GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. THURSDAY, 23 January 2014

2 hours

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.
Answer **one** question from Section B.
Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

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, Section B has 20 marks and Section C has 20 marks.

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

SECTION A

Answer **all** *the questions in this section.*

1. Study the information below and then answer the questions that follow.

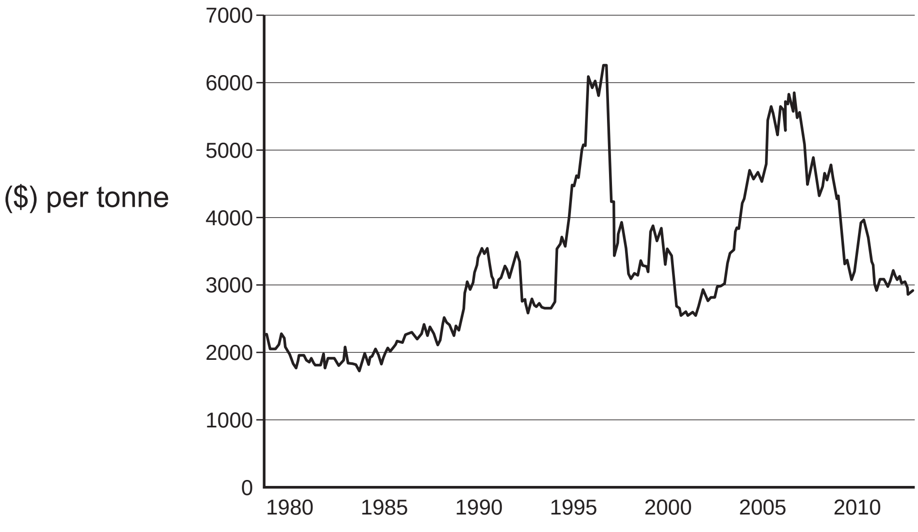
Olive oil prices plunge to ten year low in further blow to Spain and Greece.

When analysts talk about an oil crisis, it's usually to complain about pain at the petrol pump. But Europe is facing a different kind of oil panic. The price of olive oil, used in cooking, has been crashing, as Spaniards, Italians and Greeks switch to cheaper soya and sunflower oils.

Olive oil prices have fallen to below $3,000 a tonne during the past year, half its 2005 price, and its lowest level in a decade, according to the International Monetary Fund.

The price of olive oil has fallen as consumers in high unemployment southern European countries cut down on consumption while a huge crop in Spain has boosted supply.

Price of olive oil per tonne ($)



The glut of olive oil is dragging down prices – good news for British consumers but potentially devastating for growers across Spain, Italy and Greece, who are already struggling as a result of the eurozone crisis. Spain, Italy and Greece are the largest olive oil producers in the world, accounting for 70 per cent of the world's output, according to the Financial Times.

As consumers across southern Europe face falling incomes, many are looking to drive down the cost of their shopping baskets with cheaper alternatives – creating strong competition for traditional olive oil. The popular Spanish supermarket chain Erozki is currently selling sunflower oil at 1.25 euros a litre, considerably less than 1.99 euros per litre it charges for olive oil.

For the third time in eight months the EU has been forced to intervene to reduce the olive oil surplus by paying companies to stockpile oil, thus temporarily removing it from the market. It is hoped that this move, costing up to 20m euros, will help to increase prices.

On the positive side, although olive oil accounts for only about 2% of the world consumption of vegetable oils, its popularity is rising. As the middle classes expand in numerous emerging countries and become increasingly diet and health conscious, demand for olive oil is expected to grow in the coming years. In China demand is up 25% in recent years – sadly not enough to outweigh the slump in demand in Southern Europe.

Adapted from: Rachel Rickard Straus, thisismoney.co.uk. 28 May 2012

(a) (i) With the aid of a demand and supply diagram explain why the price of olive oil has been falling in recent years. [6]

(ii) With the aid of a demand and supply diagram explain why the price of agricultural goods such as olive oil fluctuates more than the price of manufactured goods such as cars. [6]

(b) (i) To what extent might the fall in the market price in olive oil to under $3000 a tonne lead to a fall in the price of olive oil in UK supermarkets? [4]

(ii) Define consumer surplus and explain how it will change for UK consumers of olive oil if prices fall in supermarkets. [4]

(c) Comment on the income elasticity of demand of olive oil. [4]

(d) To what extent is the price elasticity of supply of olive oil likely to be inelastic? [6]

(e) Using the data, evaluate the view that organisations such as the European Union should try to stabilise the price of olive oil. [10]

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SECTION B

Answer **one** *question from this section.*

2. **HOUSING SHORTAGE CONTINUES**

(a) Suggest and explain possible policies that the government could introduce to increase the supply of housing in the UK. [8]

(b) With the aid of a diagram discuss the view that a maximum rent should be set for all privately rented housing in the UK. [12]

3. **SCHOOL PUPILS SHOULD BE GIVEN FREE FLU VACCINATIONS**

(a) Explain why the government might subsidise vaccinations but heavily tax cigarettes. [8]

(b) With the aid of a diagram evaluate the view that there are better ways to reduce cigarette consumption than to keep increasing taxes on tobacco. [12]

4. **EMPLOYERS WANT TO LIMIT RISES IN THE MINIMUM WAGE**

(a) Using a diagram, explain why the equilibrium wage might rise or fall in a free market. [8]

(b) Discuss whether the government should stop increasing the minimum wage each year. [12]

SECTION C

Answer **one** *question from this section.*

5. **CORPORATION TAX CUT TO 21% IN 2014**

(a) Explain with examples what is meant by the term supply side policies. [8]

(b) To what extent will supply side policies help an economy to recover from a recession? Use a diagram in your answer. [12]

6. **POUND RISES AGAINST THE EURO**

(a) Using appropriate diagrams explain how a rise in (i) interest rates and (ii) imports might affect the exchange rate. [8]

(b) Discuss the view that a significant rise in the exchange rate of the pound against the Euro is bad for the UK economy. [12]

7. **UK TRADE DEFICIT AT FIFTEEN YEAR HIGH**

(a) Explain why governments have attempted to achieve high economic growth and low inflation. [8]

(b) Discuss policies that could be introduced to help reduce the UK's trade deficit. [12]

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