

GENERAL CERTIFICATE OF SECONDARY EDUCATION
ECONOMICS

Paper 3 (Higher Tier)

1985/03

Candidates answer on the Question Paper

OCR Supplied Materials:

None

Other Materials Required:

- Calculators may be used

Monday 7 June 2010
Morning

Duration: 1 hour 30 minutes



Candidate
Forename

Candidate
Surname

Centre Number

Candidate Number

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use 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.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your Candidate Number, Centre Number and question number(s).

INFORMATION FOR CANDIDATES

- The number of marks 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 (*).
- This document consists of **16** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

Examiner's Use Only:

1			
2			
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4			
Total			

Question 1

Fig. 1 shows a production possibility curve for country A. This shows the combinations of consumer goods and capital goods which country A can produce in a year.

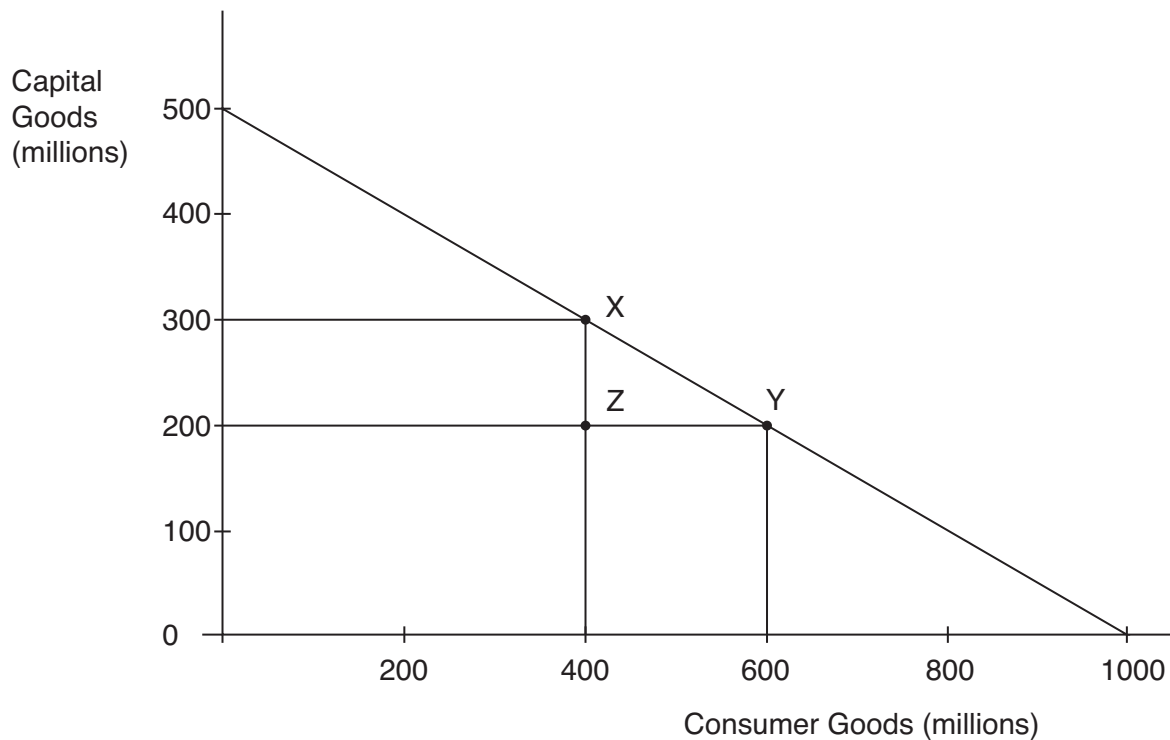


Fig. 1

- (a) There is scarcity of resources in Country A. Explain what is meant by scarcity.

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..... [2]

- (b) (i) Explain what is meant by opportunity cost.

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- (ii) Using Fig. 1, calculate the opportunity cost of producing an extra 50 million capital goods. Show your working.

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- (c) Are combinations X, Y and Z in Fig. 1 equally efficient combinations for Country A to produce? Explain your answer.

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- (d) (i) Explain what is meant by productivity.

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- (ii) How will a rise in productivity in Country A affect its production possibility curve?

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- (e) A rise in productivity is one way in which an economy can achieve economic growth. Explain **two other** ways in which a country could achieve economic growth.

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- *(f) 'The costs of economic growth are greater than the benefits.' Do you agree with this statement? Give reasons for your answer.

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TOTAL MARKS 25

Question 2

Fig. 2 shows a newspaper report from April 2008.

Over the past year the world price of food has risen greatly. For example, the price of wheat has doubled and the price of rice has nearly trebled. Other foods such as beans, vegetable oils and dairy products have also soared in price.

In the UK this has meant that a typical family's food bill has risen by 15% in a year. In developing countries the effects are much worse, with poorer consumers not being able to afford enough food. There have been food riots in a number of developing countries recently.

Experts stated that there were both demand and supply reasons why food prices have greatly increased.

Fig. 2

- (a) The report states that a typical UK family's household food bill rose by 15% in a year. The official rate of inflation for the same year, however, was less than 3%. Discuss whether both of these figures could be correct.

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- (b) The demand for food is relatively price inelastic.

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

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- (ii) State **one** reason why the demand for food is price inelastic.

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- *(c) Explain the demand and supply factors that could cause the price of food to **rise** over time. Use diagrams to illustrate your answer.

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Question 3

Fig. 3 gives some information about two taxes in the UK for the tax year 2008/9.

Income Tax	
Personal allowance	£6 035
Tax rates:	
Basic rate: 20% of the first £34 800 of taxable income.	
Higher rate: 40% of all taxable income above £34 800.	
(NB Taxable income is total income minus the personal allowance)	
Value-added tax (VAT)	
0% on most food, bus and train fares, books and medicines.	
5% on gas and electricity in the home.	
17.5% on a wide range of goods and services (reduced to 15% in December 2008).	

Fig. 3

- (a) Using Fig. 3, calculate income tax paid by a person who earns £30 035. Show your working.

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- (b)** There are large differences in the incomes of families in the UK.
Explain how the government could reduce these differences by using taxes and government spending.

[6]

[6]

[8]

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Turn over

Question 4

Fig. 4 shows UK trade in goods and services with the rest of the world in 2007.

	£ million
Exports of goods	207 856
Exports of services	138 424
Imports of goods	294 182
Imports of services	99 974

Fig. 4

(a) Using information in Fig. 4, calculate each of the following. Show your working.

(i) The UK balance of trade in goods.

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(ii) The UK balance of trade in services.

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(iii) The UK current account balance.

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- (b)** Would UK consumers and holiday makers benefit if the UK adopted the euro as its currency? Give reasons for your answer.

[6]

- (c)** The table below shows the value of the pound (£) against the euro.

April 2007	£1 = 1.41 euros
April 2008	£1 = 1.23 euros

- (i) Explain what happened to the value of the pound against the euro between April 2007 and April 2008.

..... [2]

- (ii) Discuss the extent to which the UK economy might be affected by the change in the value of the £ against the euro shown in the table. In your answer you could refer to any economic issues, including

- the balance of payments
- economic growth
- employment
- inflation.

[illegible]

..... [12]

TOTAL MARKS 29

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