

Paper Reference(s)

4350/03

London Examinations IGCSE Economics

**Paper 3 – Sources Booklet
Common to both tiers**

**For distribution to candidates from
Thursday 29 March 2007,
six weeks before the examination on
Thursday 10 May 2007 – Afternoon**

Materials required for examination

Nil

Items included with question papers

Nil

Instructions to Candidates

The sources in this booklet will be printed at the end of the examination paper.

You will have 10 minutes at the start of the examination to read the questions and think about how to use the sources to answer them. You will not be allowed to take your own copy of the sources or any notes you have made into the examination.

Information for Candidates

There are 4 pages in this booklet. Any blank pages are indicated.

Advice to Candidates

The following advice will also be printed in the examination paper.

You should use economic concepts and terms.

You should use diagrams, graphs or tables if appropriate.

You should refer to the sources in your answers, but do not spend time copying large amounts from the sources.

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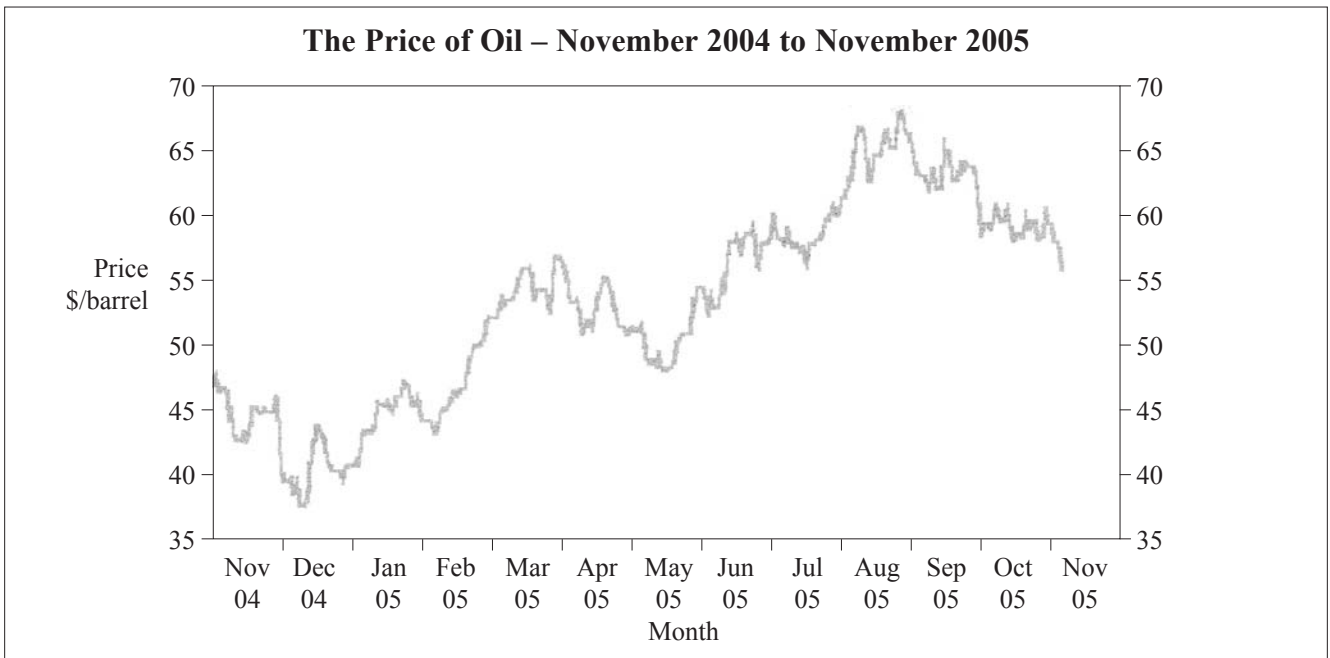
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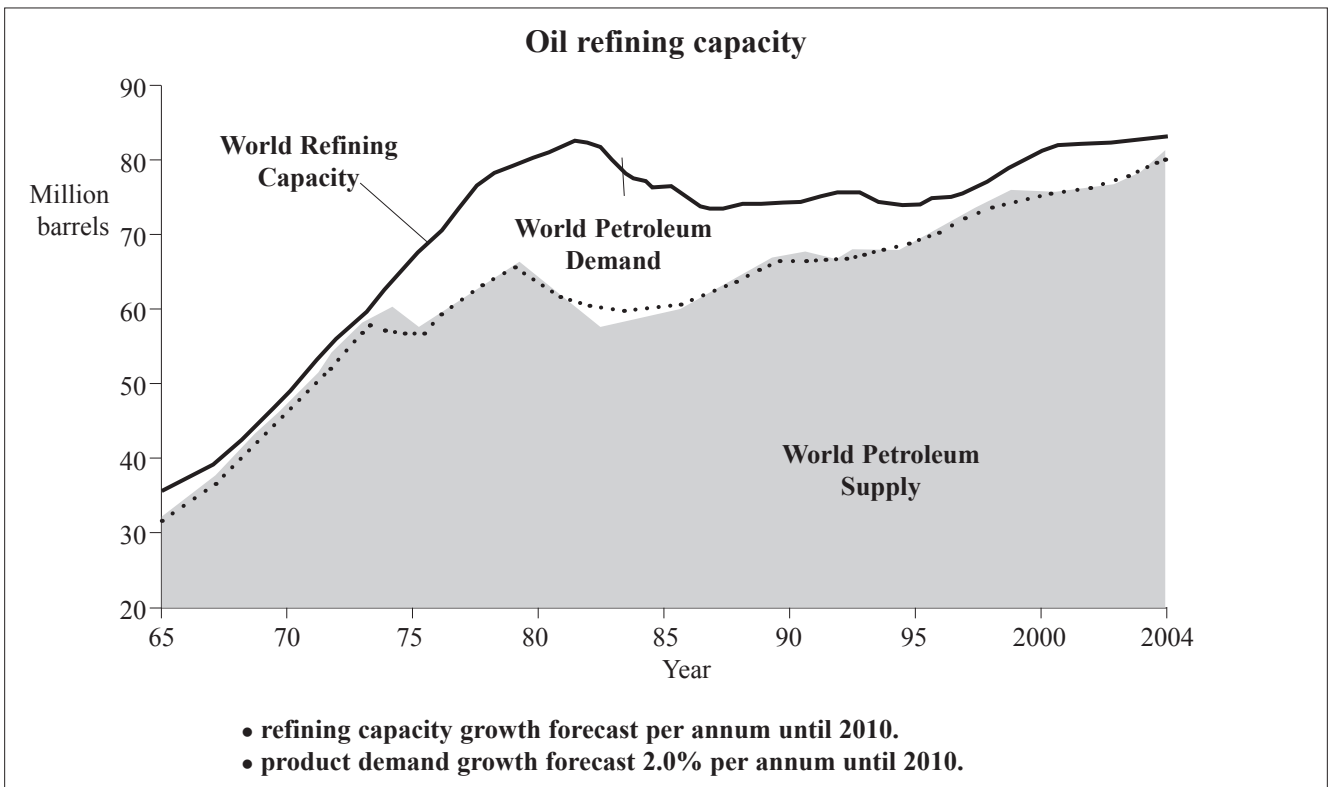
SOURCES

Source A



Source: adapted from www.iea.org

Source B



Source: adapted from www.iea.org

Source C

Supply and demand for oil

The International Energy Agency [IEA] said that, although the growth in the demand for oil continued to slow in China and Europe in May, this was offset by strong growth in North America. Global demand for 2005 was forecast at 84.3m barrels a day, up 2.2% on the previous year.

Supply reached 84.6m barrels a day in May 2005, 2.5m barrels a day more than in May 2004. Although the supply and demand of oil looked well balanced, the IEA pointed out that continuing uncertainties surrounding the market were likely to keep prices high.

In spite of China's slowing demand growth, there are political risks in supplier countries. Nevertheless, the IEA thinks that energy prices will only rise slowly until the year 2030 provided that sufficient investments in energy production take place.

Source: www.ft.com/energy

Source D

Why are oil prices rising?

The main reasons for the price rises since 2004 have been:

- Growth in production capacity is lower than growth in demand.
- Lack of adequate investment in expanding production.
- The very inelastic nature of the short-run supply curve for oil.
- China's high demand for oil.

Source: Examiner research

Source E

The Impact of Rising Oil Prices

If you think oil prices are high at \$80 a barrel then wait till they are twice that!

How will you pay to run your car? How will you get the children to school? How will you heat your house? How much will transported food go up in price?

How will we pay for plastics, metals, rubber, cheap flights, DVDs, mobile phones and continuing economic growth?

If rising prices lead us to use less oil, one gain could be reduced damage to the environment.

The Association for the Study of Peak Oil [ASPO] thinks that oil is far too cheap. It believes that oil production has reached its peak and that oil will start to run out. In 2003, for the first time, no new oil fields were discovered.

ASPO claims that a higher price could give us time to find other fuels to fill the gap between an oil economy and a renewable fuels economy.

Source: Examiner research

Source F

How can countries deal with the oil crisis?

- Adopt efficient taxation policies so that the price of oil reflects the social cost of oil consumption and, thus, reduce consumption.
- Reduce subsidies given to users of oil.
- Make greater use of alternative energy sources.
- Improve public transport.
- Encourage investment in oil exploration.

Source: Examiner research

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