

Surname	Centre Number	Candidate Number
Other Names		2



GCE AS/A level

1131/01

ECONOMICS – EC1

P.M. TUESDAY, 15 January 2013

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1	3	
2	4	
3	4	
4	4	
5	6	
6	8	
7	11	
8	2	
9	8	
TOTAL	50	

DO NOT OPEN THIS BOOKLET UNTIL YOU ARE TOLD TO DO SO.

ADDITIONAL MATERIALS

In addition to this 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.

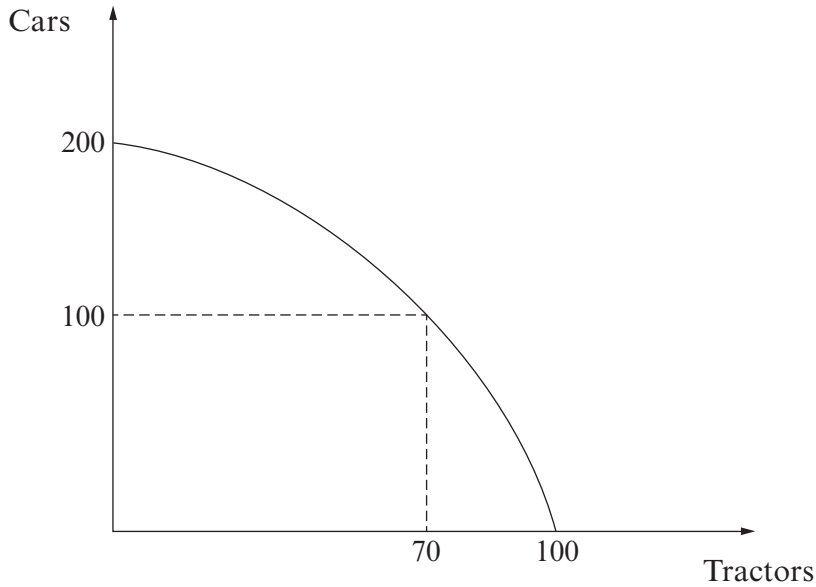
Answer **all** the questions in the spaces provided. You may use continuation paper on page 14 if necessary, taking care to number the continuation correctly.

INFORMATION FOR CANDIDATES

Mark allocations are shown in brackets. This paper has a total of 50 marks.

Answer **all** the questions in the spaces provided.

- 1. The diagram below shows a production possibility frontier for an economy that only produces cars and tractors.



Using the figures from the above diagram explain how a production possibility frontier can be used to illustrate the concept of opportunity cost. [3]

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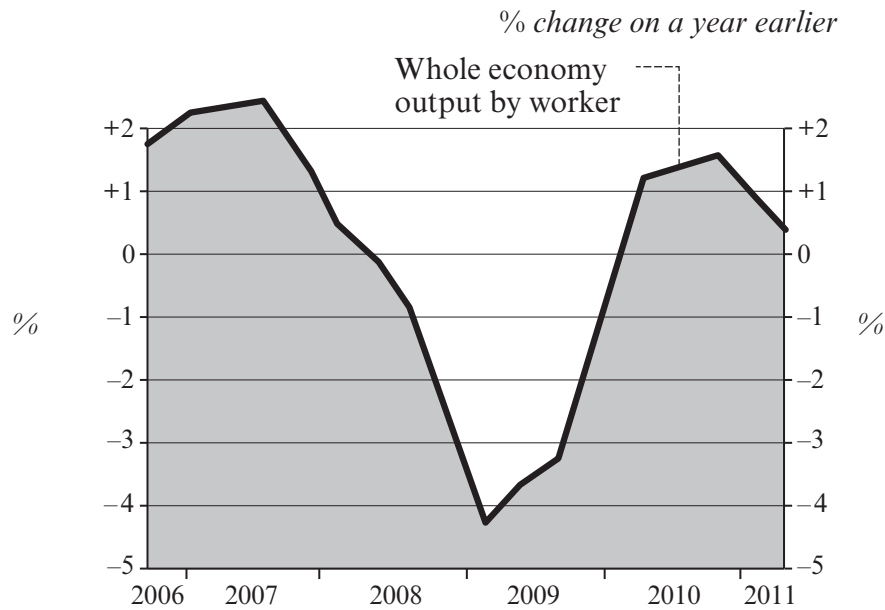
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2.

Productivity in the UK economy



Source: ONS

(a) Using the data explain what happened to productivity between 2008 and 2009. [2]

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(b) Explain **one** factor which may affect productivity in the UK economy. [2]

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- 3. In the summer of 2011 Hurricane Irene severely damaged the pumpkin crop in the US. Pumpkins are used extensively in the US to make pumpkin pie and to hollow out for lanterns at Halloween.

Given this information, using a demand and supply diagram explain why the price of a crate of pumpkins rose from \$150 to \$200 in the autumn of 2011. [4]

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4. The price of internet music downloads falls from 80p to 60p per track. As a result the demand for CDs at a chain of music stores falls by 10%. Calculate the value of the cross price elasticity of demand for CDs with respect to the price of music downloads. Explain the significance of your answer. [4]

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5. In many British schools Year 8 girls are offered a series of injections to reduce the chances of them contracting cervical cancer in later life. These injections are free to the girls, fully funded by the NHS, but if these injections were provided at their full price they would cost over £400.

Using the above information explain what is meant by

- (a) private costs [2]

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- (b) private benefits [2]

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(c) external benefits.

[2]

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6. In 2010, following a huge recession, the Irish government cut the hourly national minimum wage by 1 euro to 7.65 euros per hour. According to the Irish government ‘a high minimum wage is a barrier to job creation for younger and less skilled workers.’ However, such a move could take spending power out of the economy and be bad for economic growth. In 2011 the Irish government restored the minimum wage to 8.65 euros per hour after the Irish economy began to recover.

With the aid of a diagram and the above information, evaluate the view that a minimum wage is always bad for jobs. [8]

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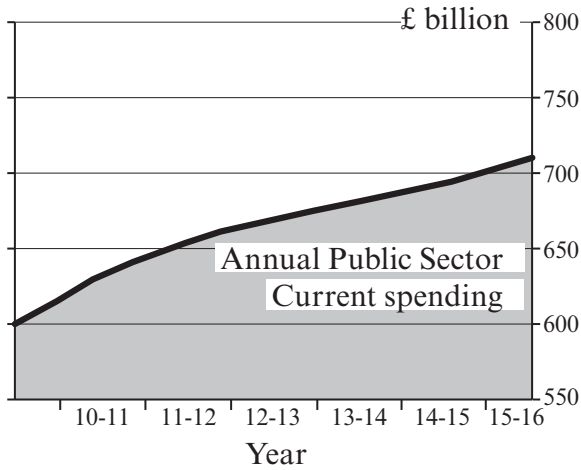
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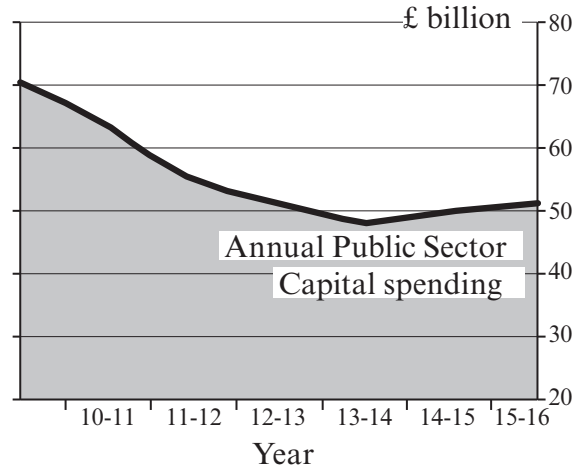
8

- 7. The UK coalition government has committed itself to reducing the budget (fiscal) deficit significantly by 2015. The data below shows the changes in the government's current and capital spending up to 2015.

The government's current spending will keep on rising...



...while capital spending is being slashed



Source: Office for Budget Responsibility

- (a) Distinguish with examples between current and capital expenditure by the government. [4]

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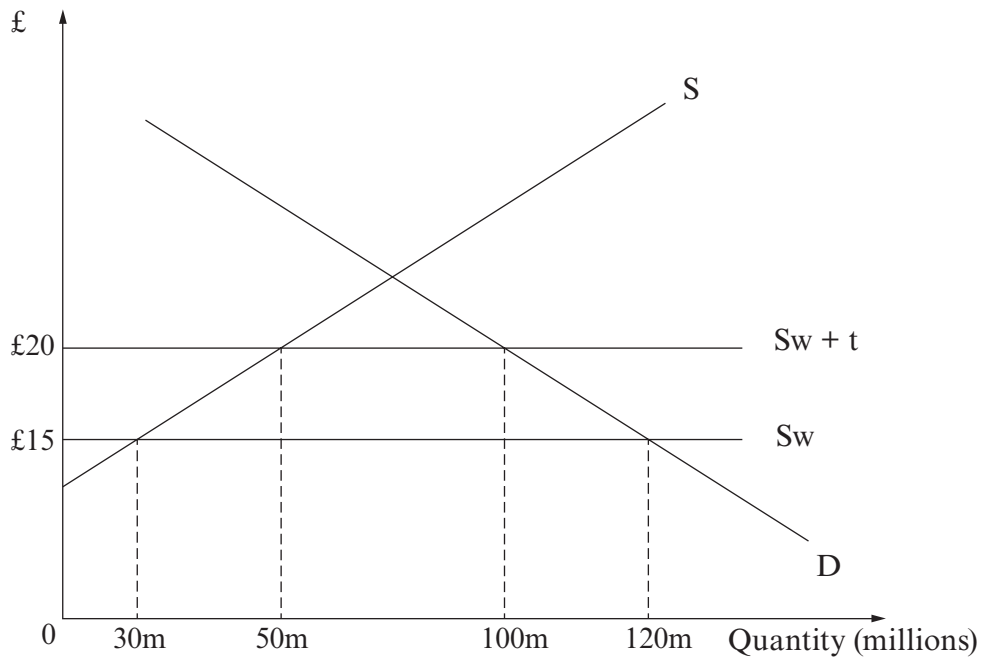
(b) Using the data, discuss whether the proposed changes in government spending are likely to benefit the UK economy. [7]

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Dotted lines for writing answers.

11

8. The diagram below shows a £5 tariff being imposed on an imported product with a world price of £15.



- (a) By how much will imports fall as a result of the tariff? [1]

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- (b) What will be the government's revenue as a result of the tariff? [1]

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**TURN OVER FOR
QUESTION 9**

9. SWISS NATIONAL BANK ACTS TO WEAKEN STRONG FRANC.

After three years of steadily rising demand for the Swiss Franc (SF) the exchange rate hit a high point of $1 \text{ SF} = 0.93 \text{ euros}$ having been only $1 \text{ SF} = 0.6 \text{ euros}$ three years earlier. This has meant that a good costing 1000 SF has risen from 600 euros to 930 euros over this period (a price increase of 55 % for Swiss exports to the eurozone). The Swiss Government has now announced that it will intervene to reduce the value of the Swiss Franc. It has set an upper limit of $1 \text{ SF} = 0.83 \text{ euros}$.

Using the data, evaluate the view that a high exchange rate is always bad for an economy. [8]

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END OF PAPER

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For continuation only.

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