

Centre No.					Paper Reference						Surname	Initial(s)	
Candidate No.					7	1	2	0	/	0	1	Signature	

Paper Reference(s)

**7120**

**London Examinations**  
**GCE**

**Economics**

**Ordinary Level**

Thursday 7 May 2009 – Afternoon

Time: 2 hours 30 minutes

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
1	
2	
3	
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11	
12	
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 12 questions in this question paper. The total mark for this paper is 100.

There are 24 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.

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**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. Match the following types of merger with the examples given below.

Types of merger:

- Horizontal
- Conglomerate
- Vertical backward

(a) (i) Example 1

+

Type of merger: \_\_\_\_\_ (1)

(ii) Example 2

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Type of merger: \_\_\_\_\_ (1)

(iii) Example 3

+

Type of merger: \_\_\_\_\_ (1)

(b) From the examples given in (a)(i)(ii)(iii), identify a firm in each of the following sectors

(i) primary: \_\_\_\_\_ (1)

(ii) secondary: \_\_\_\_\_ (1)

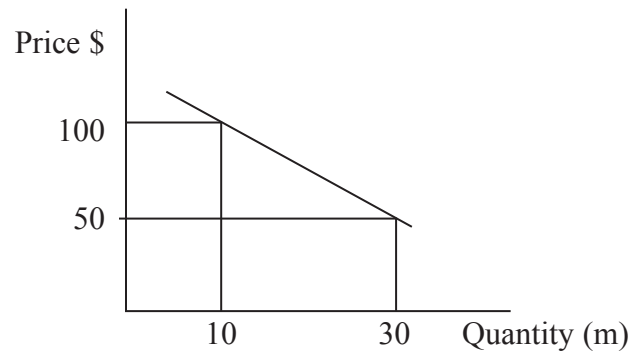
(iii) tertiary: \_\_\_\_\_ (1)

**(Total 6 marks)**

Q1



2. Figure 1 below shows the demand for mobile phones.



**Figure 1**

(a) (i) Using Figure 1, calculate the price elasticity of demand for mobile phones when the price falls from \$100 to \$50. Show your workings.

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**(3)**

(ii) Is the price elasticity of demand for mobile phones elastic or inelastic?

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**(1)**

(iii) Identify and briefly explain **one** factor which may affect the price elasticity of demand for mobile phones.

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**(3)**

**(Total 7 marks)**

**Q2**



3. (a) Define the term 'inflation'.

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (2)

(b) Identify and explain the effect of inflation on **one** of the functions of money.

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (4)

(Total 6 marks)

Q3



4. In order to increase productivity, an entrepreneur introduces division of labour into his factory.

(a) Define the term:

(i) productivity,

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(2)

(ii) entrepreneur,

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(2)

(iii) division of labour.

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(2)



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blank

(b) Identify **two** ways in which division of labour can increase productivity.

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(2)

(c) Briefly explain **two** disadvantages of division of labour for the workers in the factory.

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(4)

**(Total 12 marks)**

**Q4**



5. The table below shows production in Country X and Country Y before specialisation. Each country uses half of its resources on the production of wheat and half on tractors.

Before specialisation	Country X	Country Y
Tonnes of wheat	300	300
Tractors	150	100

- (a) What is the opportunity cost of producing one tractor in
- (i) Country X: \_\_\_\_\_ (1)
- (ii) Country Y: \_\_\_\_\_ (1)
- (iii) If each country specialises in one product, which country would produce tractors?  
 \_\_\_\_\_ (1)
- (iv) After total specialisation, what will be the combined production of tractors and tonnes of wheat?
- Tractors: \_\_\_\_\_ (1)
- Tonnes of wheat: \_\_\_\_\_ (1)

(b) Briefly explain **two** possible disadvantages of a country specialising in the production of an agricultural product.

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(4)

Q5

(Total 9 marks)

TOTAL FOR SECTION A: 40 MARKS





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### 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 6

(a) (i) Define the term ‘internal economies of scale’ and give two examples.

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(4)

(ii) Define the term ‘external economies of scale’.

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(2)

(b) Identify **two** external economies of scale and briefly explain how they may affect the location of industry in a country.

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(4)



(c) (i) Identify and explain **two** ways in which a government can influence the location of industry in a country.

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(4)

(ii) Examine **two** reasons why a government might seek to influence the location of industry.

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(6)

Q6

(Total 20 marks)



**Question 7** ☒

(a) Explain why a government might introduce each of the following:

(i) a minimum wage rate,

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(3)

(ii) privatisation of public utilities.

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(3)

(b) Explain how each of the above might lead to an increase in unemployment in an economy.

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(6)



(c) (i) Define the term 'supply side policy'.

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(2)

(ii) To what extent can supply side polices reduce unemployment?

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(6)

Q7

**(Total 20 marks)**



**Question 8**

In Australia, growth in the size of the labour force is falling. In 2006 the annual growth in the labour force was 1.2% but it is expected to fall to 0.7% by 2021.

(a) (i) Suggest **two** possible reasons why growth in the labour force in Australia is falling.

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(2)

(ii) Briefly explain **two** problems which might result from a fall in the annual growth in the labour force.

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(4)

(b) Suggest **two** methods a government may use to increase the size of the labour force in the short run (less than 10 years).

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(2)



(c) Discuss the advantages and disadvantages of the methods identified in (b).

(i) Method 1:

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(6)

(ii) Method 2:

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(6)

**(Total 20 marks)**

**Q8**



**Question 9**

In 2008 the exchange rate of the Euro appreciated against the US dollar.

(a) (i) Explain what is meant by appreciation of the Euro against the US dollar.

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**(2)**

(ii) Briefly explain **two** factors which may cause appreciation of a currency.

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**(4)**

(b) Examine the possible effects of an appreciation of a currency on

(i) the current account of the balance of payments,

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**(5)**





(ii) a decision by a multinational company on whether or not to build a new factory in the country,

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(5)

(iii) the level of employment in the country.

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(4)

**(Total 20 marks)**

**Q9**



**Question 10**

In 2007 the price of oil rose to over \$100 a barrel.

- (a) (i) Identify and explain **two** effects of high oil prices on the economies of oil producing countries.

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**(4)**

- (ii) Identify and explain **two** effects of high oil prices on the economies of non-oil producing countries.

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**(4)**



(b) The high price of oil is due to demand and supply factors.

(i) Explain **two** ways in which a government can reduce the demand for oil in its country.

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(6)

(ii) Discuss **two** factors which influence the supply of oil in the world market.

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(6)

(Total 20 marks)

Q10

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**Question 11**

Since 1986, Vietnam's economy has changed from a state planned economy to a form of capitalist, free market economy. In 2007, when Vietnam joined the World Trade Organisation, its economic growth was 8.5% p.a. and it had an annual inflation rate of 15%.

(a) (i) Identify **two** characteristics of a state planned economy.

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(2)

(ii) Identify **two** characteristics of a free market economy.

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(2)

(b) (i) Explain how interest rates could be used to reduce inflation.

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(5)



(ii) Discuss the possible impact of a change in the rate of interest on the rate of economic growth.

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(6)

(c) What are the advantages of membership of the World Trade Organisation for developing countries such as Vietnam?

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(5)

**(Total 20 marks)**

**Q11**



**Question 12**

In 2007 Spain had a budget surplus of 23.4bn euros. It achieved the surplus through limiting public spending.

(a) Explain what is meant by a 'budget surplus'.

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**(2)**

(b) Discuss the possible effects on the Spanish economy of achieving a budget surplus by reducing public spending on

(i) education and training,

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**(5)**



(ii) unemployment benefits.

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(5)

(c) Explain **one** advantage and **one** disadvantage of using a budget surplus to finance

(i) cuts in direct taxes,

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(4)



(i) cuts in indirect taxes.

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(4)

Q12

**(Total 20 marks)**

**TOTAL FOR SECTION B: 60 MARKS**

**TOTAL FOR PAPER: 100 MARKS**

**END**

