Surname			Other	Names			
Centre Number				Cand	idate Number		
Candidate Signatur	е						

For Examiner's Use

General Certificate of Secondary Education June 2008

ECONOMICS
Paper 1
Higher Tier

3144/1H



Thursday 19 June 2008 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 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 147. Seven 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: 35 marks

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

Item A

Goods made in China

China uses a lot of the world's resources in its factories to produce consumer and capital goods. The following data illustrates many of the key facts relating to China's production record.

% of the world's % of the world's resources goods produced by used by China China Chinese factory workers' Computers 42% wage costs are 52p per Cement 40% CD players 37% hour compared with the OUT USA where factory Iron ore 33% Refrigerators 16% workers' wage costs are £11.00 per hour. Oil 8% Tractors 65%

1	(a)	Fron	From Item A , identify and name:		
1	(a)	(i)	one consumer good produced by China		
			(1 mark)		
1	(a)	(ii)	one capital good produced by China.		
			(1 mark)		



1	(b)	(i)	Using Item A , identify and explain the main production advantage which China has over the USA.
			(2 marks)
1	(b)	(ii)	Explain the advantages to China of specialising in the production of computers.
			(4 marks)
1	(c)		e resources mentioned in Item A were scarce, what economic decisions would to be considered by the Chinese Government.
			(4 marks)



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	(d)	What is meant by the term 'economic growth'?	
			(2 marks)
		(Extra space)	
1	(e)	Using Item B , identify and explain one advantage of economic growth.	
			(2 marks)
		(Extra space)	



(3 mark
(Extra space)
Question 1 continues on the next page



Discuss whether or not it is important for an economy to grow rapidly.
(8 mark
(Extra space)
(Extra space)



)	The Chinese Government is trying to develop partnerships with overseas companion Discuss whether overseas companies should enter into such partnerships.			
	(8			
	(Extra space)			
	(Dail a space)			

35



Total for this question: 25 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'?
		(2 marks)
2	(b)	Explain two advantages to Sky TV of having an 'exclusive deal'.
		(4 marks)



2	(c)	Sugg	gest two reasons why consumers might be unhappy when there is a monopoly.
		•••••	(4 marks)
2	(d)	Item	C illustrates an example of 'market failure'.
2	(d)	(i)	What is meant by the term 'market failure'?
			(2 marks)
2	(d)	(ii)	How might Government intervention in a market lead to market failure?
			(4 marks)



Item D

Recently, the EU accused Imperial Chemical Industries (ICI) plc of operating a cartel in the PVC market, and fined it £3 million. ICI is now being accused of collusion in price fixing in the acrylic paints market. This paint is used in shop signs and car parts.

2	(e)	Apart from the price fixing mentioned in Item D , name one other anti-competitive activity which cartels use.
		(1 mark)
2	(f)	Explain how price fixing works for the benefit of the companies in a cartel.
		(4 marks)
		(Extra space)



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2	(g)	What are the disadvantages of cartels?
		(4 marks)
		(Extra space)

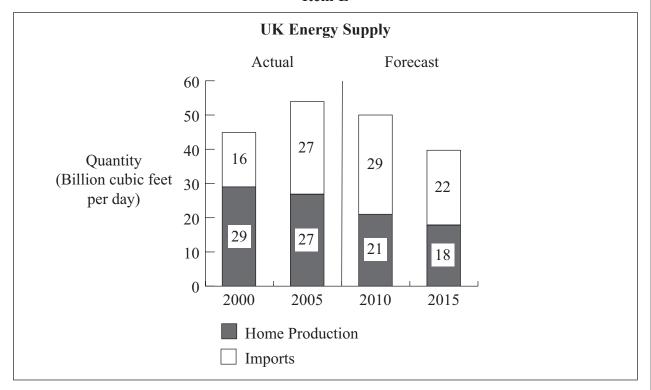
Turn over for the next question



Total for this question: 30 marks

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

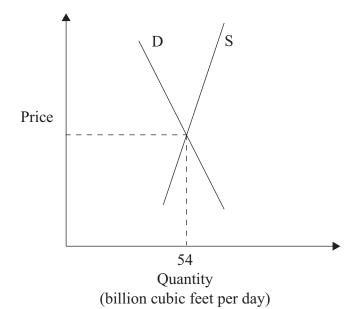
Item E



)	Using Item E identify two trends in the supply of energy.
	(2 marks)
	(Extra space)



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



- 3 (b) (i) Using the data in **Item E**, show on the above diagram the changes in supply predicted for 2015. Label all of your changes. (4 marks)
- 3 (b) (ii) Explain the changes to the price and quantity that you have shown in the diagram.

 (2 marks)

 (Extra space)

Question 3 continues on the next page



(Extra space))	In Item E , the information after the year 2005 is a forecast. about the UK energy supply might not be correct.	•
			•••••
			/0 -
(Extra space)			(0)
		(Extra space)	



Item F

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	(d)	(i)	Using a supply and demand diagram, analyse how one of the reasons in Item F might cause a rise in the price of gas.
			(4 marks)
			(Extra space)



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



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

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Turn over for the next question



Total for this question: 25 marks

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

Item G

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.

Calculation of the RPI leaves out the spending habits of pensioners receiving state benefits and the top 4% of high income households.

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

The UK Government has an inflation target of 2%.

4	(a)	Using Item G , describe what has happened to the inflation rate in the UK between 2003 and 2006.
4	(b)	(2 marks) Explain one possible reason why RPI data excludes pensioners receiving state benefits.
		(2 marks)



Item H

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 Item H , describe how inflation in Europe has differed from that in the UK between 2003 and 2006.
4	(d)	(3 marks) Explain two possible reasons for the differences between European and UK inflation.
•	(u)	Explain two possible reasons for the differences between European and Cix inflation.
		(4 marks)



4 (e)	Explain why governments have an inflation target.
	(4 marks)
	(Extra space)



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(Extra space)

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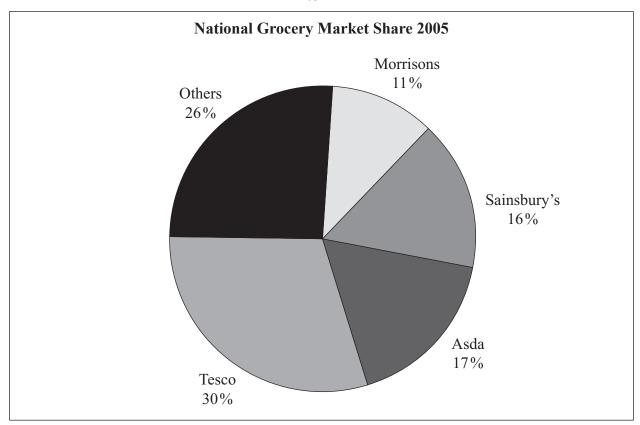
SECTION B

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

Total for this question: 25 marks

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

Item I



Item J

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 K

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 I , J and K and your knowledge of economics, discuss whether the changes in retailing have benefited the customer.





	(101)
	(10 marks)
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	(Extra space)
5 (b)	Discuss whether the National Grocery Market should be made more competitive.
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5 (b)	



(Extr	a space)
•••••	

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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 follows.

Item L

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 M

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 N

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 L, M and N and your knowledge of economics, discuss how well the Government is managing its revenue and spending.



		(10
		(10 marks)
		(Extra space)
		(2 v sp v s)
6	(b)	Governments can use several policies to manage the economy. Discuss whether fiscal
		policy is the best way of managing the economy.



•	
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((Extra space)
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END OF QUESTIONS



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