

### Paper 3 (Higher Tier)

**THURSDAY 19 JUNE 2008**

Morning

Time: 1 hour 30 minutes

Candidates answer on the question paper

**Additional materials:** No additional materials are required



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- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use blue or black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Show your workings for **all** calculations.
- Additional answer space is available on the lined pages at the back of the book. Answers on these pages **must** be clearly numbered.
- Write your answer to each question in the space provided.

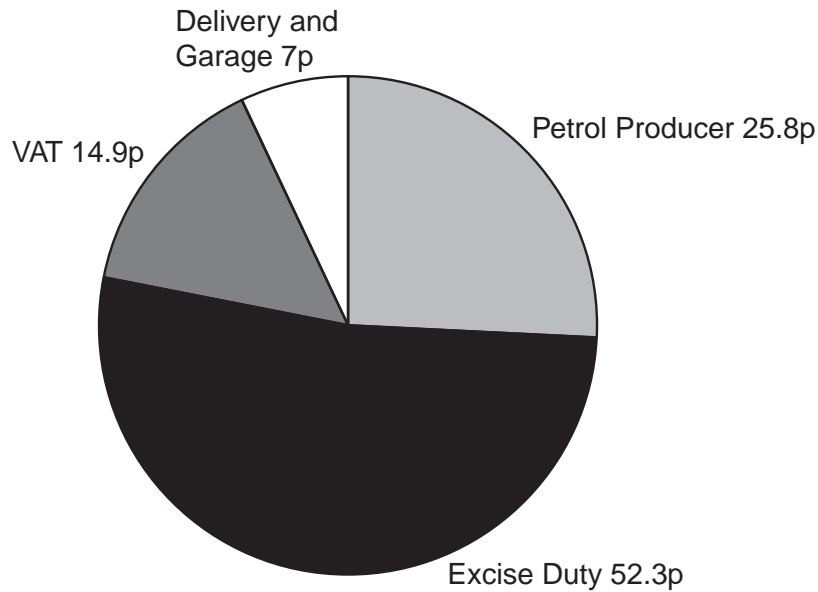
- The number of marks for each question is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (\*).
- You may use an approved calculator.

FOR EXAMINER'S USE	
1	
2	
3	
4	
TOTAL	

This document consists of **15** printed pages, **3** lined pages and **2** blank pages.

### Question 1

Fig. 1 shows what happens to £1 paid by a UK motorist for a litre of petrol.



**Fig. 1**

- (a)** Calculate the percentage of the price which is made up of excise duty. Show your working.

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 [2]

- (b) (i)** Explain what is meant by price inelastic demand.

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 [2]

- (ii)** Explain why the demand for petrol is price inelastic.

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 [2]

- (iii)** Explain why the demand for new cars is price elastic.

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 [2]

- (c)** Explain what could cause the demand for and supply of new cars to change over time. With the help of diagrams, explain how these changes would affect the price and sales of new cars.

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.



- (d)** Car manufacturers have both fixed and variable costs of production. Explain the difference between a fixed cost and a variable cost.

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[2]

- (e)** Discuss the extent to which car manufacturers can gain from internal economies of scale.

[illegible]

**TOTAL MARKS 30**

## Question 2

- (a) (i) Explain what is meant by the term opportunity cost.

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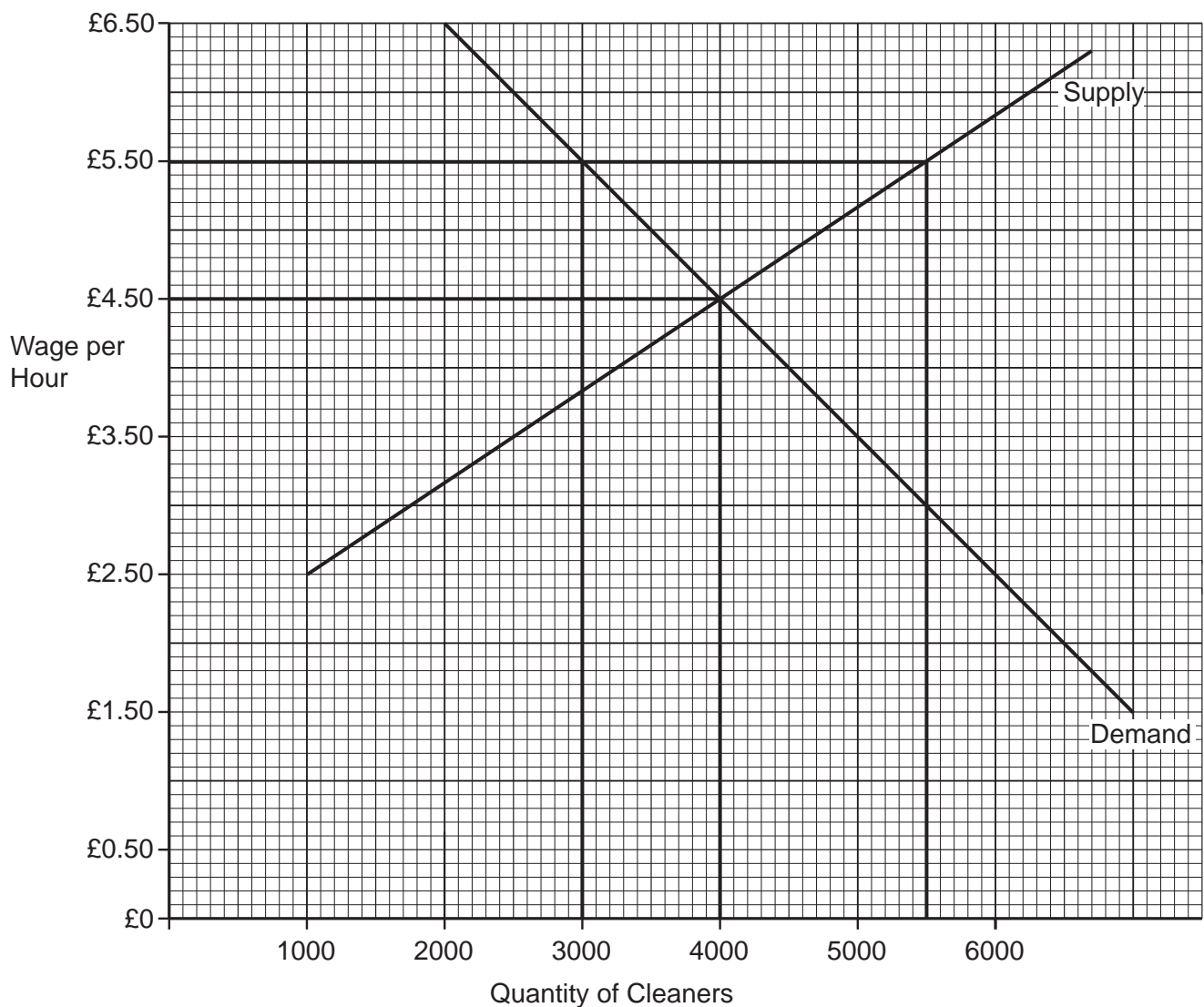
 [2]

- (ii) What might be the opportunity cost to a 16-year old of leaving school to take up a job?

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 [1]

Fig. 2 shows the labour market for cleaners in a town.



**Fig. 2**

- (b)** Fig. 2 shows that the equilibrium wage for cleaners is £4.50 an hour. The cleaners are, however, paid a minimum wage of £5.50 an hour. Using Fig. 2, explain what happens in this market for cleaners now that a minimum wage is paid.

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[4]

- (c)** A national minimum wage is good for the economy. Do you agree? Give reasons for your answer.

[illegible]**TOTAL MARKS 15**

### Question 3

In April 2006 the following report appeared in a newspaper.



**Fig. 3**

- (a) With reference to Fig. 3, explain **one** advantage and **one** disadvantage to the UK economy of European Union (EU) membership.

Advantage \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Disadvantage \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ [4]



- (b) Explain **three** possible reasons why Peugeot may prefer to locate car production in Slovakia rather than in the UK.

1 \_\_\_\_\_

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2 \_\_\_\_\_

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3 \_\_\_\_\_

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\_\_\_\_\_ [6]

- (c) Explain how the closure of the Peugeot factory in Coventry would affect the UK balance of payments.

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\_\_\_\_\_ [4]

- (d)** Would the closure of the Peugeot factory in Coventry lead to problems for the local community? Give reasons for your answer.

[illegible]

- \*(e)** Identify and explain **three** economic measures that the government could use to improve the employment prospects of unemployed car factory workers. Discuss how well each measure is likely to work.

Measure 1 \_\_\_\_\_

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Measure 2 \_\_\_\_\_

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Measure 3 \_\_\_\_\_

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\_\_\_\_\_ [12+2]

QWC

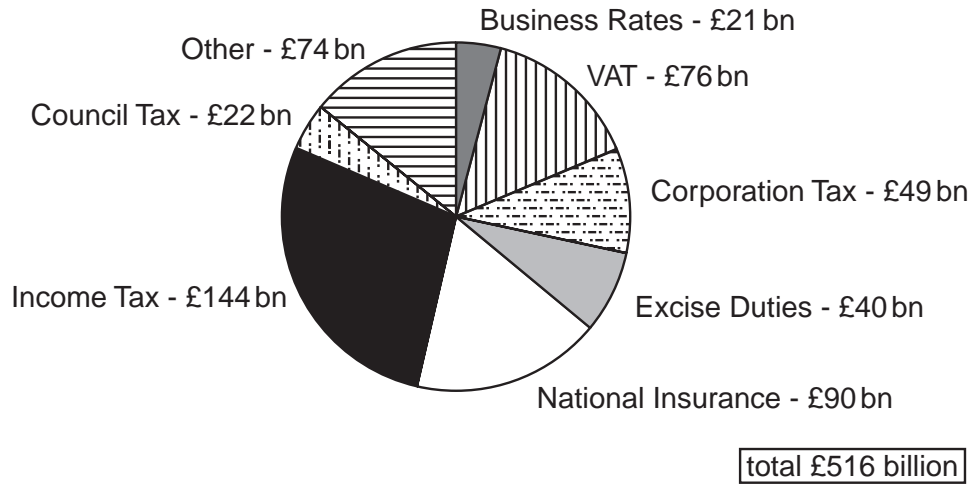
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**TOTAL MARKS 34**

**Question 4**

Figs 4 and 5 show UK government taxation and spending for the year 2006/7.

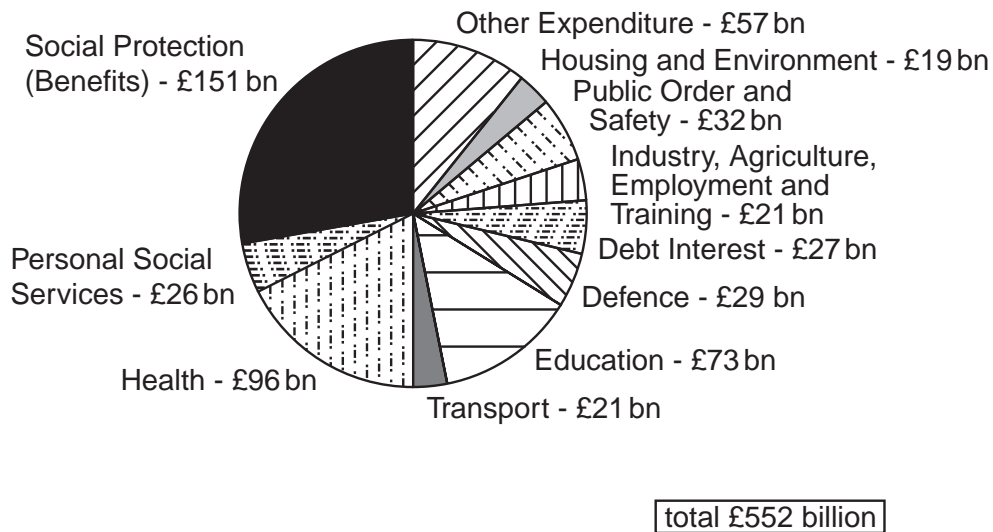
**Where taxes come from 2006/07**



Source: HM Treasury, [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

**Fig. 4**

**Where taxpayers' money is spent 2006/07**



Source: HM Treasury, [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

**Fig. 5**

- (a) Using information from Figs 4 and 5, calculate the UK government's budget balance. Show your working.

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[3]

- (b) Using information from Fig. 4, explain why the net pay of a worker in the UK is less than gross pay.

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[2]

- (c) Explain, using **one** example from Fig. 5, what is meant by a merit good.

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[4]

- \*(d) In recent years, the UK government has been spending more on health and education. Should the extra revenue for this come from direct taxes (such as income tax) or indirect taxes (such as VAT and excise duties)? Give reasons for your answer.

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If you use the following lines to complete the answer to any question, the question number **must** be clearly shown.

[illegible]







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**19**  
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*Copyright Acknowledgements:*

Figs. 4 and 5      Source: HM Treasury, [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.

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