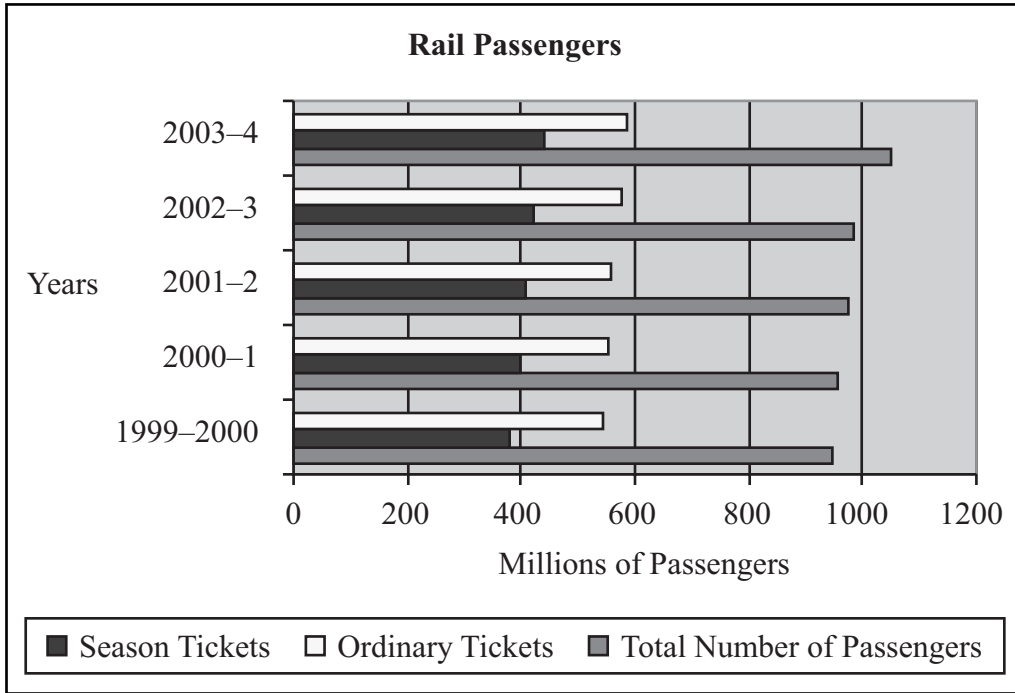
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**Total for this question: 26 marks**

2 Study the information below and answer the questions that follow.

**Item D**



Source: adapted from [www.sra.gov.uk](http://www.sra.gov.uk)  
(Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.)

(a) Describe what happened to rail passenger numbers between 1999–2000 and 2003–2004.

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*(2 marks)*



(b) Discuss why the number of rail passengers might increase in the future.

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*(6 marks)*

**Question 2 continues on the next page**

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**Item E**

**Limiting car use**

Most rail services in the UK are given a subsidy by the Government. This helps to reduce road congestion and pollution.

The Government also gives subsidies to a few bus services. It believes that giving more subsidies to buses will reduce car use. Subsidies are also used to improve transport services in rural areas and in certain regions.

Other measures to reduce car use could include road charging, park and ride schemes and pedestrian-only areas.

(c) What is meant by the term ‘subsidy’?

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*(2 marks)*

(d) (i) Why does the Government try to help some regions in the UK?

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*(4 marks)*

(ii) Explain how subsidies could improve transport services in some regions.

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*(4 marks)*

**Question 2 continues on the next page**

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**Turn over for the next question**

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**Total for this question: 30 marks**

**3** Study the information below and answer the questions that follow.

**Item F**

**Income Tax**

A government can use changes in taxation and its spending to control the economy.

When a government wants to increase consumer demand, it can cut income tax and this will give workers more money to spend.

A government can try to increase the number of people willing to work by cutting income tax as part of a supply side policy approach.

Some economists feel, however, that inflation would be caused by cutting income tax.

(a) (i) What is meant by 'fiscal policy'?

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*(2 marks)*

(ii) Explain how an increase in consumer demand could benefit an economy.

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*(4 marks)*

(iii) Explain how a cut in income tax could result in a rise in inflation.

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*(4 marks)*

(b) (i) What is meant by ‘supply side policy’?

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*(2 marks)*

(ii) Explain how a cut in income tax could lead to an increase in the number of people willing to seek work.

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*(4 marks)*

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**Item G**

**Monetary policy**

Some economists prefer to use monetary policy to control the economy. They use the rate of interest to control inflation.

(c) (i) What is meant by 'monetary policy'?

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*(2 marks)*

(ii) Explain how monetary policy might lead to an increase in employment.

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*(4 marks)*

**Question 3 continues on the next page**



(d) Discuss whether a government should use fiscal or monetary policy to control the economy.

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*(8 marks)*

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**Total for this question: 31 marks**

**4** Study the information below and answer the questions that follow.

**Item H**

**Oil prices rise**

Oil prices have risen recently due to a number of factors:

- a great increase in demand by China as its economy expands;
- a fall in the amount of oil stocks kept by the United States;
- the war in Iraq and terrorist attacks on other oil fields;
- the effect of hurricanes on production in the Gulf of Mexico.

(a) Using **Item H**, give **two** factors that could have reduced the supply of oil.

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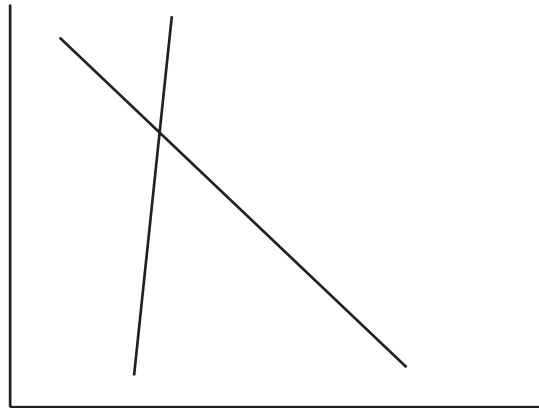
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*(2 marks)*

**Question 4 continues on the next page**

- (b) (i) On the diagram below, label the axes and the original lines and show how a fall in the supply of oil will affect the price and the quantity of oil. Label all changes.



(5 marks)

- (ii) If the supply of oil is price inelastic, explain the effect of a ‘great increase in demand by China’ on the price and the quantity of oil.

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(3 marks)

Turn over ►

**Item I**

**BP makes a profit of £1m per hour as oil price soars**

Due to rising oil prices, BP is now making a profit of £1 million per hour. Some stakeholders, such as shareholders and directors, will be pleased while others, such as motorists, will be angry.

BP claimed that it made only 1p a litre profit from selling petrol, with nearly three quarters of the price of a litre going to the Government in tax revenue.

BP will spend £17.6 billion this year on exploring for oil.

(c) Profits are one way of measuring business performance.

State **one** other way of measuring business performance.

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*(1 mark)*

(d) Explain **one** reason why some stakeholders would be pleased by the large profits that BP is making.

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*(3 marks)*

(e) Discuss why BP would want to spend a large amount of money on exploring for oil.

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*(4 marks)*

**Turn over ►**

**Item J**

**OPEC cannot help to reduce oil prices**

A cartel is a form of market failure. One example of a cartel is The Organisation of the Petroleum Exporting Countries (OPEC). OPEC controls much of the world's oil production and can influence, therefore, the price of oil.

(f) (i) What is meant by a 'cartel'?

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*(2 marks)*

(ii) Explain why a cartel is an example of market failure.

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*(3 marks)*

**Question 4 continues on the next page**

(g) Using a supply and demand diagram, discuss what might happen to the price of oil if there was an increase in both oil production and consumer demand for oil. Label all changes.



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(8 marks)

**SECTION B**

Answer **either** Question 5 (pages 24 to 27) **or** Question 6 (pages 28 to 31).

**Total for this question: 25 marks**

**5** Study **Items K, L and M** and then answer **all** parts of the question which follow.

**Item K****The housing market, November 2004**

- Over the past year, house prices have increased by 16.8%.
- We predict that house prices in the UK will fall by 2% in 2005, due partly to the Bank of England's interest rate rises.
- The high levels of employment will support housing demand after 2005.
- Beyond 2005, we expect the market to record modest price increases.

Source: adapted from *Halifax House Price Index*, 3 December 2004, www.hbosplc.com

**Item L**

<b>Selected Regions</b>	<b>% Annual change in house prices</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
North	26	34	27
North-West	25	20	25
Midlands	39	16	18
East Anglia	20	15	10
South-West	33	7	14
Greater London	19	9	7
Wales	28	32	19
<b>UK</b>	<b>26</b>	<b>15</b>	<b>16</b>

Source: adapted from www.hbosplc.com, 22 June 2004









Do **not** answer this question if you have answered Question 5.

**Total for this question: 25 marks**

**6** Study **Items N, O** and **P** and then answer **all** parts of the question which follow.

**Item N**

**UK economic situation, 2004**

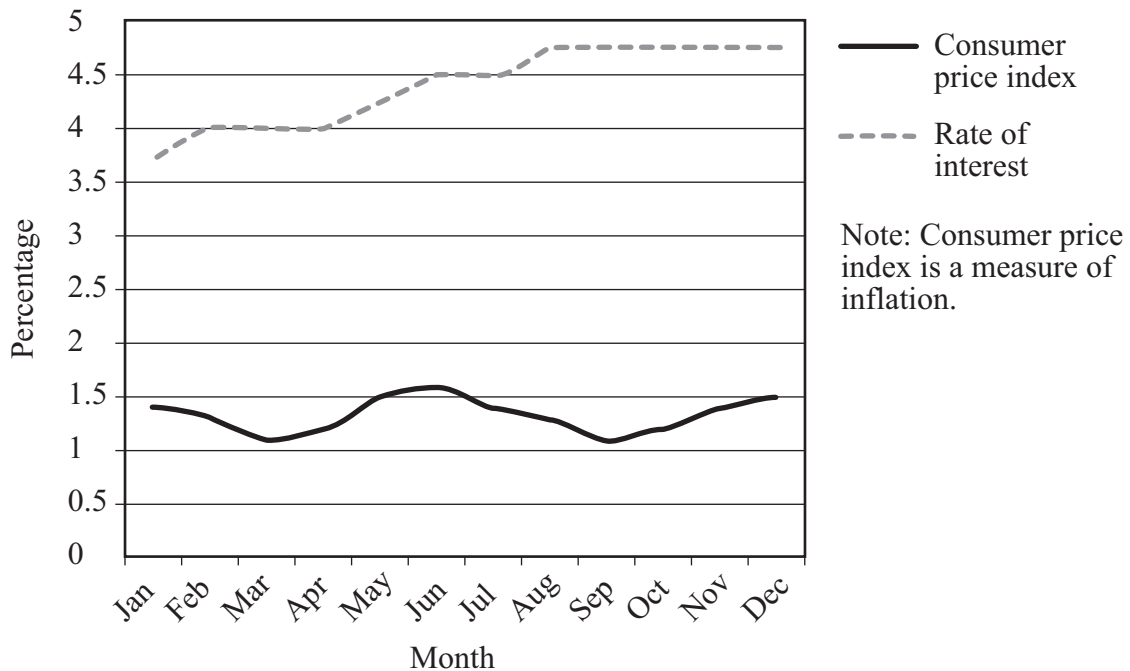
In 2004, there was strong growth in the service sector, caused mainly by increasing consumer demand. Industrial production, however, fell.

The UK's trade position with the rest of the world became worse, with the deficit on trade in goods rising from £9.6 bn to £10.2 bn. One reason for this was the overvaluation of the pound against the euro.

Overall, economic growth rose at a slower rate than in 2003.

**Item O**

**Consumer Price Index and Rate of Interest, 2004**





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*(10 marks)*

(b) Discuss whether the fast growing economies, such as China and India, will benefit or be a disadvantage to the UK economy. Evaluate whether the benefits will be greater than the costs.

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*(15 marks)*

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**END OF QUESTIONS**

**Turn over ▶**

This page may be used to complete answers to earlier questions.  
The number of the question must be clearly indicated.

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