

Surname						Other Names					
Centre Number						Candidate Number					
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For Examiner's Use

General Certificate of Secondary Education
June 2008

ECONOMICS
Paper 1
Foundation Tier

3144/1F
F



Thursday 19 June 2008 9.00 am to 11.00 am

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

Time allowed: 2 hours

Instructions

- Use black ink or black 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 in **Section B**.
- You must answer the questions in the spaces provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 105.
Five 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			
Question	Mark	Question	Mark
1		4	
2		5	
3		6	
Total (Column 1) →			
Total (Column 2) →			
Quality of Written Communication			
TOTAL			
Examiner's Initials			



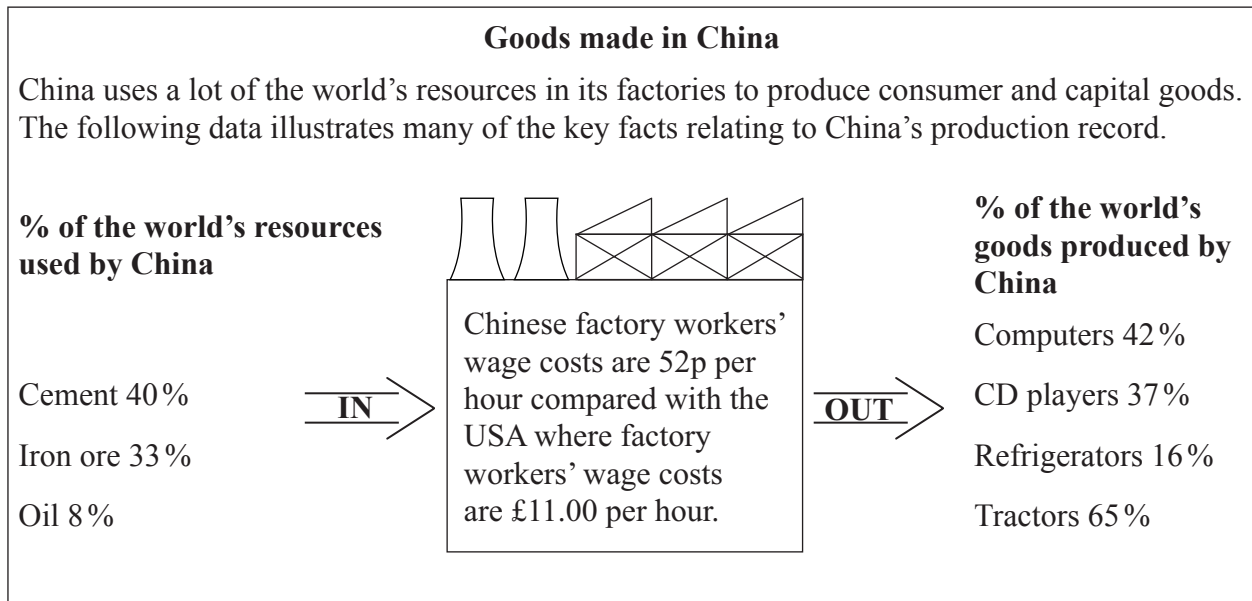
SECTION A

Answer **all** questions in this section.

Answer the questions in the spaces provided.

Total for this question: 23 marks

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

Item A

1 (a) (i) Using **Item A**, what percentage of the world's cement is used by China?

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 (1 mark)

1 (a) (ii) Which of the world's goods listed in **Item A** are made mainly by China?

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 (1 mark)



1 (b) (i) Using **Item A**, identify and explain the **main** production advantage which China has over the USA.

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1 (b) (ii) What benefits might the UK gain from trading with China?

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Item B

Growth in China

Since 2000, economic growth in China has been at least 10% per year. It provides a massive market for luxury goods. Rising incomes in China have led to big increases in the sales of jewellery, mobile phones and computers. The Chinese Government is keen to encourage these sales.

However, the Chinese Government, has some concerns:

- obesity rates have doubled in 10 years
- pollution is increasing rapidly
- hundreds of millions of people are below the poverty line.

1 (c) What is meant by the term ‘economic growth’?

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1 (d) Using **Item B**, identify and explain **one** advantage of economic growth.

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1 (e) Using **Item B**, identify and explain **one** external cost of China's economic growth.

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(3 marks)

1 (f) Discuss whether or not it is important for an economy to grow rapidly.

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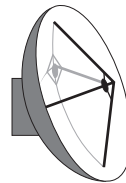
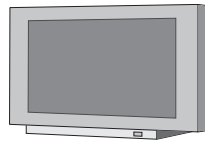
Total for this question: 16 marks

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

Item C

The Sky's the Limit

Before the 2007/08 football season, Sky TV had a 13 year monopoly to screen Premiership football. However, after a European Union enquiry, the market was made more competitive. Research revealed that some customers were unhappy about Sky TV's exclusive deal.



In future, at least two television companies will be able to screen live Premiership football. This will give fans a choice of television channels to watch.

2 (a) What is a 'monopoly'?

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(2 marks)

2 (b) Explain **one** advantage to Sky TV of having an 'exclusive deal'.

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(2 marks)



2 (c) Suggest **two** reasons why consumers might be unhappy when there is a monopoly.

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2 (d) **Item C** illustrates an example of ‘market failure’.

2 (d) (i) From the following, use the most appropriate words to complete the definition of ‘market failure’ in the spaces provided.

tries	is unable	regularly	altogether	efficiently
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Market failure occurs when a market

to allocate resources

(2 marks)

Question 2 continues on the next page

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2 (d) (ii) Discuss whether Governments should make markets more competitive.

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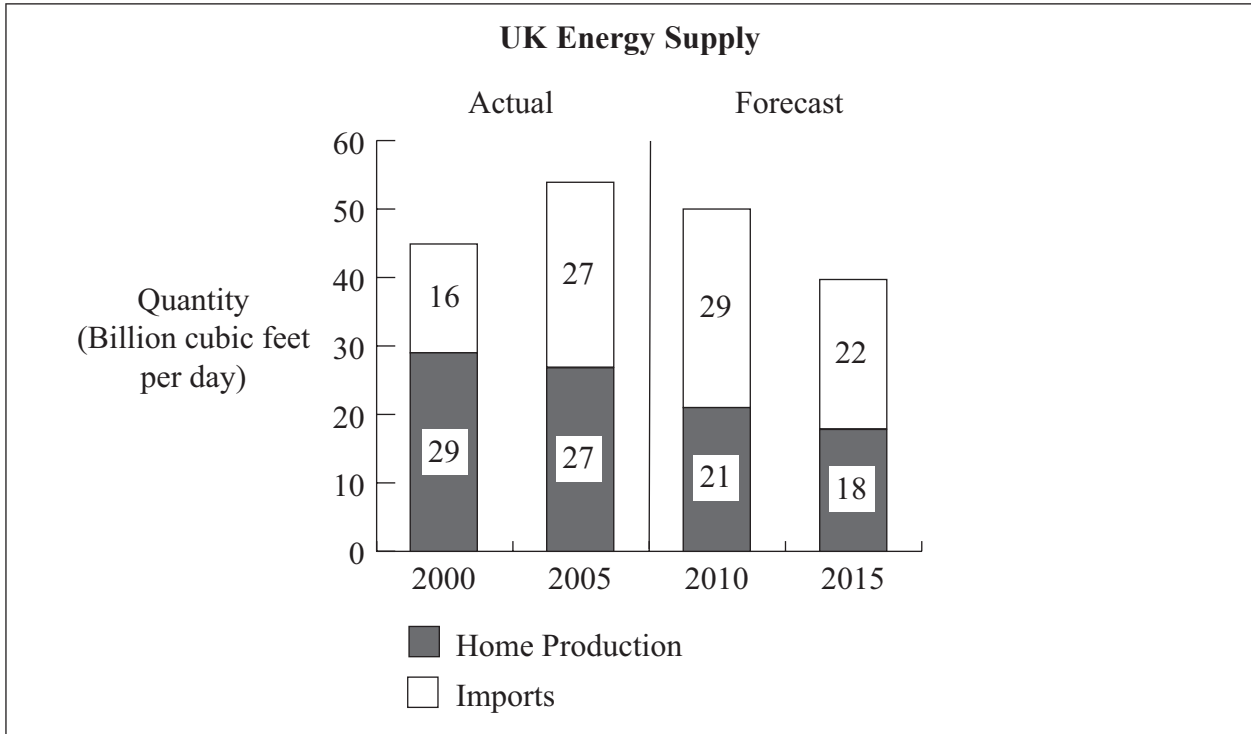
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Total for this question: 19 marks

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

Item D



3 (a) (i) What was the total supply of energy in 2000?

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 (1 mark)

3 (a) (ii) Using **Item D** identify **two** trends in the supply of energy.

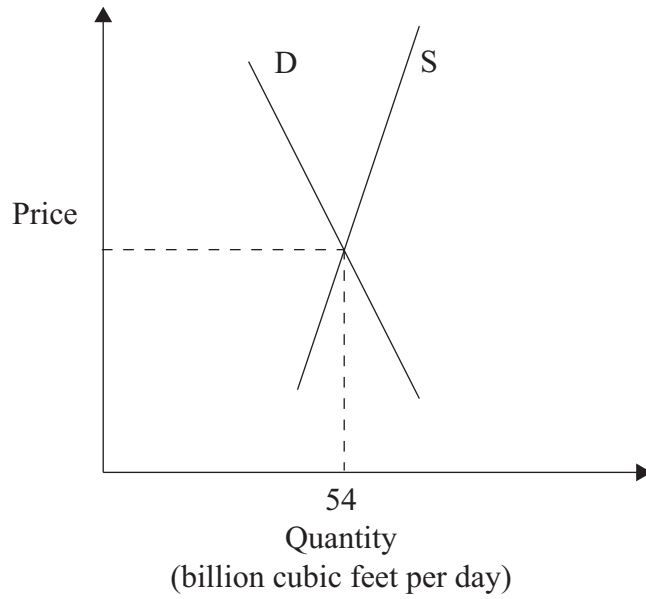
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 (2 marks)

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3 (b) The diagram below represents the supply and demand of energy in 2005.



3 (b) (i) Using the data in **Item D**, show on the above diagram the changes in supply predicted for 2015. Label all of your changes. (4 marks)

3 (b) (ii) Describe the changes to the price and quantity that you have shown in the diagram.

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Question 3 continues on the next page

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Item E

Gas Price Rises

Gas is the main form of energy in the UK. Its price rose in March 2006. The price of gas became three times higher in the UK than in the Netherlands. The main reasons for the price rise were:

- the unexpected cold weather
- rising costs of gas production in the North Sea
- some EU suppliers stopped selling gas to the UK.

3 (c) (i) Using **Item E**, state **one** reason that led to an increase in the demand for gas.

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 (1 mark)

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3 (c) (ii) Using **Item E**, state **one** reason that led to a fall in the supply of gas.

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 (1 mark)

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3 (d) The supply of gas, in the short run, is perfectly inelastic. Explain what this statement means.

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(2 marks)

3 (e) Discuss why the price of energy may vary so much between two countries, such as the UK and the Netherlands.

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Total for this question: 17 marks

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

Item F

UK Inflation

The Retail Price Index (RPI) is one of the monthly measures of inflation in the UK. It is calculated from the prices of a range of goods and services selected to represent typical spending patterns.

Year	Annual rate of inflation %
2003–2004	2.6
2004–2005	3.2
2005–2006	2.4

4 (a) What is meant by the term ‘inflation’?

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(1 mark)

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4 (b) Using **Item F**, describe what has happened to the inflation rate in the UK between 2003 and 2006.

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Item G

European Inflation

The European rate of inflation is based on similar data collected in 12 EU countries, not including the UK. It uses the Consumer Price Index (CPI), which is similar to the RPI but excludes housing costs (such as mortgage interest).

Year	Annual rate of inflation %
2003–2004	1.9
2004–2005	1.9
2005–2006	2.4

- 4 (c) Using **Items F** and **G**, describe how inflation in Europe has differed from that in the UK between 2003 and 2006.

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- 4 (d) State **two** possible reasons for the differences between European and UK inflation.

Reason 1

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Reason 2

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4 (e) Discuss how a big rise in UK inflation would affect the following groups:

4 (e) (i) UK pensioners

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4 (e) (ii) UK businesses

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4 (e) (iii) European competitors of UK businesses.

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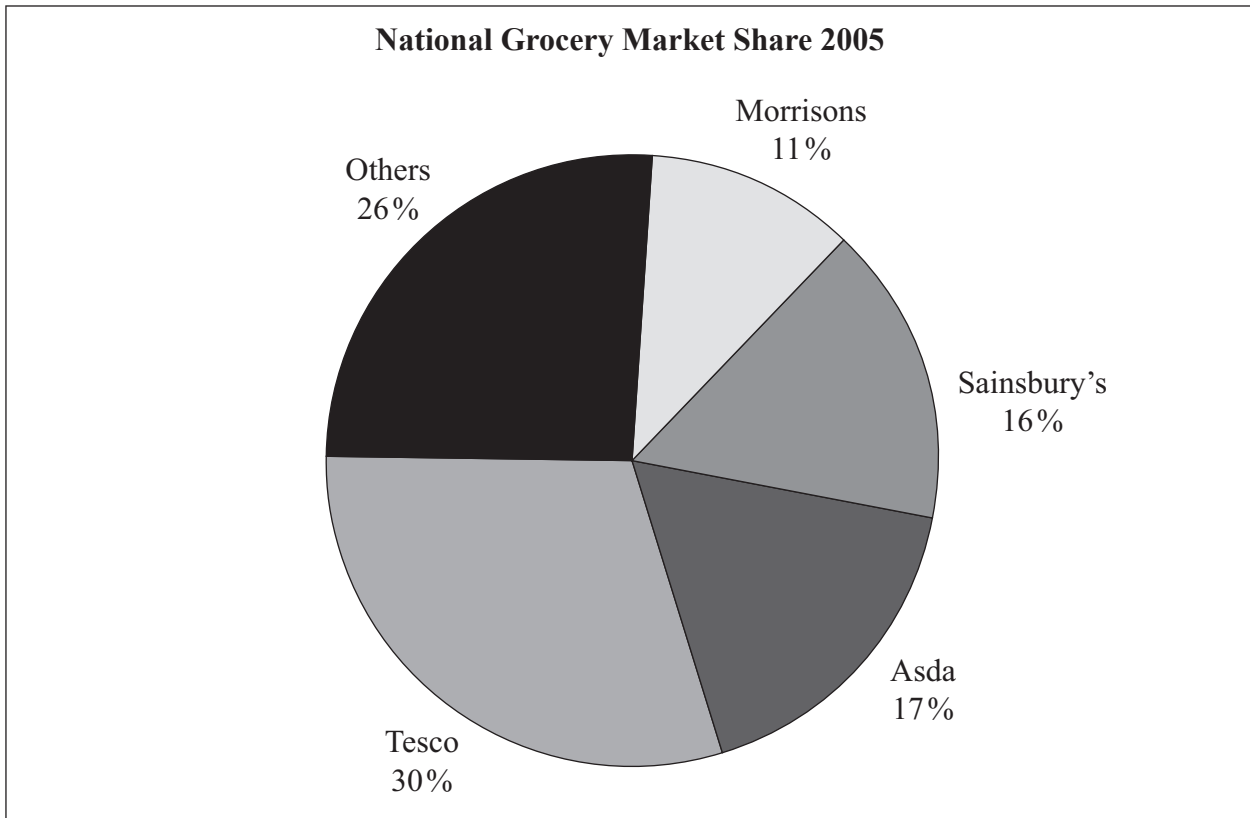


SECTION B

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

Total for this question: 25 marks

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

Item H**Item I****Supermarkets and Consumers**

A spokesman for a large supermarket said that his company had grown because it had helped to improve the lives of ordinary people. It had helped to bring prices down and to improve the quality and range of its goods and services.

Others have claimed that consumers have benefited from good value because, in real terms, prices have fallen 7% in the past 5 years.

Currently there are still 39 000 independent retailers, compared to over 4000 supermarkets. The large supermarkets have developed a range of different sized stores which many customers find convenient. They have also made innovations such as internet sales.



Item J

Concerns about the big Supermarkets

Since 2003, 20% of independent shops have closed down, as the big four supermarkets have become more powerful. In certain areas, consumers have little choice because large retailers buy up local independent stores. Constantly changing prices and special offers, have made it hard for customers to compare prices.

A campaign was mounted by independent stores, farmers, environmentalists and women’s institutes. They accused the big supermarkets of using their power to force down the prices paid to suppliers, and causing small shops to go out of business.

If the large supermarkets distort competition, the Office of Fair Trading (OFT) could:

- force the big supermarkets to abandon some of their expansion plans
- make them sell some of their stores
- make it harder for supermarkets to get permission to build new stores.

5 (a) Using **Items H, I and J** and your knowledge of economics, discuss whether the changes in retailing have benefited the customer.

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5 (b) Identify and explain **two** problems in the National Grocery Market.
Discuss whether the National Grocery Market should be made more competitive.

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

Total for this question: 25 marks

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

Item K

Government Borrowing

The Budget shows the difference between planned Government spending and Government revenue in one year. In 2006, Government spending was £552 billion and Government revenue was £516 billion. The deficit of £36 billion was the amount which the government needed to borrow.

Below are the figures for Government borrowing for the past 5 years.

UK Budget Borrowing

Year	£ billion
2003	22
2004	27
2005	29
2006	36
2007	39

Item L

Government Spending

From 1997 to 2000, the Labour Government tightly controlled spending. Since then, however, the public services have been given big increases averaging 3.5 % per year.

The main areas receiving extra spending have been:

- health (6.6%)
- education (5.1%)
- transport (5.1%).

The Government claims that this extra public spending has helped to keep the economy growing.

Pensions, however, gained only a small increase (2.3%) while debt interest payments have fallen by 2.2%.



Item M

Government Revenue

Over the past 10 years the tax burden has increased from 36% of Gross Domestic Product in 1997 to 38% in 2007.

The main tax revenues in the 2006/7 tax year were:

- income tax, which raised £144 billion
- VAT 17.5%, unchanged for most items, which raised £76 billion
- National Insurance contributions, which provided £90 billion.

In 2007 the Chancellor said that he planned to increase Government revenue each year by selling off £5 billion of public assets, such as the Government's stake in British Energy.

- 6 (a) Using **Items K, L and M** and your knowledge of economics, discuss how well the Government is managing its revenue and spending.

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6 (b) Explain what is meant by:

- (i) fiscal policy
- (ii) monetary policy.

Discuss which of these policies is the better way of managing the economy.

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