

**ECONOMICS
HIGHER LEVEL
PAPER 3**

Tuesday 5 November 2002 (morning)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer one question from Section A and one question from Section B.
- Use diagrams where appropriate.

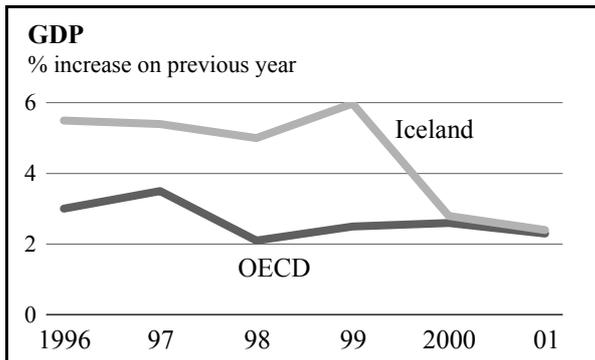
SECTION A

Answer **one** question from this section.

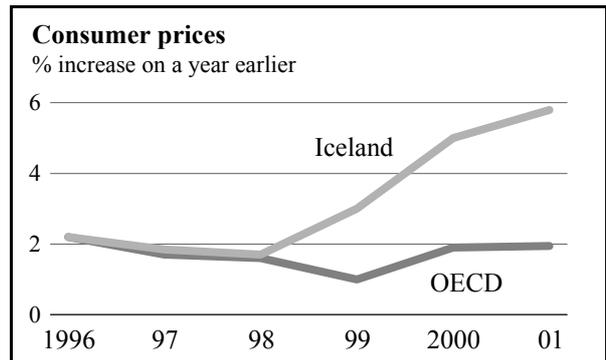
Question 1 Iceland's Economy

Look carefully at the three tables below and answer the questions that follow. Note that specific information about Iceland is not required.

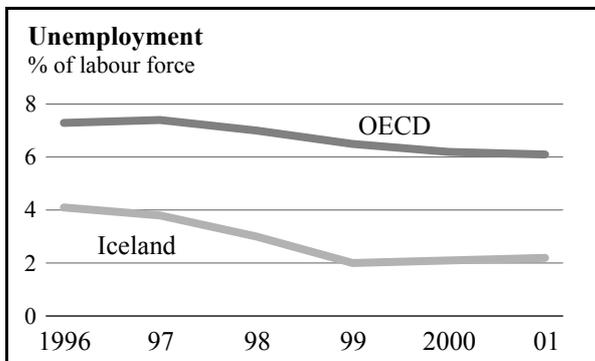
Item 1



Item 2



Item 3



[Source *The Economist*, 8 January 2000]

- (a) (i) In Item 1 what is meant by the term “GDP % increase on previous year”? *[2 marks]*
- (ii) From the information given in Item 2 describe what happened to the price level in Iceland during the period 1996 to 2000. *[2 marks]*
- (b) (i) Draw an aggregate demand / aggregate supply diagram. Shift one of the curves to represent the information given about price and income changes in Items 1 and 2 for Iceland between 1999 and 2001. *[2 marks]*
- (ii) Explain why you have drawn the diagram in b(i) in the way that you have. *[4 marks]*
- (c) For what reasons might an economist be interested in the material given in the three charts? *[3 marks]*
- (d) From the data and from your knowledge of economic theory, explain what you think happened to Iceland’s visible trade balance (balance in goods) during the period from 1998 to 2000. *[5 marks]*
- (e) Based on the data in the charts, evaluate the performance of Iceland’s economy. *[7 marks]*

Question 2

Study the following advertisement for Intersaver, a new online seller of electrical household goods.

Note: the term “High Street Retailer” refers to a large established company with many branches.

<p style="text-align: center;">High Street Electrical Retailer</p> <hr style="border-top: 1px dashed black;"/> <p style="text-align: center;">28" TOSHIBA WIDESCREEN TV</p> <hr style="border-top: 1px dashed black;"/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">MANUFACTURER COSTS £</td> </tr> <tr> <td style="width: 60%;">PRICE FROM FACTORY:</td> <td style="text-align: right;">348:00</td> </tr> </table> <hr style="border-top: 1px dashed black;"/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">STORE COSTS £</td> </tr> <tr> <td style="width: 60%;">SALES STAFF:</td> <td style="text-align: right;">16:00</td> </tr> <tr> <td>OTHER STORE STAFF:</td> <td style="text-align: right;">8:52</td> </tr> <tr> <td>WAREHOUSING:</td> <td style="text-align: right;">5:00</td> </tr> <tr> <td>SHOP RENT AND RATE:</td> <td style="text-align: right;">12:52</td> </tr> </table> <hr style="border-top: 1px dashed black;"/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">PROFIT @ 20%:</td> <td style="text-align: right;">78:00</td> </tr> <tr> <td>SALES TAX @ 17.5%:</td> <td style="text-align: right;">81:94</td> </tr> </table> <p style="text-align: right; margin-top: 10px;">Total you Pay: £549:99</p> <hr style="border-top: 1px dashed black;"/> <p style="text-align: center; font-size: small;">THANK YOU FOR YOUR CUSTOM</p> <hr style="border-top: 1px dashed black;"/>	MANUFACTURER COSTS £		PRICE FROM FACTORY:	348:00	STORE COSTS £		SALES STAFF:	16:00	OTHER STORE STAFF:	8:52	WAREHOUSING:	5:00	SHOP RENT AND RATE:	12:52	PROFIT @ 20%:	78:00	SALES TAX @ 17.5%:	81:94	<p style="font-size: large; font-weight: bold; margin: 0;">Intersaver.co.uk</p> <hr style="border-top: 1px dashed black;"/> <p style="text-align: center;">28" TOSHIBA WIDESCREEN TV</p> <hr style="border-top: 1px dashed black;"/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">MANUFACTURER COSTS £</td> </tr> <tr> <td style="width: 60%;">PRICE FROM FACTORY:</td> <td style="text-align: right;">348:00</td> </tr> </table> <hr style="border-top: 1px dashed black;"/> <p style="text-align: center; font-size: 2em; font-weight: bold; margin: 20px 0;">CUT OUT</p> <p style="text-align: center; font-size: 1.5em; font-weight: bold; margin: 0;">THE MIDDLE MAN</p> <hr style="border-top: 1px dashed black;"/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">PROFIT @ 10%:</td> <td style="text-align: right;">34:08</td> </tr> <tr> <td style="width: 60%;">SALES TAX @ 17.5%:</td> <td></td> <td style="text-align: right;">66:99</td> </tr> </table> <p style="text-align: right; margin-top: 10px;">Total you Pay: £449:00</p> <hr style="border-top: 1px dashed black;"/> <p style="text-align: center; font-size: small;">THANK YOU FOR YOUR CUSTOM</p> <hr style="border-top: 1px dashed black;"/>	MANUFACTURER COSTS £		PRICE FROM FACTORY:	348:00	PROFIT @ 10%:		34:08	SALES TAX @ 17.5%:		66:99
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The figures on the receipts above show just how much you can save without the middle man. Intersaver offers you leading **brands** at the lowest prices.

We give you the power to go straight to the manufacturer from your own home or office, 24 hours a day, 7 days a week.

With our helpful buyers' guide you can find exactly the information you need. You can compare our prices with major retailers and take advantage of our online credit facilities. When you have made your choice, all you have to do is sit back and relax as we deliver.

Forget high street prices. There is a better place to shop.

- (a) What is the meaning of the following words highlighted in bold in the advertisement and text?
- (i) **Manufacturer costs** *[2 marks]*
 - (ii) **Brands** *[2 marks]*
- (b) Use a supply and demand diagram to explain the effect of a sales tax on the price of a 28" Toshiba Widescreen television sold by Intersaver. *[5 marks]*
- (c) Why is Intersaver satisfied with a profit level of 10 % while the High Street Retailer's profit is 20 %? *[4 marks]*
- (d) What market structure is represented in a market which contains a number of firms like Intersaver and large established retailers? Justify your answer. *[5 marks]*
- (e) Using the information given in the text and your understanding of business economics, analyse what might happen to the market for domestic electrical goods in the long run. *[7 marks]*

SECTION B

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

Question 3

- (a) Why is pollution an example of market failure? *[10 marks]*
- (b) To what extent can the market system protect the environment? *[15 marks]*

Question 4

- (a) What does an economist mean by efficiency in the operation of a firm? *[10 marks]*
- (b) Discuss whether the achievement of efficiency is possible and desirable. *[15 marks]*

Question 5

- (a) What are the main macroeconomic objectives of government? *[10 marks]*
- (b) Assume the government chooses to pursue **one** of these objectives. Evaluate the possible consequences for the other objectives. *[15 marks]*

Question 6

To what extent has the international trading system contributed to economic growth and development in less developed countries? *[25 marks]*
