Surname	Initial(s)

Paper Reference

7 1 2 0 / 0 1

Signature

London Examinations GCE

Economics

Ordinary Level

Tuesday 13 January 2009 – Morning

Time: 2 hours 30 minutes

Examiner's use only

Team Leader's use only

Question Number	Leave Blank
1	
2	
3	
4	
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6	
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8	
9	
10	
11	
12	
13	
Total	

Materials required for examination
Nil

Items included with question papers
Nil

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
The paper reference is shown above. Check that you have the correct question paper.
Answer ALL questions in Section A and THREE questions in Section B in the spaces provided in this question paper.
In Section B indicate which question you are answering by marking the box (⊠).
If you change your mind, put a line through the box (⊠) and then indicate your new question with a cross (⊠).
Do not use pencil. Use only blue or black ink.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 13 questions in this question paper. The total mark for this paper is 100.
There are 28 pages in this question paper. Any blank pages are indicated.
You will receive credit for use of diagrams and recent examples where relevant and appropriate.

Advice to Candidates

You should spend the first ten minutes studying the paper.
Write your answers neatly and in good English.

Turn over

SECTION A
Answer ALL of the questions in this section.

(You are advised to spend approximately 50 minutes on this section.
You are also advised to make use of the data provided in your answers.)

1. (a) Give an example of a trading bloc.

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                                                                (1)

    (b) Describe **two** main characteristics of a trading bloc.

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                                                                (4)   Q1

                                               (Total 5 marks)

2. In the winter of 2006/2007 temperatures in the United States were very mild. The demand for heating oil fell, leading to a surplus of oil.

Demand and supply of heating oil in the United States
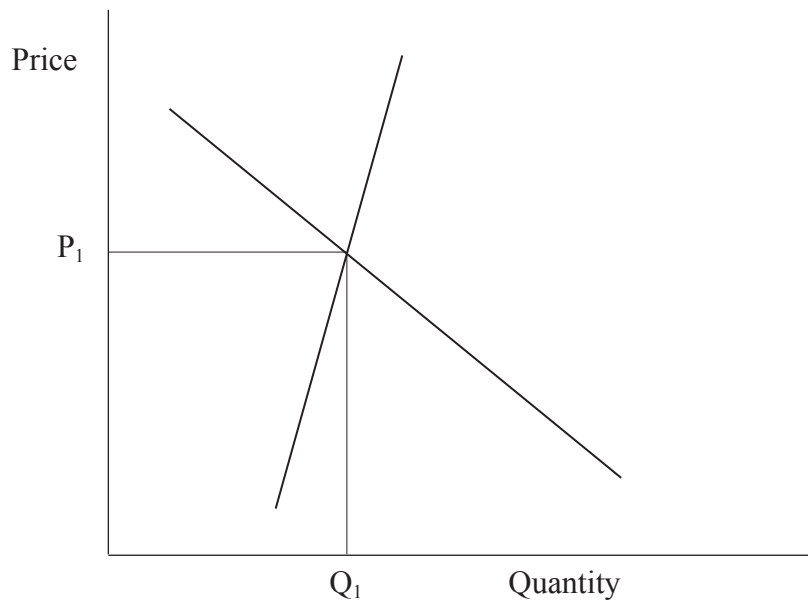
Figure 1

(a) (i) On **Figure 1**, label the demand curve, D_1, and the supply curve, S_1.

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(1)

(ii) On **Figure 1**, draw a new demand curve, D_2, to show the effect of the mild winter temperatures.

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(1)

(iii) Indicate on **Figure 1** the "surplus" of heating oil.

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(2)

(iv) On **Figure 1**, show the effect of the change in demand on the price and quantity of heating oil in the United States.

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(1)

(b) Apart from a change in temperature, identify and briefly explain **two** other factors which might lead to a fall in the demand for heating oil in a country.

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(4)

(Total 9 marks)

Q2

3. (a) With the aid of an example, explain what is meant by the term "diversification".

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(2)

(b) Briefly explain **two** reasons why a firm might want to diversify.

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(4)   Q3

(Total 6 marks)

4. (a) Define the term "saving".

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(2)

(b) Briefly explain **two** ways in which a government can increase the level of saving in an economy.

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(4)

(c) Describe **two** effects on an economy of a significant increase in the level of saving.

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(4) **Q4**

(Total 10 marks)

5. In April 2007 the exchange rate between the Australian Dollar (AUD) and the Chinese Yuan (CNY) was 1 AUD = 6.5 CNY.

State whether the following changes would lead to an appreciation or depreciation of the Australian dollar. Briefly explain your answers.

(a) Many more Australian tourists visiting China.

(3)

(b) Australia exporting larger amounts of coal to China.

(3) Q5

(Total 6 marks)

H 3 3 1 9 7 A 0 7 2 8

6. Identify **two** functions of

(a) a central bank of a country

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(2)

(b) a stock exchange.

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(2) Q6

(Total 4 marks)

TOTAL FOR SECTION A: 40 MARKS

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TURN OVER FOR SECTION B

SECTION B

You should answer THREE questions in this section.

**Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒)
and then indicate your new question with a cross (☒).**

Question 7 ☒

(a) With the aid of an example, explain what is meant by the term "capital".

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(2)

(b) Briefly explain **one** advantage and **one** disadvantage when introducing more capital into a shoe factory for

(i) the workers in the factory

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(4)

(ii) the owners of the factory.

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(4)

(c) Examine both monetary **and** fiscal measures a government may use to encourage greater capital investment by firms.

(10)

(Total 20 marks)

Q7

Question 8 ☒

The Chinese government has introduced a 5% tax on wooden chopsticks in a bid to preserve its forests.

(a) Draw and label a diagram to show the effect of the tax on chopsticks on the price and the quantity demanded and supplied.

(6)

(b) The Chinese government is trying to increase the tax burden on the rich and reduce the burden on the poor.

(i) In your opinion, will the indirect tax on chopsticks benefit the poor? Give reasons for your answer.

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(4)

H 3 3 1 9 7 A 0 1 3 2 8

(ii) Examine how fiscal measures could be used to redistribute income from the rich to the poor.

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(10)

(Total 20 marks)

Q8

H 3 3 1 9 7 A 0 1 5 2 8

Question 9 ☒

(a) Explain, with the aid of examples, how each of the following might influence the decision of a car manufacturer to build a new factory in a country.

(i) External economies of scale.

(6)

(ii) The government of the country.

(6)

(b) Discuss the advantages and disadvantages of a foreign manufacturer setting up in a country of your choice.

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(8)

(Total 20 marks)

Q9

H 3 3 1 9 7 A 0 1 7 2 8

Question 10 ☒

   (a) Explain **two** main benefits of a horizontal merger to

      (i) the merging firms

                                                                (4)

      (ii) consumers.

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   (b) Briefly explain **two** reasons why a government might try to prevent horizontal mergers.

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(c) Examine measures a government could take to encourage competition in an economy.

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(8)

(Total 20 marks)

Q10

Question 11 ☒

In 2007 it was reported that the population of Russia was falling by 700,000 a year.

However, in Vietnam the population was increasing by over 1 million a year.

(a) Briefly explain **two** factors which might have caused the population of Russia to fall.

(4)

(b) Explain **two** problems resulting from the population changes in

   (i) Russia

(4)

   (ii) Vietnam.

(4)

(c) Examine two measures the Russian government could take to overcome problems associated with the fall in the population.

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(8)   **Q11**

(Total 20 marks)

Question 12 ☒

    (a) Explain the impact on unemployment of the following economic events.

        (i) The introduction of a minimum wage rate.

(6)

       (ii) Depreciation of a country's currency.

(6)

(b) (i) What is meant by voluntary unemployment?

(2)

(ii) Discuss **two** measures a government can use to reduce voluntary unemployment.

(6)

(Total 20 marks)

H 3 3 1 9 7 A 0 2 3 2 8

Question 13 ☒

In 2006 Angola had an economic growth rate of 17.6% per year whereas Zimbabwe had an economic growth rate of −4.4% per year.

(a) What is meant by the term "economic growth"?

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(3)

(b) Given the above economic growth rates, briefly explain the problems likely to be faced by

(i) Angola

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(4)

(ii) Zimbabwe.

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(4)

(c) Examine **three** factors which may lead to economic growth in a country of your choice.

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(9) **Q13**

(Total 20 marks)

TOTAL FOR SECTION B: 60 MARKS

TOTAL FOR PAPER: 100 MARKS

END

H 3 3 1 9 7 A 0 2 5 2 8

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