

Surname						Other Names					
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For Examiner's Use
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General Certificate of Secondary Education  
June 2008

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

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



Thursday 19 June 2008 9.00 am to 11.30 am

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



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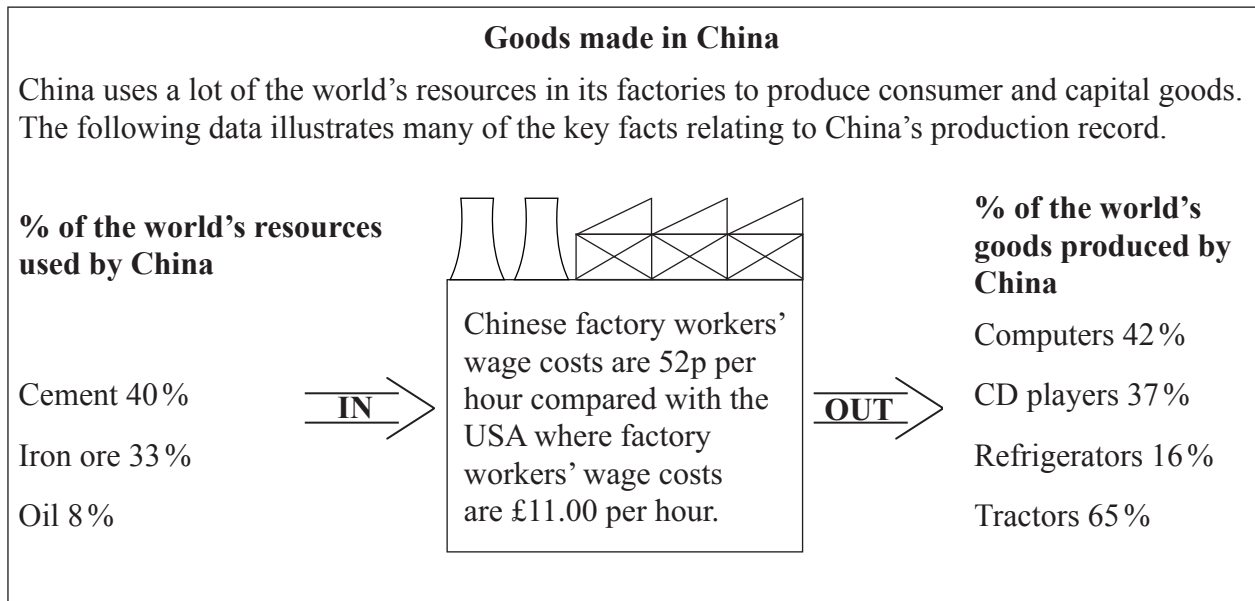
**SECTION A**

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**

**1** (a) From **Item A**, identify and name:

**1** (a) (i) **one** consumer good produced by China

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*(1 mark)*

**1** (a) (ii) **one** capital good produced 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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(2 marks)

1 (b) (ii) Explain the advantages to China of specialising in the production of computers.

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(4 marks)

1 (c) If the resources mentioned in **Item A** were scarce, what economic decisions would need to be considered by the Chinese Government.

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(4 marks)

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

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(2 marks)

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

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(2 marks)

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

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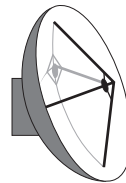
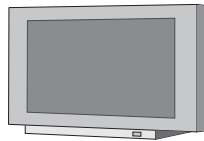
**Total for this question: 25 marks**

**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'?

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*(2 marks)*

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

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*(4 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) What is meant by the term ‘market failure’?

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(2 marks)

2 (d) (ii) How might Government intervention in a market lead to market failure?

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**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.

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(1 mark)

- 2 (f) Explain how price fixing works for the benefit of the companies in a cartel.

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2 (g) What are the disadvantages of cartels?

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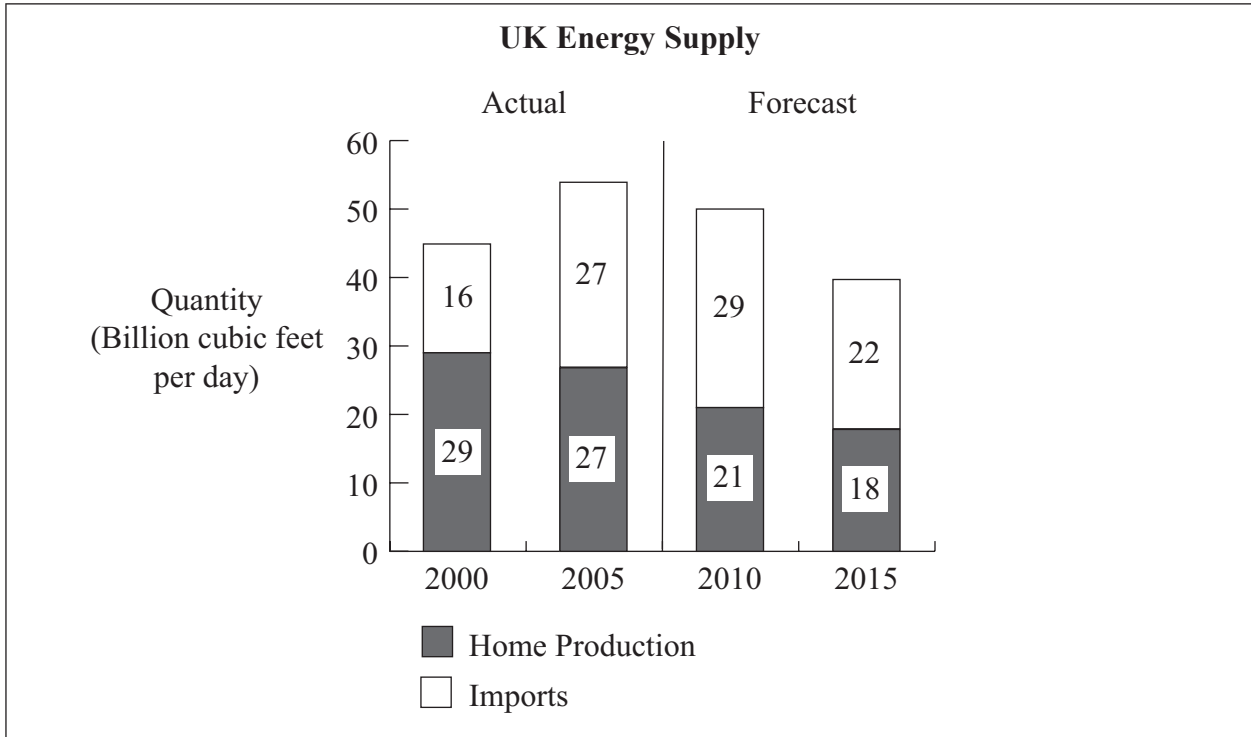
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Total for this question: 30 marks

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

Item E



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

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(2 marks)

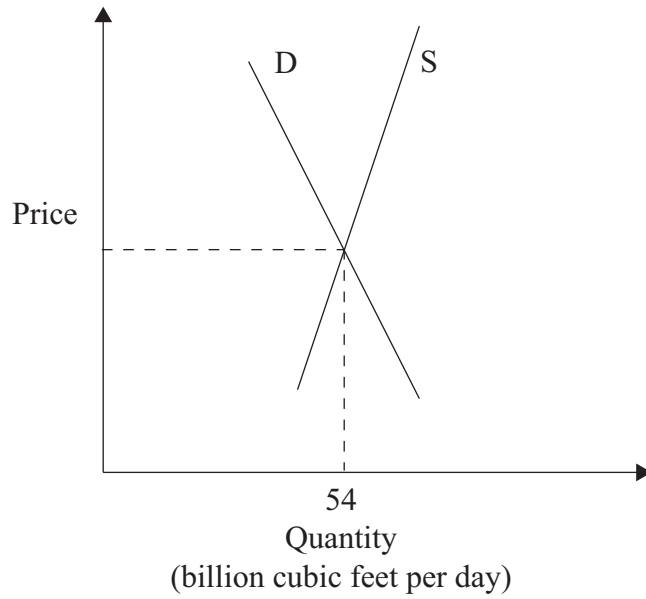
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3 (b) The diagram below represents the supply and demand of energy in 2005.



3 (b) (i) Using the data in **Item 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.

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Question 3 continues on the next page

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

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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: 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.

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*(2 marks)*

4 (b) Explain **one** possible reason why RPI data excludes pensioners receiving state benefits.

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*(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.

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*(3 marks)*

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

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

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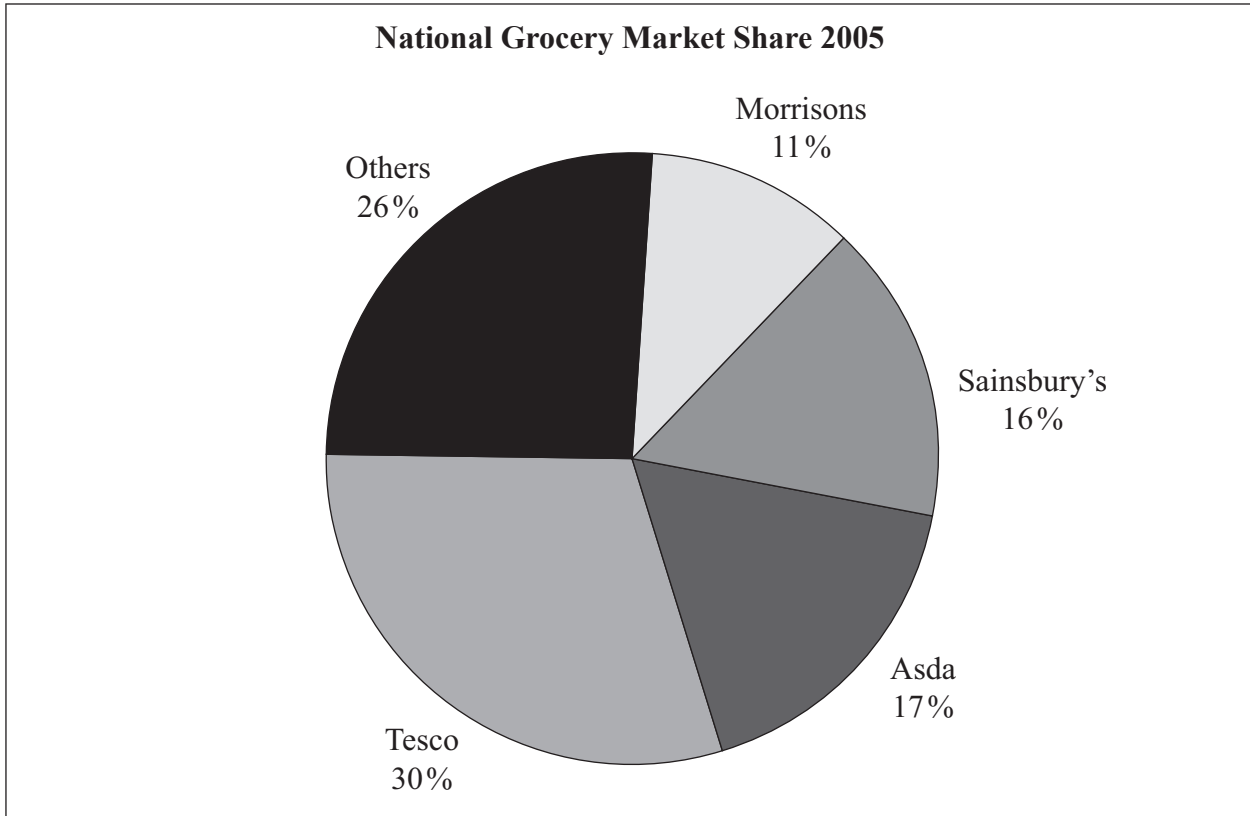


**SECTION B**

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.





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5 (b) 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 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**

<b>Year</b>	<b>£ billion</b>
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.

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