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|-------------|---------------|------------------|
| Surname     | Centre Number | Candidate Number |
| Other Names |               | 2                |



## GCE A level

1133/01

## ECONOMICS – EC3

P.M. TUESDAY, 12 June 2012

1<sup>3</sup>/<sub>4</sub> hours

| For Examiner's use only |              |              |
|-------------------------|--------------|--------------|
| Question                | Maximum Mark | Mark Awarded |
| 1.                      | 5            |              |
| 2.                      | 4            |              |
| 3.                      | 4            |              |
| 4.                      | 6            |              |
| 5.                      | 3            |              |
| 6.                      | 6            |              |
| 7.                      | 6            |              |
| 8.                      | 6            |              |
| 9 or 10<br>or 11        | 20           |              |
| <b>Total</b>            | <b>60</b>    |              |

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### ADDITIONAL MATERIALS

In addition to this examination 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 Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

### INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

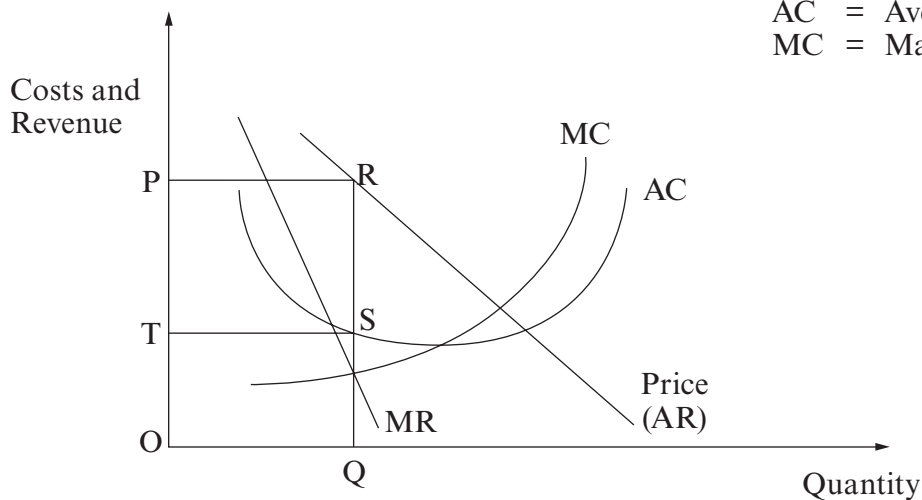
You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A

Answer all questions in this section.

- 1. The diagram below shows the cost and revenue curves for a profit-maximising monopolist in the long-run situation.

AR = Average Revenue  
 MR = Marginal Revenue  
 AC = Average Cost  
 MC = Marginal Cost



- (a) Using the letters in the diagram identify:
  - (i) the monopolist's profit-maximising output; [1]

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- (ii) the monopolist's abnormal profit. [1]

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- (b) Explain why a monopolist is able to earn abnormal profits in the long-run. [3]

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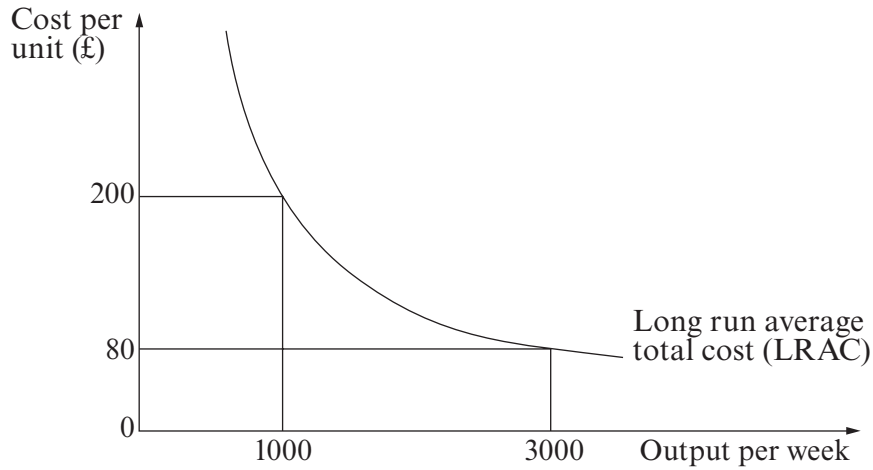
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Examiner only

- 2. The diagram below shows the long-run average total cost (LRAC) of firms in an industry at different levels of output.



Explain why it may benefit the **consumer** to have one monopoly provider producing 3000 units per week rather than three smaller firms each producing 1000 units per week. [4]

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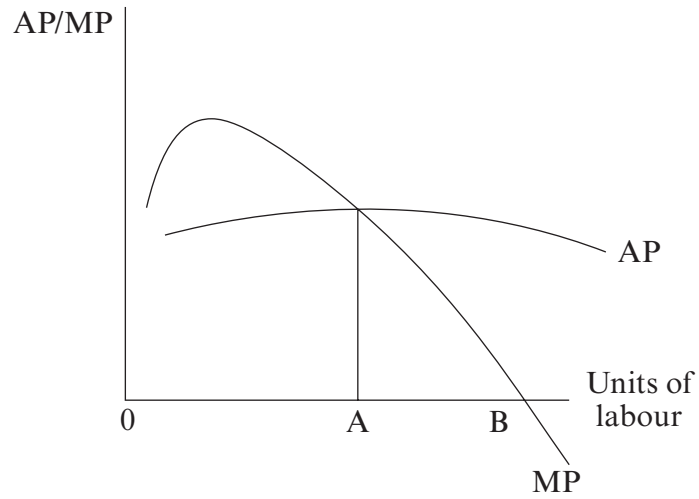
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3. The diagram below shows the marginal product of labour (MP) and average product of labour (AP) for a bakery using increasing amounts of labour in the short-run.



Explain the shape of the marginal product of labour (MP) curve.

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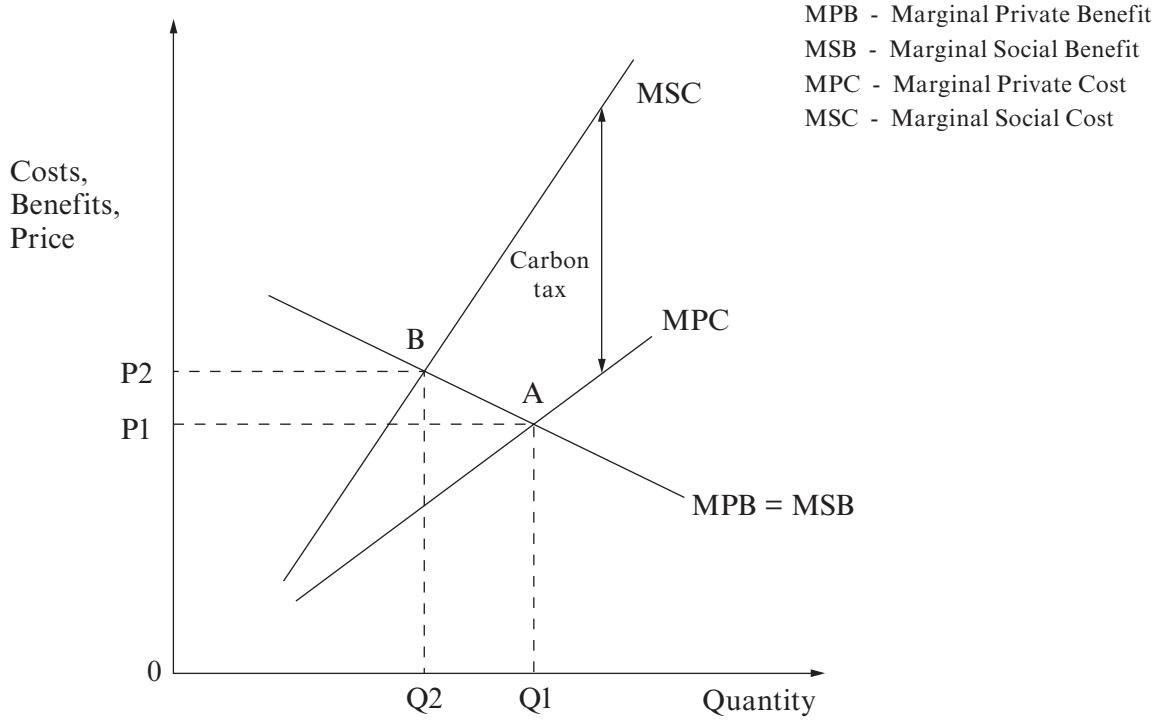
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4. The diagram below shows a justification for a carbon tax on coal-fired electricity power stations.



Using the diagram, discuss the case for this carbon tax.

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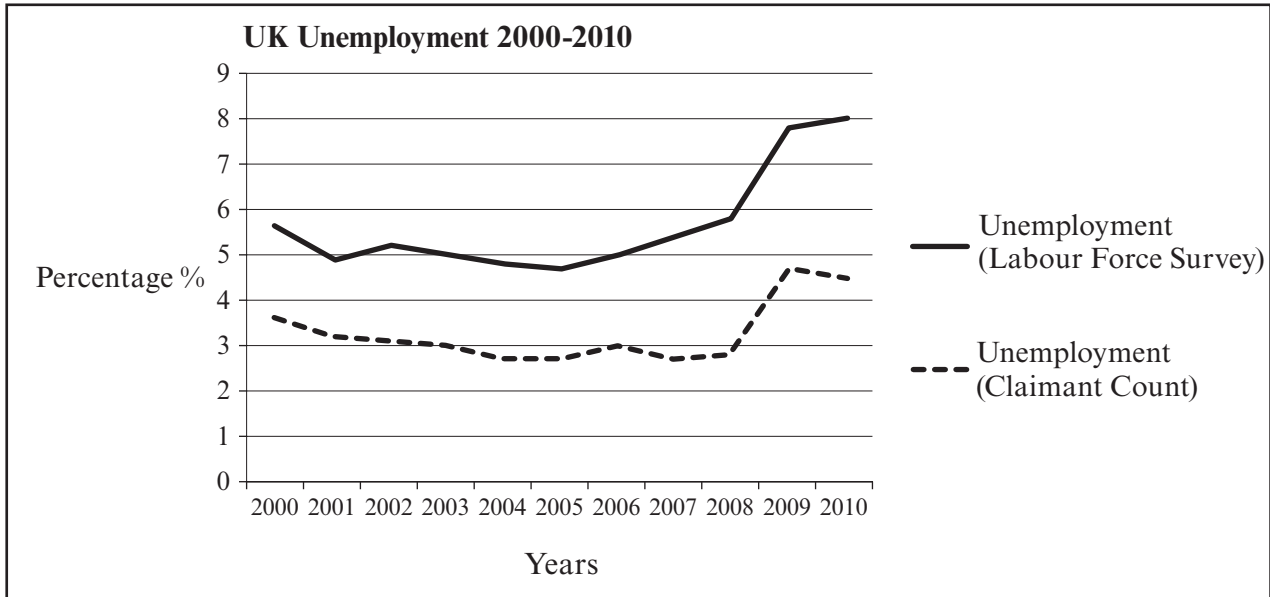
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5.



Source: Office for National Statistics

Explain why the Claimant Count measure of unemployment is usually lower than that produced by the Labour Force Survey. [3]

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Total Mark /3

6.

| United Kingdom Terms of Trade 2000-2010 |                    |                    |                |
|---|--------------------|--------------------|----------------|
|   | Export price index | Import price index | Terms of Trade |
| 2000                                    | 92.9               | 96.9               | 95.9           |
| 2001                                    | 91.8               | 96.0               | 95.6           |
| 2002                                    | 91.8               | 93.6               | 98.1           |
| 2003                                    | 93.5               | 93.0               | 100.5          |
| 2004                                    | 93.5               | 92.5               | 101.1          |
| 2005                                    | 97.6               | 96.7               | 100.9          |
| 2006                                    | 100.0              | 100.0              | 100.0          |
| 2007                                    | 100.3              | 100.9              | 99.4           |
| 2008                                    | 114.1              | 113.7              | 100.4          |
| 2009                                    | 117.2              | 117.7              | 99.6           |
| 2010                                    | 123.8              | 125.0              | 99.0           |

Source: Bank of England

(a) Using the data, explain what happened to the UK's terms of trade between 2000 and 2010. [2]

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(b) Explain possible reasons for the changes in export and import prices over the period shown. [4]

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**7. MPC to hold interest rates at 0.5%**

Bank of England Governor Mervyn King has fought off demands from some members of the Monetary Policy Committee (MPC) to raise interest rates. They wanted interest rates to rise from 0.5% to at least 1%. Figures out next week are expected to show inflation for January 2011 jumped above 4%, more than 2% above the MPC's inflation target of 2%, with the prospect of it nearing 5% before the summer.

However, King has insisted that even a modest rise in interest rates could harm the recovery, which is already threatened by Government spending cuts and weak domestic demand. Government figures last month revealed that the economy's Gross Domestic Product (GDP) fell by 0.5% in the final quarter of 2010.

MPC member Andrew Sentance has consistently argued that rates need to rise before businesses begin to raise prices and workers start to increase wage demands to cope with higher inflation.

*Adapted from the Guardian, 2 February 2011*

Discuss whether the Monetary Policy Committee (MPC) was right to keep interest rates at 0.5%. [6]

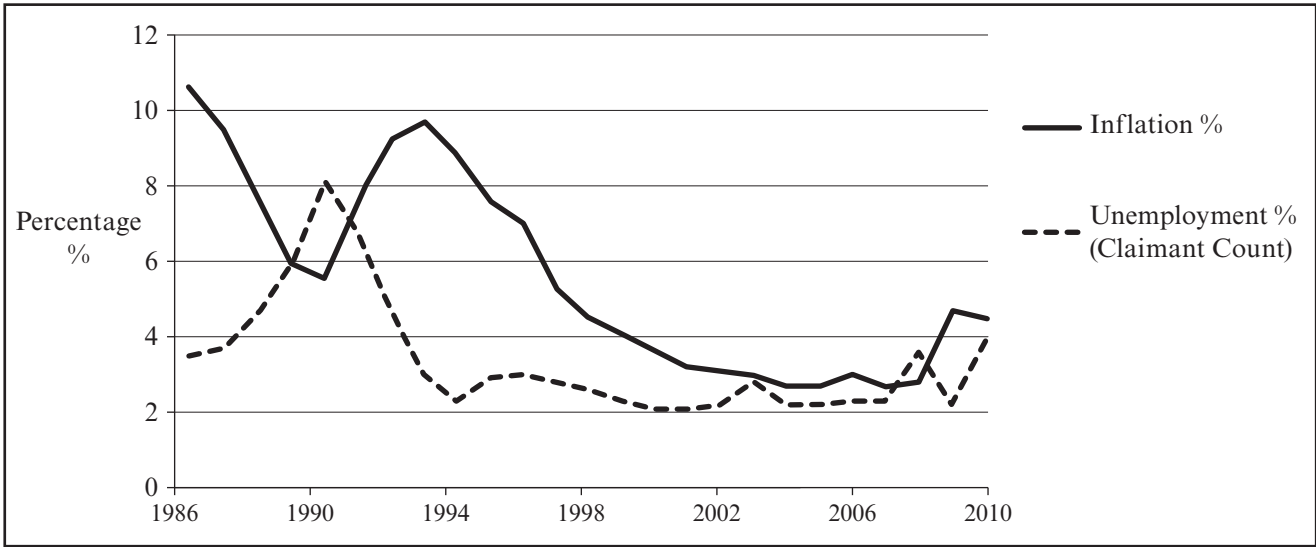
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**UK unemployment and inflation 1986-2010**



Using appropriate economic theory, discuss the extent to which the data shows a trade-off between unemployment and inflation. [6]

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Total Mark /6

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**SECTION B**

*Answer one question from this section.*

- 9. To what extent should governments intervene to correct market failure? [20]
- 10. “Many UK industries are dominated by a few large firms.” How far is this situation bad for the UK economy? [20]
- 11. Discuss the view that the Government should encourage an increase in the number of mergers between UK firms. [20]

**Answer the question from Section B using the following pages.**

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