Surname	Centre Number	Candidate Number
Other Names		2

GCE A level

1133/01

ECONOMICS – EC3

P.M. TUESDAY, 4 June 2013

1¾ hours

For Examiner's use only		
Question	**Maximum Mark**	**Mark Awarded**
1.	**7**	
2.	**3**	
3.	**8**	
4.	**8**	
5.	**4**	
6.	**4**	
7.	**6**	
8 or 9 or 10	**20**	
Total	**60**	

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

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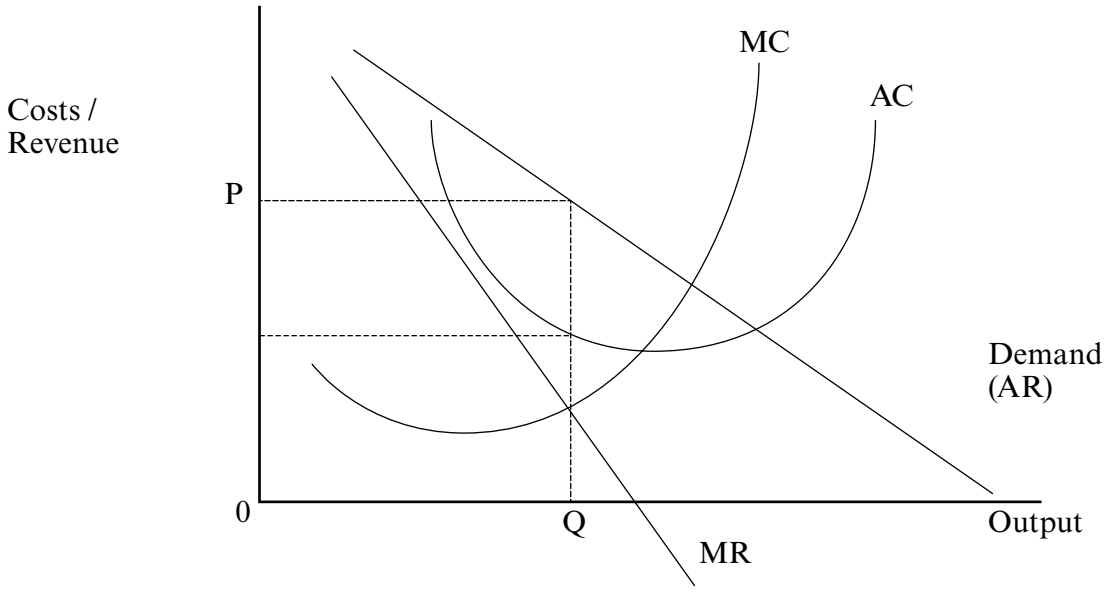
SECTION A

Answer **all** *questions in this section.*

1. The diagram below shows the short-run situation for a firm in monopolistic competition.



(a) Using the diagram, explain what is meant by abnormal profit. [3]

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(b) Explain why a firm in monopolistic competition might be able to earn abnormal profit in the short-run. [2]

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(c) Explain why the firm will make only normal profits in the long run. [2]

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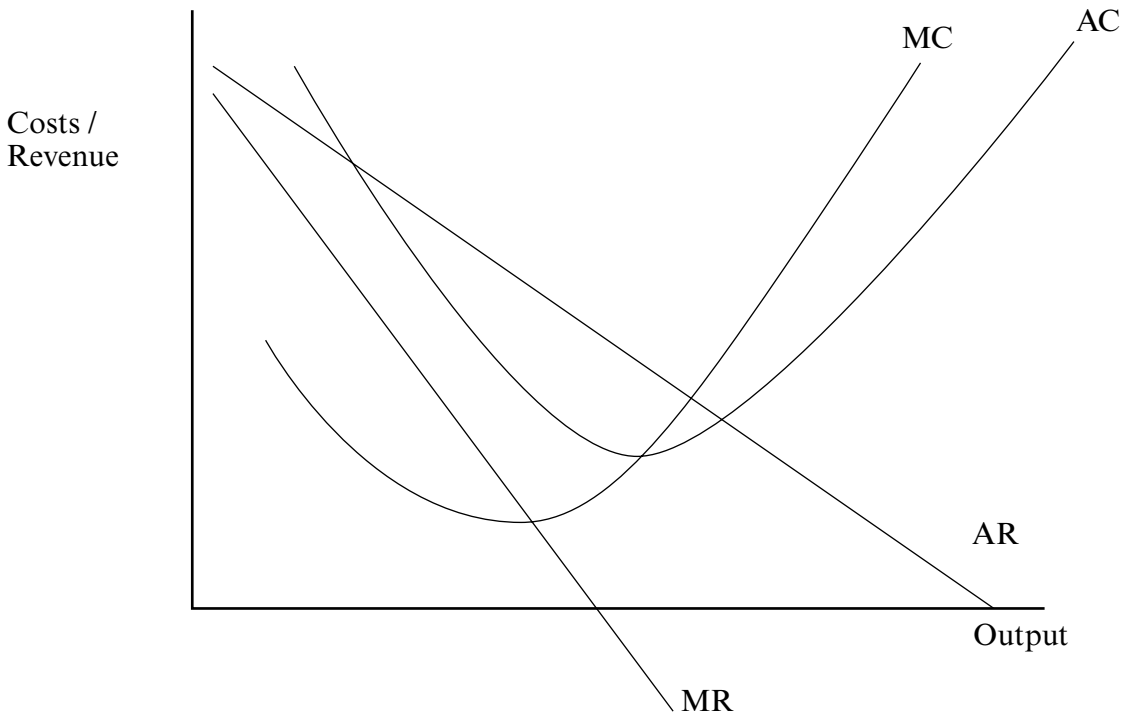
2. The diagram below shows a firm operating in an imperfect market.



Using the diagram explain what the firm's price and output would be if it decided to maximise sales revenue. [3]

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3. UK tax share of petrol pump price drops

The Government's share of the petrol pump price fell in the last decade

The Office for National Statistics (ONS) yesterday reported that from April 2001 to March 2010 average petrol prices increased by 52% while duties on petrol increased by half that. The average British car driver travelled 165 miles fewer in the last year because of rising petrol prices.

"Although petrol duty has been rising, it has not kept up with overall price rises," said ONS statisticians.

The ONS data also showed that the average UK household spends £677 on fuel duties a year, or 2.3% of its disposable income. The poorest 20% of households are paying far more of their income in duties on fuel than the richest 20%.

There has been considerable pressure on the government to freeze fuel duties in 2012 and not to increase them by 4 pence per litre, as is currently planned.

Daily Telegraph 15 Nov 2011

http://www.petrolprices.com

Evaluate the case for the government freezing fuel duties at their current rate in 2012. [8]

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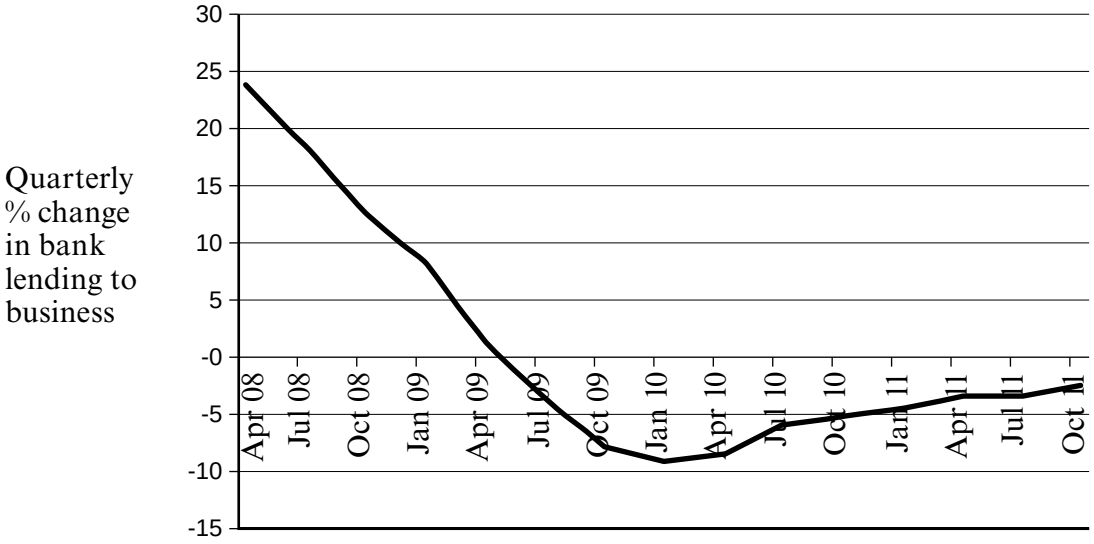
4. Bank lending to firms still falling

Bank lending to businesses continued to fall during 2011. The interest rates paid by firms, particularly small and medium-sized enterprises, also increased during this period.



Bank of England Quarterly January 2012

(a) Explain what the chart shows about bank lending to firms between 2008 and 2011. [2]

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(b) Explain the likely effects of higher interest rates and lower bank lending on the UK economy. [6]

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5. UK Unemployment and average earnings

	UK average earnings (£ per week)	UK unemployment % rate (Labour Force Survey)
June 2010	449	7.8
Dec 2011	465	8.4

Discuss what the data suggests about the relationship between earnings and unemployment between June 2010 and December 2011. [4]

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6. UK had record trade deficit in September 2011

The gap between the value of imports and exports of goods and services in September 2011 was £9.8bn, the worst since data began in 1998.

The trade deficit rose from £8.6bn in August, thanks to a record jump in imports (driven by oil, chemicals and silver) and a 1.6% fall in exports particularly into the Eurozone where austerity programmes in countries such as Greece and Portugal have held down growth.

It is particularly disappointing that the UK's trade balance has failed to improve despite an on-going period of weak sterling.

BBC adapted

Explain why the weaker value of sterling might not have helped to reduce the UK's trade deficit. [4]

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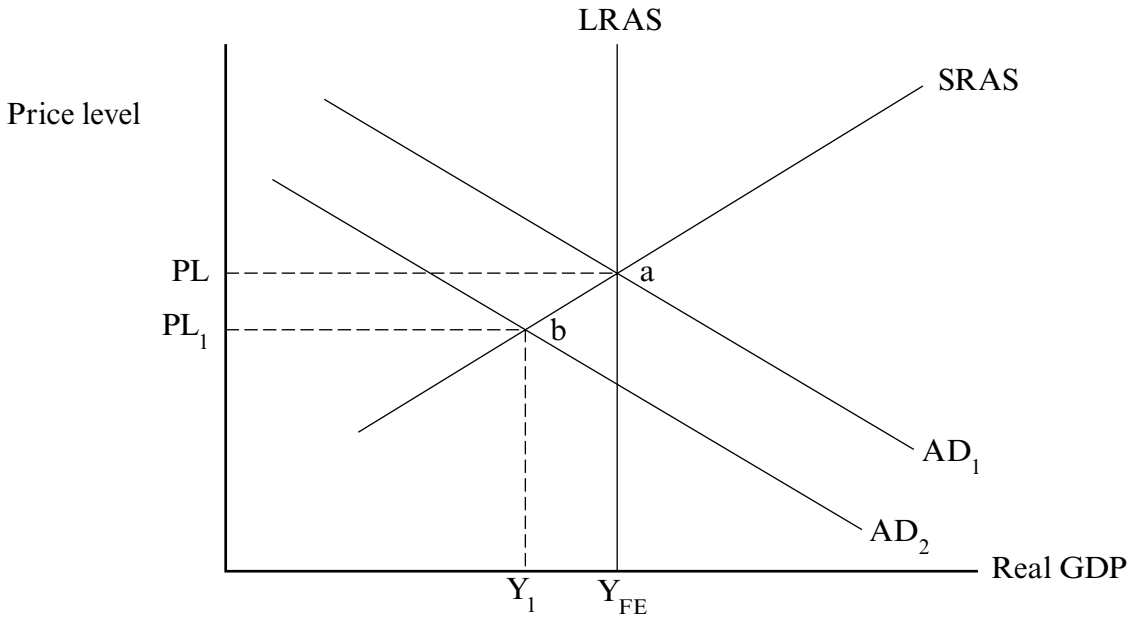

In an economy, a world recession reduces Aggregate Demand from AD_1 to AD_2. Using the diagram, discuss whether the economy will return to the Full Employment Level of output (Y_{FE}) in the long run. [6]

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SECTION B

Answer **one** *question from this section.*

8. Discuss whether university students should pay the full cost of their education rather than being subsidised by the government. [20]

9. To what extent is privatisation likely to benefit the UK economy? [20]

10. Discuss the argument that the efficiency of the economy would be maximised if all markets were perfectly competitive. [20]

Answer the question from Section B using the following pages.

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END OF PAPER