

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

For Examiner's Use

General Certificate of Secondary Education
June 2007

ECONOMICS
Higher Tier
Paper 1

3144/1H
H



Friday 22 June 2007 9.00 am to 11.30 am

<p>You will need no other materials. You may use a calculator.</p>

Time allowed: 2 hours and 30 minutes

Instructions

- Use blue or black ink or ball-point pen. Use pencil only 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 to be 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.
Seven of these marks will be awarded 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			
Question	Mark	Question	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 the spaces provided.

Total for this question: 29 marks

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

Item A

Trade war may push up price of clothes

Shoppers face rising prices if the European Union’s trade war with China is not quickly resolved, a major British retailer warned.

UK retailers have been badly hit since the introduction of EU textile quotas restricting imports of cheap, Chinese-made trousers, sweaters and T-shirts.

(a) (i) What is meant by a quota?

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(2 marks)

(ii) Explain **one** other way that a country could reduce imports.

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(2 marks)

(b) On the diagram below:

(i) Draw and label a supply and demand diagram showing the equilibrium price and quantity of T-shirts. *(3 marks)*

(ii) Show the effect on price and quantity of the introduction of a quota. *(2 marks)*



(iii) Explain why the introduction of a quota would result in the effects shown on your diagram.

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(2 marks)

Question 1 continues on the next page

Turn over ►

Item B

Effects of protection

Consumers are annoyed that they will not be able to buy cheap clothing.

European manufacturers of clothes are delighted that the EU has introduced the quotas to prevent them from being forced out of business by cheap imports from China.

Some economists think that countries should specialise in those goods and services that they are best at.

- (c) Explain why European manufacturers might be forced out of business by cheap imports.

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(4 marks)

(d) Explain why countries should specialise in what they are best at.

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(6 marks)

Question 1 continues on the next page

Turn over ►

(e) Discuss whether free trade or protection gives a country greater benefits.

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(8 marks)

29

Turn over for the next question

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Total for this question: 27 marks

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

Item C

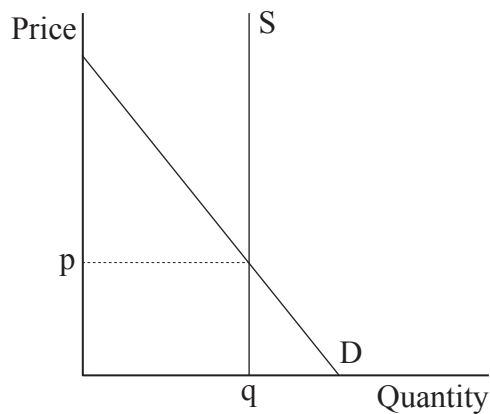
The price of petrol around Lancaster

Caton is a village four miles outside Lancaster. In October 2005, the price of unleaded petrol at a supermarket near Caton was 91.9 p per litre. At a village garage, six miles away, the price was 99.9 p per litre.

The supermarket is trying to gain a greater market share. The village garage wants to maximise profits.

(a) The diagram below shows the supply and demand for petrol.

(i) Using the diagram, show how a shift in demand could lead to a rise in the price of petrol.



(2 marks)

(ii) Explain what has happened to the price and the quantity of petrol.

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(3 marks)

(b) Discuss why the price of unleaded petrol varies between the supermarket and the village garage.

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(8 marks)

(c) (i) Explain why a ‘greater market share’ is an appropriate objective for a large supermarket.

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(2 marks)

(ii) Explain why wanting to ‘maximise profits’ is an appropriate objective for a village garage.

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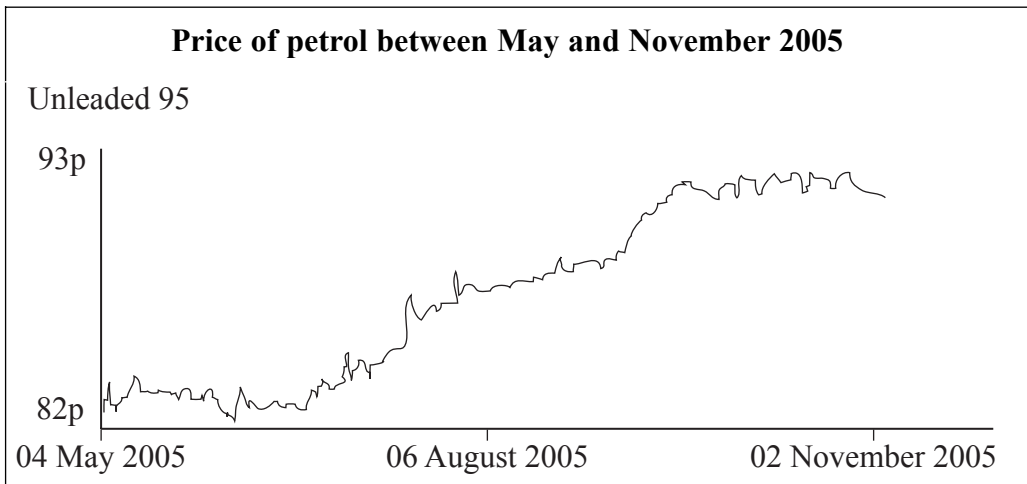
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(2 marks)

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Item D



Source: www.whatprice.co.uk

(d) (i) What happened to the price of petrol between May and November 2005?

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(2 marks)

(ii) Suggest one reason why this change has occurred.

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(2 marks)

(iii) Discuss the effect that the change in the price of petrol might have on the rate of inflation.

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Turn over for the next question

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Total for this question: 28 marks

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

Item E, an article on the introduction of a speed limit on Windermere, has not been reproduced here due to third-party copyright constraints.

(a) Using **Item E**, explain why there has been a fall in the tourist business in the Windermere area.

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(2 marks)

(b) Explain how a hotel could survive when demand is falling.

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(4 marks)

(c) (i) What is meant by lower economic growth?

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(2 marks)

(ii) Explain how a rise in unemployment might lead to lower economic growth.

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(4 marks)

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Item F

There are gains for Windermere

The Lake District National Park claims that the speed limit has been a success. Sailors and canoeists have been attracted by the peaceful waters. It states that its objective is to protect the countryside. It claims that the social benefits from its policy exceed the social costs.

The Boars Head is an expensive hotel that caters mainly for walkers and sightseers. The owner said that the ban had made no difference to his customer numbers.

- (d) Explain why the policy of imposing a speed limit on Lake Windermere might cause some hotels to lose customers while others would not be affected.

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(4 marks)

- (e) (i) Using an example, explain what is meant by social benefit?

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(3 marks)

(ii) Using an example, explain what is meant by social cost?

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(3 marks)

(iii) The Lake District National Park claims that ‘the social benefits from its policy exceed the social costs’.

Using **Items E** and **F** and your knowledge of economics, discuss whether this is likely to be the case.

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Total for this question: 31 marks

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

Item G

Job advertisements

The following jobs in the London area were advertised in early August 2005.

• Art Gallery Assistant	£13 750
• Clerical Officer, National Health Service	£14 794
• Information Technology Staff	£16 700
• Quality Assurance Manager	£22 600
• Administrative Services Manager	£25 000
• Area Manager, National Medical Charity	£35 000

(a) The demand for labour is often called a derived demand.

(i) What is meant by derived demand?

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(2 marks)

(ii) Explain how the demand for an Art Gallery Assistant could be an example of derived demand.

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(2 marks)

(b) Explain **two** reasons why the pay of the Area Manager is a lot more than that of the Administrative Services Manager.

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(4 marks)

(c) A job advertisement for Information Technology Staff in the Midlands offered £14 468. State and explain **two** factors that could lead to similar staff in London being offered £16 700.

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(4 marks)

Question 4 continues on the next page

Turn over ►

Item H

Many workers are paid no more than the national minimum wage

Many unskilled workers are not being paid more than the minimum wage. It is thought that this is because:

- British workers have low levels of productivity
- the supply of these workers is price elastic
- many do not belong to a trade union
- the number of jobs in retailing has increased.

(d) (i) What is meant by productivity?

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(2 marks)

(ii) Explain **one** reason why workers whose price elasticity of supply is elastic are likely to be paid less than those with an inelastic supply.

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(4 marks)

(iii) Discuss whether membership of a trade union might lead to workers being paid above the national minimum wage.

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(5 marks)

Question 4 continues on the next page

Turn over ►

Item I

Public and private sector pay

Ten years ago, private sector workers were paid, on average, more than public sector workers. Today, this is not the case. Public sector pay has been increasing faster and now exceeds that of the private sector.

(e) Discuss why public sector pay has increased faster than private sector pay.

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(8 marks)

Turn over for the next question

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SECTION B

Answer **either** Question 5 (pages 22–25) **or** Question 6 (pages 26–29).

Total for this question: 25 marks

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

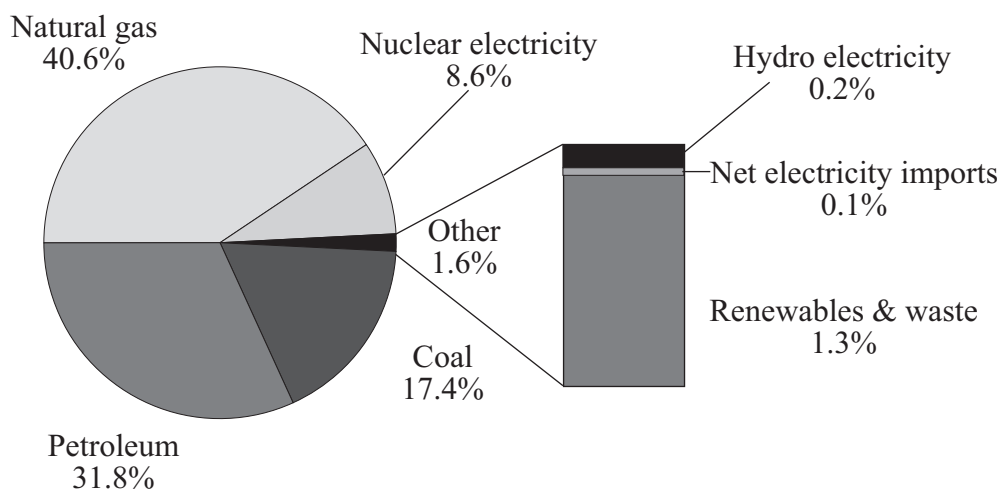
Item J**Renewable energy**

Renewable energy sources, such as wind and solar energy, offer clean energy that is safe for the environment and good for the economy. The other sources of energy, such as coal, gas and oil, cannot be used again.

Wind power is already an increasingly important source of energy. It could supply 10 per cent of electricity within twenty years. Solar power has been growing by 33 per cent annually.

Business, governments and individuals must begin now to bring in clean, sustainable energy sources and phase out coal, gas and oil. Major investments must be made in renewable energy, replacing large-scale coal, gas and oil production.

People are changing the climate, causing extreme weather events such as droughts and floods, disruption of water supplies, melting Polar regions, rising sea levels and much more. It is not too late to slow global warming and to prevent more disasters.

Item K**Sources of Energy**

Source: www.dti.gov.uk

Item L

The Energy White Paper

On 24 February 2003, the Government launched its Energy White Paper ‘Our energy future – creating a low carbon economy’.

The main goals of the policy were:

- to cut the UK’s carbon dioxide emissions by 60% by 2050
- to maintain the reliability of energy supplies
- to promote competitive markets in energy supply
- to ensure that every home is adequately and affordably heated.

(a) Using **Items J, K** and **L** and your knowledge of economics, discuss whether the goals set by the Energy White Paper are likely to be achieved.

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(10 marks)

(b) Discuss whether investing in renewable energy sources is the best policy for the UK.

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(15 marks)

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Turn over for the next question

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

Total for this question: 25 marks

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

Item M

UK employment, October 2005

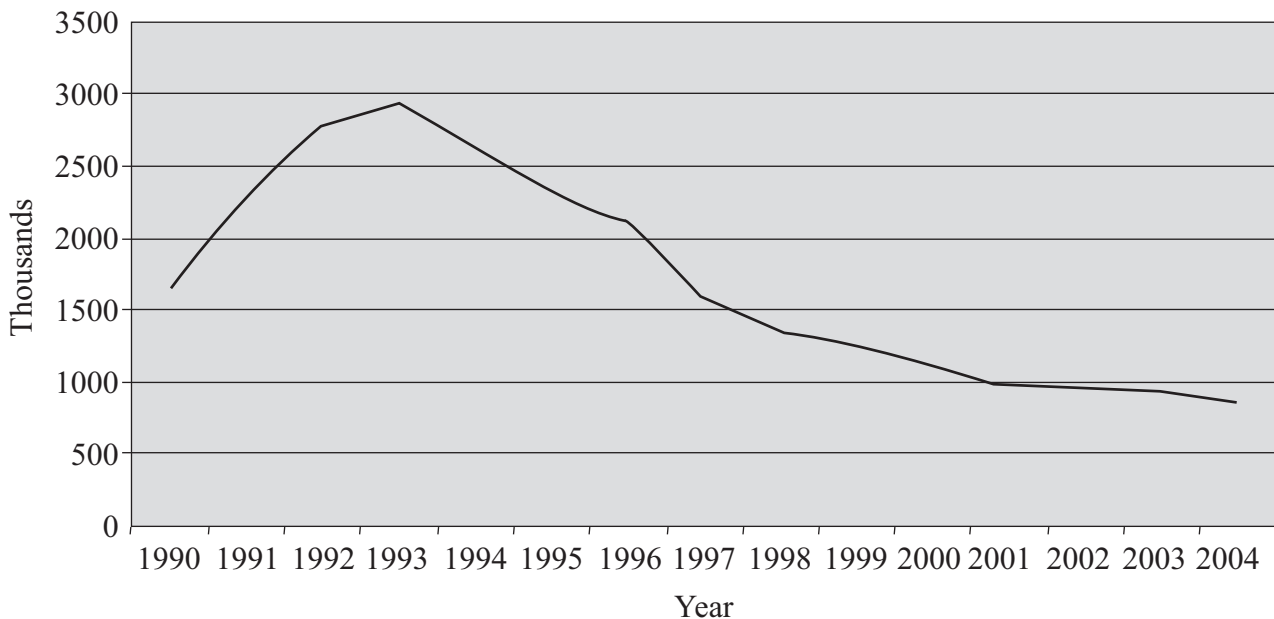
The October figures show that employment is at record levels while the number of unemployed has fallen. There are now more people in work than ever before, up by over a hundred thousand in the last quarter alone. Many new vacancies are placed at Jobcentre Plus offices and more are advertised through other recruitment channels. The Government claims that those who have recently lost their job can find another one quickly.

In addition, the long-term unemployed, lone parents and those claiming incapacity benefits are being helped to overcome the barriers that in the past have prevented them from returning to work.

The Government considers that its supply-side policies, such as education and training, are successful. Some economists believe that increased government spending and other fiscal policies have had greater effect than supply-side policies.

Item N

Unemployment 1990–2004



Source: adapted from www.hrmguide.co.uk

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(15 marks)

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END OF QUESTIONS

