

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education
June 2006

ECONOMICS
Foundation Tier
Paper 1

3144/1F
F



Friday 23 June 2006 9.00 am to 11.00 am

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

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 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 105.
5 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: 18 marks

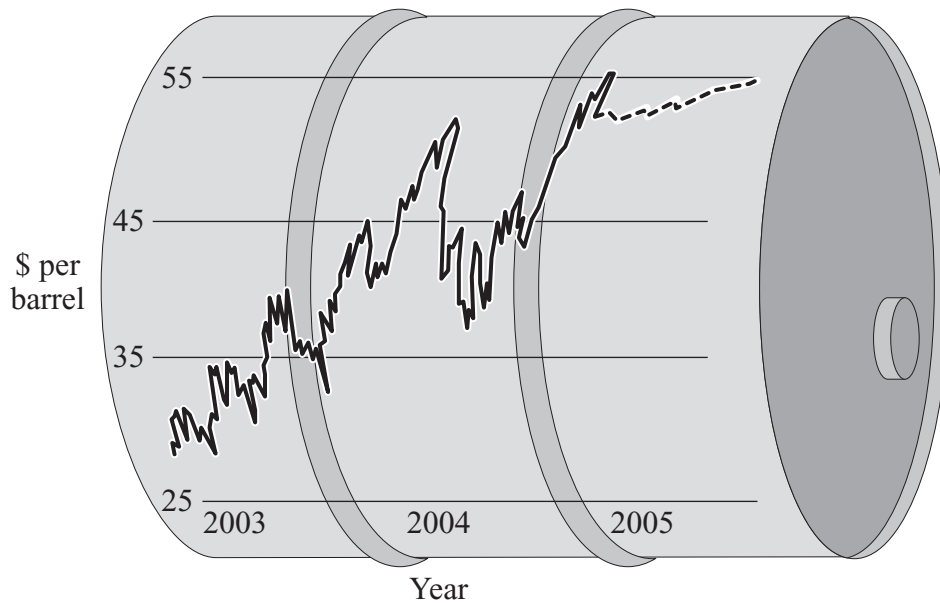
1 Study the information below and answer the questions that follow.

Item A**Oil prices rise**

Oil prices have risen recently for a number of reasons:

- 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.

Oil prices are staying high



Oil prices are measured in dollars per barrel

- (a) (i) Using **Item A**, state **one** reason that led to an increase in the demand for oil.

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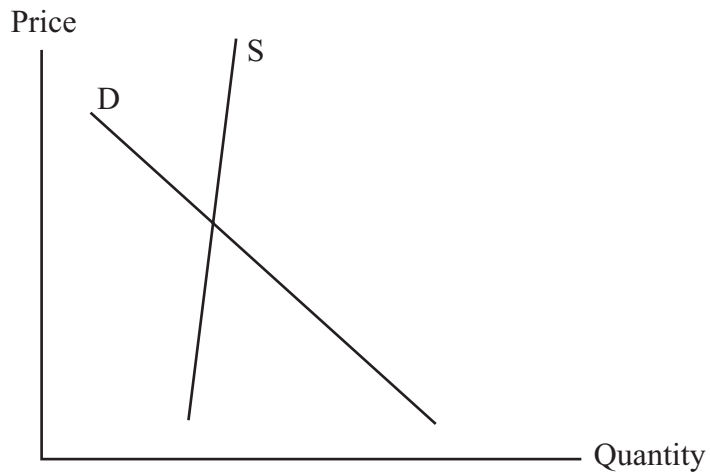
(1 mark)

- (ii) Describe what happened to the price of oil between 2003 and 2005.

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(3 marks)

- (b) (i) On the diagram below, draw a line to show how an increase in the demand for oil will affect the position of the demand curve (D), and the price and quantity of oil. Label all the changes, including price and quantity.



(4 marks)

- (ii) Explain the changes to price and quantity that you have shown in the diagram above.

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(2 marks)

Turn over ►

Item B

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.

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

(i) Complete the statement.

Total revenue minus **Total** = **Profit** (1 mark)

(ii) State **one** other way of measuring business performance.

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(1 mark)

(d) (i) Stakeholders are groups that have an interest in a business.

Apart from shareholders, directors and motorists, state **one** other example of a stakeholder in BP.

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(1 mark)

(ii) Explain why some motorists ‘will be angry’ about the large profit that BP is making.

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(2 marks)

(e) Discuss what might happen to the price of oil if oil production was increased.

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(4 marks)

19

Turn over for the next question

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Total for this question: 18 marks

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

Item C

Income Tax

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

When a government wants to increase 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.

- (a) (i) Apart from income tax, state **one** other tax that the Government uses to raise revenue.

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(1 mark)

- (ii) Using **Item C**, complete the following sentence.

Fiscal policy is the use of changes in

and to control the economy.
(2 marks)

- (b) (i) 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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(2 marks)

- (ii) Explain how an increase in government spending could lead to an increase in employment.

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(2 marks)

Question 2 continues on the next page

Turn over ►

Item D

Monetary policy

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

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

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(1 mark)

(ii) Explain **two disadvantages** of inflation for an economy.

Disadvantage 1

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Disadvantage 2

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(4 marks)

(d) Discuss how a fall in the rate of interest might affect:

(i) The consumer

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(4 marks)

(ii) Business

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(4 marks)

20

Turn over for the next question

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Total for this question: 18 marks

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

Item E

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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(3 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 3 continues on the next page

Turn over ►

Item F

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) (i) From the three diagrams below, select the one that shows that skilled workers are in short supply.

Figure 1

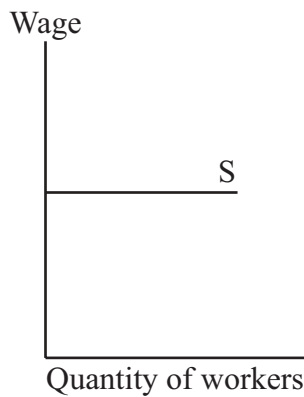


Figure 2

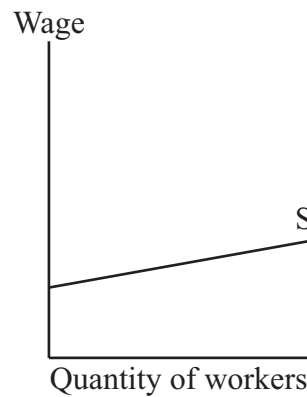


Figure 3

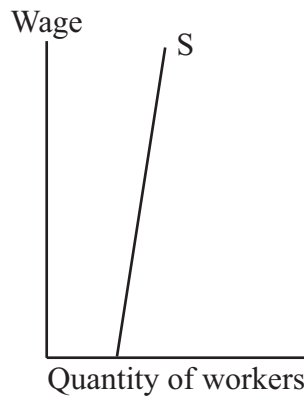


Figure (1 mark)

- (ii) Explain your answer.

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 (2 marks)

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

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(6 marks)

18

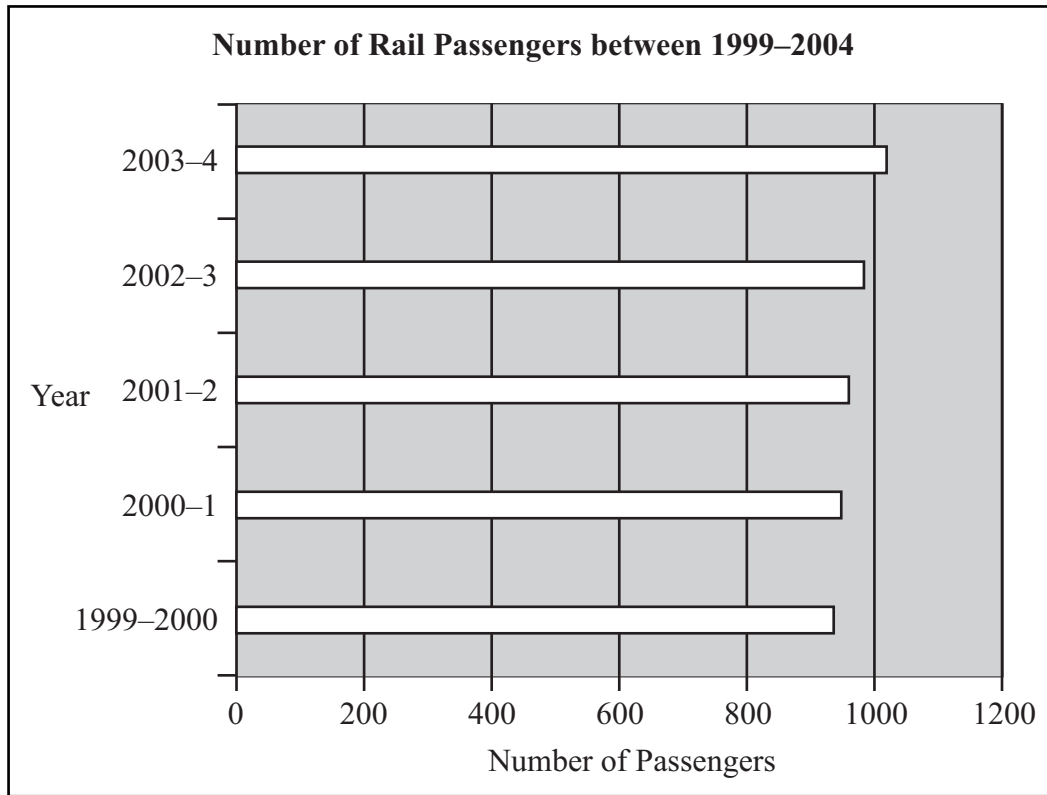
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Total for this question: 21 marks

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

Item G



Source: adapted from 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 4 continues on the next page

Turn over ▶

Item H

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.

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

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

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(2 marks)

SECTION B

Answer **either** Question 5 (pages 18 to 21) **or** Question 6 (pages 22 to 25).

Total for this question: 25 marks

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

Item I**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, we expect the housing market to record small price increases.

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

Item J

Selected Regions	% Annual increase in house prices		
	2002	2003	2004
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
UK	26	15	16

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

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

Total for this question: 25 marks

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

Item L

UK economic situation, 2004

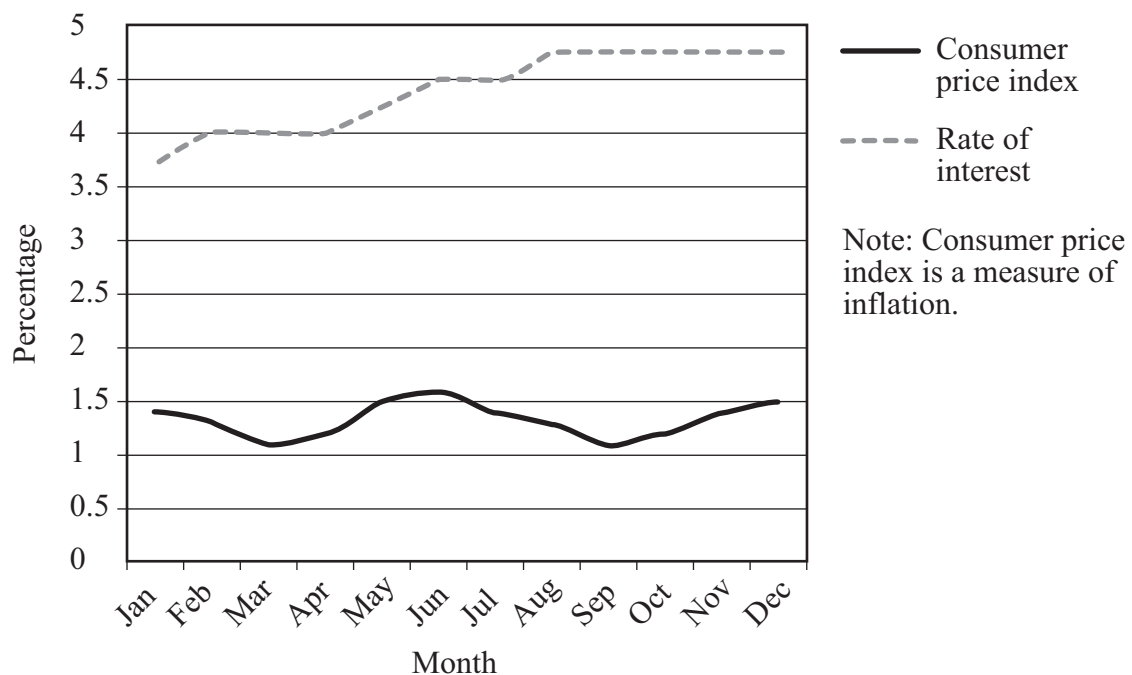
In 2004, there was strong growth in the service sector, caused mainly by increasing consumer demand. Industrial production, however, fell.

The UK's trade position with the rest of the world became worse, with the deficit on trade in goods rising from £9.6bn to £10.2bn.

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

Item M

Consumer Price Index and Rate of Interest, 2004



Item N

UK and Europe

Compared with the rest of the European Union (EU), the UK has grown for each of the past 12 years while other EU countries have suffered at least one recession.

The UK's unemployment rate is 4.8%, against 9.4% in France and 9.8% in Germany. It is much less than the EU average, but is rising slowly.

Income per head in the UK is higher at £16 440 than Germany's £15 700 or France's £15 300.

- (a) Using **Items L, M and N** and your knowledge of economics, discuss how well the UK economy is performing.

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