

# Paper 1

This document contains several past papers for the A level Economics specification. However be aware that these papers are **NOT** the same as the papers that you will be sitting in the summer. The papers enclosed are taken from papers created before the specification change that came in alongside the new Linear A level.

However some of the questions share enough similarities with the ones that you will be asked during the 2020 exam to be useful for the purposes of revision.

How to use this paper:-

1. The calculation part of a 5 mark question closely approximates to a 2 mark question.
2. The 10 mark question closely approximates to a 9 mark question.
3. The 15 mark questions closely approximate to a 15 mark question.
4. The 25 mark questions are the same.





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# A-level ECONOMICS

## Unit 3 Business Economics and the Distribution of Income

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Tuesday 6 June 2017

Afternoon

Time allowed: 2 hours

### Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is ECON3.
- In **Section A**, answer **either** Context 1 **or** Context 2.
- In **Section B**, answer **one** essay.

### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer **either** Context 1 or Context 2.

**Total for this Context: 40 marks**

Either

**Context 1**

### THE GLOBAL CONTEXT

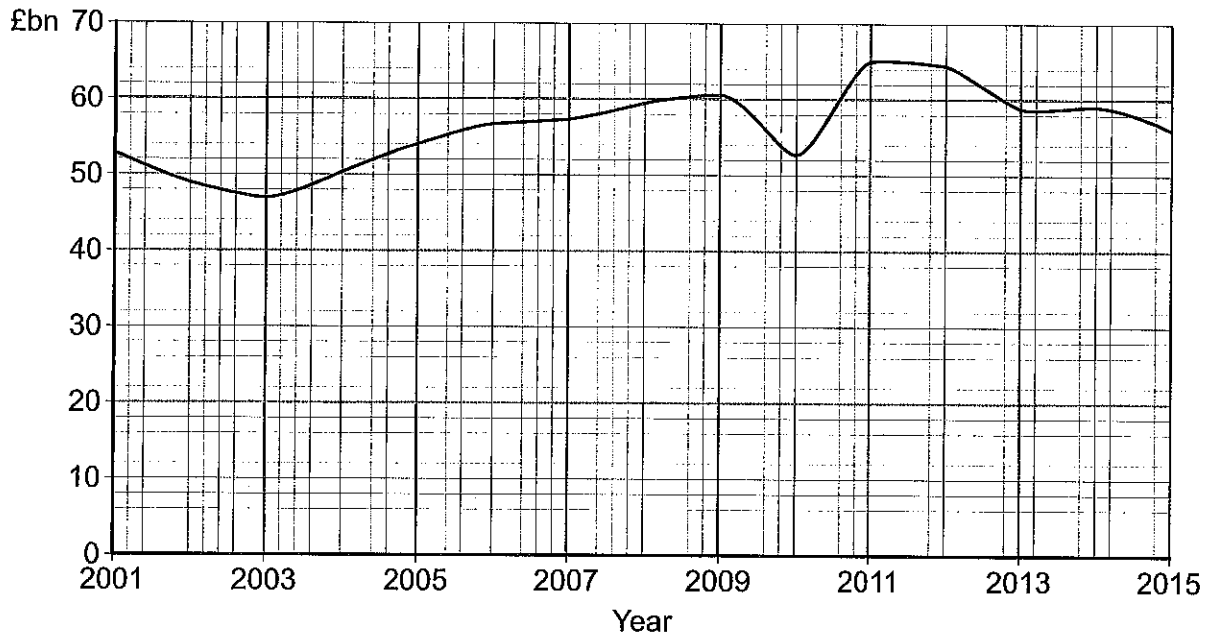
Study **Extracts A, B and C**, and then answer **all** parts of **Context 1** which follow.

**Extract A, Figure 1: Government receipts from privatisation (£bn)**

Years	1979–83	1983–89	1989–90	1990–93	1993–97	1997–2007	2007–10	2010–16
Chancellor	Geoffrey Howe	Nigel Lawson	John Major	Norman Lamont	Kenneth Clarke	Gordon Brown	Alistair Darling	George Osborne
Receipts (£bn)	4.8	51.0	9.1	7.9	8.8	2.9	2.8	57.7*

\* Estimated, to end of financial year 2016

**Extract A, Figure 2: UK government spending on general public services (£bn, real terms, 2015 prices)**



Source: Official statistics, 2015

**Extract B: Enter the dragon**

The idea of nationalising a major part of the British steel industry was hotly debated when the Indian-owned company Tata Steel decided to close or sell its loss-making UK assets. It was suggested that the 'dumping' of cheap steel from China, at subsidised prices below marginal cost, was a major cause of Tata's problems. 1

In the 1980s, after the sell-off of monopoly utilities providing gas, electricity and water, privatisation became a major part of Conservative government policy. This was not reversed by Labour governments, although several failing banks were, in effect, nationalised after the financial crisis of 2008. 5

In 2015, George Osborne was on course to sell off more public assets than any previous Chancellor of the Exchequer and had even completed the privatisation of the Royal Mail, which had 500 years in the public sector. Part of his predicted total of receipts reflected his plans to return banking shareholdings to the private sector. The Shadow Chancellor, John McDonnell, argued that while receipts from privatisations might help finance tax cuts, these assets could only be sold once and future generations would bear the costs if the privatised industries chose short-term profits over long-term investment in employment and infrastructure. 10 15

In 2015, Chinese companies won the right to design, own and operate a nuclear power station in Britain. Civil nuclear power in the private sector is very sensitive because of safety and security concerns. The UK government argued that co-operation on nuclear power is part of an overall agreement to tackle climate change. The UK has guaranteed China a minimum price for nuclear-generated energy, while cutting subsidies to British suppliers of green energy. This has received criticism because of falling world energy prices, and because it goes against the principle of comparative advantage and could actually undermine economic efficiency. 20

Source: News reports, 2015

### Extract C: Britain for sale?

Many economists regard privatisation, deregulation, free trade and globalisation as all going together, hand in hand. Privatised firms are arguably more able to raise investment finance on stock markets, and with free trade and globalisation, finance is available from all round the world. At home, privatisation is claimed to encourage more people to become shareholders. It is also claimed that increased international competition and deregulation bring more benefits for the consumer, such as lower prices, the development of new products, better quality of service and more consumer choice. The privatised firm may be more willing to cut costs, for example by sacking surplus workers, because there is a greater profit incentive to improve efficiency. It is argued that private sector managers aim to increase 'shareholder value' because they are accountable to shareholders who want a return on their investment. Critics say that it often happens that 'profits are privatised while losses are nationalised' and that private monopolies are more likely to exploit the customer and less likely to be aware of social costs and benefits. 1 5 10

In 2009, the East Coast Main Line was returned to public ownership when the private sector operator gave it up as 'unprofitable'. Under its new public sector operator, Directly Operated Railways (DOR), the line built up an excellent reputation for time-keeping and by 2014 paid surpluses to the government of around £1bn. The government implemented a re-privatisation process and DOR was not allowed to bid for the franchise. The short-listed bidders included one linked to the French state railways. A rail union spokesperson claimed that the UK government would be happy with state control of British railways "as long as it's not the British state". A government argument was that efficiency is more important than ownership, and the average consumer does not care who provides a public service, as long as it is provided. 15 20

Source: News reports, 2015

**0 1** Calculate, to **one** decimal place, the percentage of total privatisation receipts collected by Chancellor George Osborne, using the data in **Extract A, Figure 1**; and identify **one** significant feature of the graph shown in **Extract A, Figure 2**. [5 marks]

**0 2** Explain the phrase 'subsidised prices below marginal cost' (**Extract B**, lines 3–4) and analyse how subsidised prices could affect firms in an industry, such as steel, which has a global market. [10 marks]

**0 3** 'The UK government would be happy with state control of British railways "as long as it's not the British state"' (**Extract C**, lines 19–21). Evaluate, using the data and your knowledge of economics, the case for and against the UK government privatising public services while allowing foreign ownership of these services. [25 marks]

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

**Total for this Context: 40 marks**

or

**Context 2**

**THE EUROPEAN UNION CONTEXT**

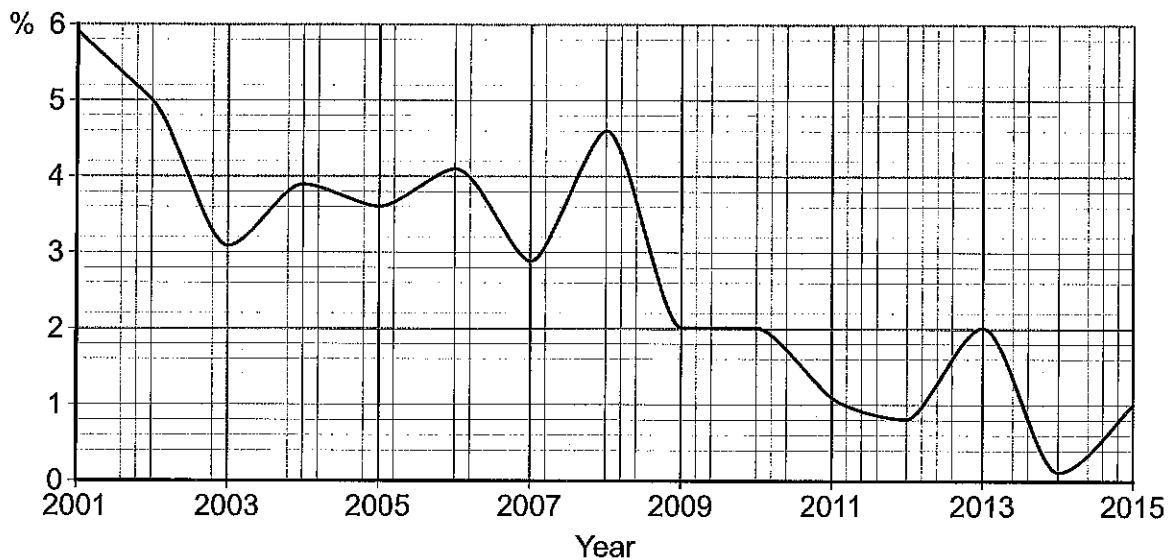
Study **Extracts D, E and F**, and then answer all parts of **Context 2** which follow.

**Extract D, Figure 1: Average annual full-time pay, UK 2014 (£)**

FTSE 100* Chief Executive Officer (CEO)	Science/ technical professional	Average UK worker	Teacher	Skilled construction worker	Nurse	Worker on living wage	Worker on minimum wage
4 960 000	38 300	27 600	27 100	25 200	24 800	17 100	13 900

\* FTSE 100 is the Financial Times Stock Exchange index of the 100 largest UK companies

**Extract D, Figure 2: Annual percentage increase in average gross weekly wage of full-time adult workers in the UK**



Source: Official statistics, 2015

**Extract E: What about the workers?**

According to labour market theory, wage differentials provide incentives, encouraging workers to improve their skills and increase their productivity. Some economists further argue that spending by high income earners will 'trickle down' to benefit others in society. Large wage differentials have, however, come in for some criticism. 1

Europe's company chief executives are being asked by the European Union (EU) Commission to justify why they often earn more than 100 times what their staff are paid. Ministers are discussing draft proposals that would give shareholders the right to vote to reduce the ratio between board pay and the average full-time worker. The ratio of executive to worker pay at the big banks, for example, often exceeds 100:1, with Barclays paying its chief executive 181 times more than their average wage, and Lloyds 125 times more. The average pay of a FTSE 100 chief executive in 2013 was 120 times the average earnings of their employees, up from 47 times in 1998, but down from a peak of 151 times in 2007. 5 10

Economist Robert Reich said in 2015 that it is very doubtful that the marginal revenue product of a company's chief executive is anywhere near 100 times that of their average worker. Management consultant Peter Drucker suggested in the 1970s that anything above 20:1 was inappropriate, while over 2000 years ago the Greek philosopher Plato felt 5:1 was the proper ratio for the wealthiest Athenians.

15

Britain's employee-owned John Lewis Partnership, which includes John Lewis department stores and Waitrose supermarkets, has for years limited the pay of the highest-paid employee to 75 times the average.

20

Source: News reports, 2015

### Extract F: High pay and the EU

The EU single market covers goods, services, capital and labour. Wages are just one aspect of a labour market and to most workers non-wage considerations, such as guaranteed leave for new parents, pension rights, trade union membership and health and safety in the working environment, are also highly important.

1

According to research recently published by the High Pay Centre think tank, 75% of British workers had no idea of the importance of the EU in creating and guaranteeing many key rights at work. Holiday pay, regular breaks at work and a maximum working week of 48 hours are all covered by the EU Working Time Directive.

5

The High Pay Centre polling found that 49% of respondents supported the principle of common standards for workers' rights across Europe, against just 30% who said countries should be free to set their own rights to compete with other EU countries. The survey also found that:

10

- 70% of respondents supported the EU bankers' bonus cap, limiting bankers' bonuses to twice their annual salary
- 60% supported a wealth tax on the richest EU citizens, such as that proposed by the French economist Thomas Piketty in his best-selling book 'Capital in the Twenty-First Century'
- 66% supported a European-wide pay cap, limiting the pay of company executives to a fixed multiple of their lowest-paid employees.

15

Source: News reports, 2015

**0 4** Calculate, to the nearest whole number, the ratio of Chief Executive Officer (CEO) pay to the pay of a worker on the minimum wage, using the data in **Extract D, Figure 1**; and identify **one** significant feature of the graph shown in **Extract D, Figure 2**.

[5 marks]

**0 5** Explain the phrase 'marginal revenue product' (**Extract E**, line 13) and analyse how, according to economic theory, the wage rate is linked to a worker's marginal revenue product.

[10 marks]

**0 6** '75% of British workers had no idea of the importance of the EU in creating and guaranteeing many key rights at work' (**Extract F**, lines 5–7).

Evaluate, using the data and your knowledge of economics, whether governments should attempt to influence aspects of the labour market such as wage levels, wage differentials and working conditions, or whether such matters should be left to market forces.

[25 marks]

Turn over ►

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**Either**

**Essay 1**

'A third runway at Heathrow is essential for the success of the economy of London and the UK.'

'A third runway at Heathrow would be an environmental disaster and cause huge market failure.'

**0 7**

Explain how an investment project, such as airport expansion, can be commercially successful and yet produce market failure.

**[15 marks]**

**0 8**

Evaluate the usefulness of cost-benefit analysis (CBA) in helping the government decide whether to support an investment project such as airport expansion.

**[25 marks]**

**or**

**Essay 2**

During 2015, the European Commission investigated allegations that people booking at Disneyland Paris, and on the cruises of some shipping lines, paid substantially different prices for the same holiday. British and German customers appear to have paid more than French customers.

**0 9**

Explain the conditions that enable price discrimination to take place.

**[15 marks]**

**1 0**

Evaluate the view that price discrimination is always good for producers and bad for consumers, and should therefore be banned by regulators such as the EU Commission.

**[25 marks]**



or

### Essay 3

Sony, one of the largest electronics and entertainment companies in the world, started out as a two-man operation in a back-yard garage. Facebook, now a huge global company, was created by two college students to enable their circle of friends to communicate with each other.

1	1
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 Explain the different ways a firm can grow in size.

**[15 marks]**

1	2
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 Since economies of scale give major advantages to large firms, is there any future, without government intervention, for small firms in a global economy? Justify your answer.

**[25 marks]**

**END OF QUESTIONS**

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## A-level ECONOMICS

### Unit 3 Business Economics and the Distribution of Income

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Monday 20 June 2016

Afternoon

Time allowed: 2 hours

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- a calculator.

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**Section A**

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**Total for this Context: 40 marks**

**Either**

**Context 1**

**THE GLOBAL CONTEXT**

Study **Extracts A, B and C**, and then answer **all** parts of **Context 1** which follow.

**Extract A: Selected countries' energy consumption by fuel type** (measured in million tonnes oil equivalent), **2013**

Fuel type	USA	UK	Russia	China
'Green' renewables (wind, solar, tidal)	59	11	0.1	43
'Green' renewables (hydro)	61	1	41	206
Nuclear	188	16	39	25
Coal	456	36	93	1925
Natural gas	671	66	372	145
Oil	831	70	153	507

Source: BP Statistical review of world energy, June 2014

**Extract B: Coal mining around the world**

Over 6 billion tonnes of coal are currently produced annually worldwide. The top five coal producers are China, the USA, India, Australia and South Africa. We have become used to worrying about 'peak oil' (the time when oil starts to rapidly run out) and we describe fossil fuels as a 'finite' resource. However, in February 2015, scientists reported that trillions of dollars' worth of coal, oil and gas are available but should not be extracted if the global temperature rise is to be kept under the 2 degrees centigrade (2°C) safety limit agreed by leaders of the world's nations. If the scientists are correct, and if the politicians keep their word on the 2°C limit, then energy companies could be wasting their time and money in seeking out new, more expensive oil and gas sources. In 2013, fossil fuel companies spent over £400 billion on exploration.	1           5           10
This means, in effect, that unless some new technology is discovered to remove carbon emissions from coal when it is used, there is no future for coal mining. Many scientists say that coal should be the first fossil fuel industry to have its remaining reserves simply left underground. Some politicians are still sceptical of the science of climate change and claim that policies like that of abandoning fossil fuels would be bad for business, making energy unaffordable, affecting costs, and making industries uncompetitive. Others argue that the predicted effects of global warming, such as extreme weather events, droughts and flooding, would be even worse for business. However, it is still not clear whether the 2°C target can be achieved unless aircraft can find a new means of propulsion, all cars are run on electricity and coal fired power stations are urgently replaced by something else that will 'keep the lights on'.	15           20

Source: News reports, 2015

**Extract C: Coal in the UK**

There is no longer any significant deep mining in the UK, but there are numerous opencast sites operating. However, even if coal mining were stopped tomorrow, there would still be a legacy of environmental problems. Opencast mines use massive machines to strip the earth's surface to reach coal seams below. They can cover many square kilometres and typically have a life span of 20 years or more after which full restoration of the affected area should take place. However, according to a recent parliamentary debate, there are over 50 ex-opencast sites around the UK, many of which are important wildlife areas, where restoration has not happened, as the planning conditions have not been adequately enforced and the industry has not absorbed the costs of environmental damage.	1 5
Economists suggest that privatisation reduces government failure but increases market failure. However, in the case of opencast, these are occurring together. When the coal industry was privatised in the 1990s opencast operators were not required by law to put an adequate amount of money into independently managed restoration funds – a failure of regulation. Many companies have been using an unsustainable business model, relying on planning permission for a new opencast coaling scheme to pay for the restoration of a previous scheme. The collapse of prices on international coal markets has helped to create an environmental disaster.	10 15
In tackling environmental problems there is not really a straight choice between perfectly performing markets on the one hand, and wonderfully wise governments on the other. The coal industry has been affected by many national and international policies, such as environmental taxes and carbon trading, but with a restoration funding shortfall of hundreds of millions of pounds, the 'polluter pays' principle does not operate within British opencast mining. As also appears to be the case with some other industries, the profits from coal are privatised, while the external costs stay in the public sector.	20

Source: News reports, 2015

- 0 1** Using **Extract A**, calculate, to **two** decimal places, the UK's coal consumption as a percentage of China's, **and** identify **one** other significant feature of the data shown. **[5 marks]**
- 0 2** Explain what is meant by a "finite" resource' (**Extract B**, line 4) and analyse why it might be argued that environmental policies are 'bad for business' (**Extract B**, line 15). **[10 marks]**
- 0 3** 'In tackling environmental problems there is not really a straight choice between perfectly performing markets on the one hand, and wonderfully wise governments on the other.' (**Extract C**, lines 18–19).  
Using the data and your knowledge of economics, assess the relative importance of market forces and government intervention in encouraging businesses to behave responsibly towards the environment. **[25 marks]**

Turn over ►

Do not answer Context 2 if you have answered Context 1.

Total for this Context: 40 marks

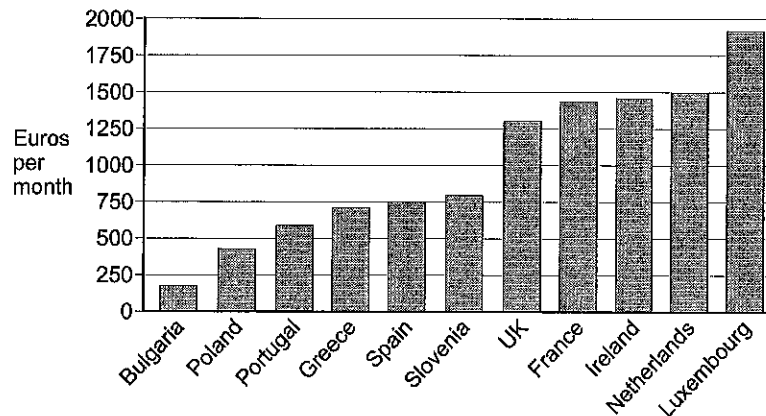
or

## Context 2

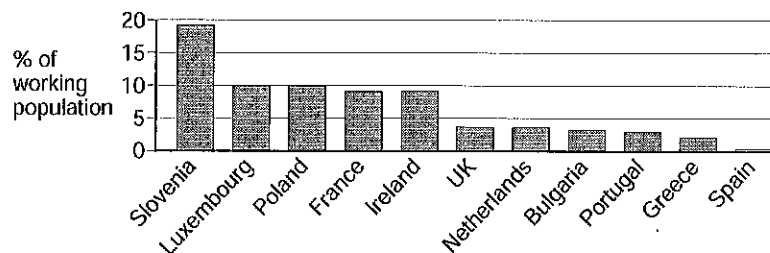
### THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

#### Extract D: Graph (i): Minimum wage, euros per month, selected countries, July 2013



#### Graph (ii): Percentage of working population receiving 105% or less of the minimum wage, selected countries, 2013



Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum\\_wage\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics)

#### Extract E: Minimum wages in the EU

Perhaps economists have traditionally had difficulty in discussing 'fairness', but during 2015 this topic was unavoidable as Greece, the UK, Spain and some other EU countries all had elections where equality, equity, tax avoidance, tax evasion, welfare, and the idea that the wealth of the highly paid can 'trickle down' to the low paid, were all critically discussed. 1  
5

Several of the founding EU member states have a history of operating a national minimum wage (NMW). A number, including Ireland, the UK and many newer members, have only relatively recently introduced minimum wage legislation, while seven of the EU-28 states had no NMW as of July 2014. In recent years, there has been a pattern of relatively low wage increases in most European countries, and trade unions claim that purchasing power and standards of living have fallen. NMW levels are not necessarily changed every year, nor does any adjustment always result in an increase. For example, the level of minimum wages in Greece decreased in 2012 as part of the austerity measures introduced by the government of the day. Some commentators support the idea of an EU-wide 'European minimum wage'. 10  
15

Source: News reports, 2015

**Extract F: What is the living wage?**

The living wage is an informal benchmark, not a legally enforceable minimum level of pay, like the national minimum wage. The NMW is set by the business secretary each year on the advice of the Low Pay Commission and is enforced by HM Revenue and Customs. The idea of a living wage is promoted by an independent body, the Living Wage Foundation. It has received widespread political support, but limited endorsement from employers. The living wage is based on the amount an individual needs to earn to cover the basic costs of living and lead a 'decent life'.	1 5
The living wage is now set at £9.15 an hour in London and £7.85 an hour in the rest of the UK. By comparison, since October 2014, the NMW has been £6.50 an hour for adults aged 21 and over, and £5.13 for those aged 18 to 20. Assuming a 40-hour week, average hourly earnings before tax for all full-time employees in April 2013 were £12.92.	10
At present, only a little more than 1000 employers have signed up to paying the living wage. They include some FTSE 100 companies such as Aviva and Barclays, and some large local authorities such as Cardiff and Newcastle. Some supporters of better pay for the low paid argue that employers who pay their staff too little are in effect being subsidised by taxpayers, through top-up state benefits such as tax credits. However, some companies, especially smaller ones, argue that paying the living wage could lead to job losses, and others say that they have been hit by the financial crisis and so could not increase staff costs to this level.	15
After the general election of 2015, the Chancellor of the Exchequer, George Osborne, announced that the Conservative government would create a 'National Living Wage' which would rise to £9 an hour by 2020. This would apply only to workers aged 25 and over and be accompanied by a reduction in benefits for people in work. Opinion was divided on whether low paid workers would be better or worse off as a result.	20

Source: News reports, 2015

- 0 4** Using **Extract D, Graph (i)**, calculate the Spanish minimum wage as a percentage of that of the Netherlands, **and** identify **one** significant point of comparison between information in **Graph (i)** and information in **Graph (ii)**. **[5 marks]**
- 0 5** Explain the difference between 'equality' and 'equity' (**Extract E**, line 3), and analyse why, left to market forces, some workers will earn very low wages. **[10 marks]**
- 0 6** 'The living wage is based on the amount an individual needs to earn to cover the basic costs of living and lead a "decent life".' (**Extract F**, lines 6–7).  
  
Using the data and your knowledge of economics, assess whether the UK government should legislate to make the national minimum wage a living wage, or whether there are better ways of improving the earning power of the low paid. **[25 marks]**

Turn over ►

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks

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**Either**

**Essay 1**

'In the middle of the twentieth century, the UK had more than 20 large car producing companies, and countless small, local manufacturers, many of which also produced motorbikes and pedal cycles. Now there is no single car producer that is purely 'British' and, globally, there are probably fewer than 20 significant car producers in the world.'

0	7
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 Explain how economic theory suggests that perfect competition among many small firms leads to an efficient allocation of resources. **[15 marks]**

0	8
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 Evaluate whether growing market concentration and monopoly power, in an industry such as motor manufacturing, are necessarily undesirable. **[25 marks]**

**or**

**Essay 2**

'In the real world of business, two observations can consistently be made. Firstly, sooner or later, the law of diminishing returns will operate; and secondly, over time, profit maximising is always a key goal.'

0	9
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 Explain the difference between diminishing returns to a factor in the short run, and returns to scale in the long run. **[15 marks]**

1	0
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 Evaluate the view that, for all firms, whether small or large, in the long run, profit maximisation is always more important than any other business objective. **[25 marks]**



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or

### Essay 3

'Most consumers know, more or less, when and why they are likely to want to replace a TV set or mobile phone. Nobody really knows in advance when or why they might need to go into hospital for a new knee-cap or hip joint.'

1	1
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 Explain why imperfect information might lead to market failure in the case of merit goods and demerit goods.

**[15 marks]**

1	2
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 Discuss whether economic welfare would necessarily be increased if the provision of merit goods and public goods were always left to governments without ever involving markets.

**[25 marks]**

**END OF QUESTIONS**

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General Certificate of Education  
Advanced Level Examination  
June 2015

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Thursday 11 June 2015 1.30 pm to 3.30 pm

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- a calculator.

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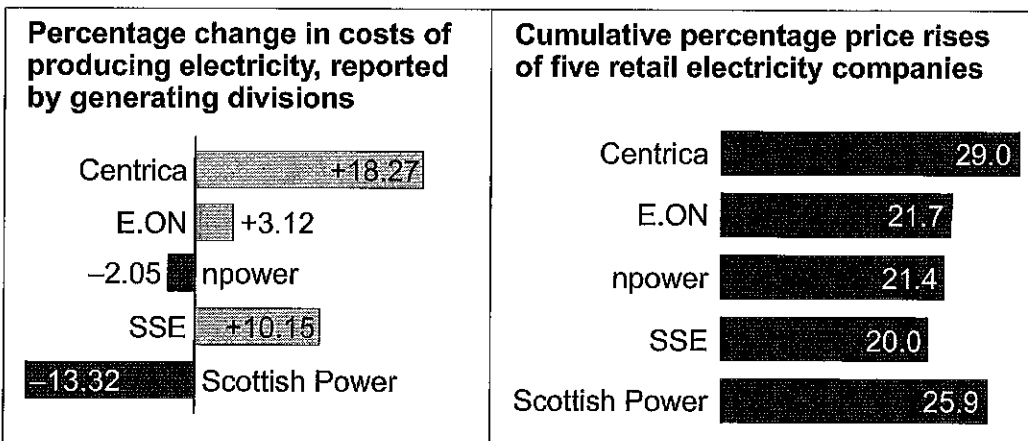
**Either**

**Context 1**

### THE GLOBAL CONTEXT

Study **Extracts A, B and C**, and then answer **all** parts of **Context 1** which follow.

**Extract A: Percentage changes in electricity costs and prices, UK, 2010–12**



Source: Greenpeace, 2013

**Extract B: The Big Six**

The UK electricity industry used to be a nationalised state monopoly. In the 1980s, a process of privatisation of utilities began with the stated aims of increasing competition, efficiency and investment. Now, in theory, competing generating companies produce electricity and sell it wholesale to competing supply companies to sell retail to final customers. In practice, the markets have become dominated by six large-scale multinationals (the Big Six). There are about ten smaller firms which are mainly involved on the retail side but some have generating capacity, such as wind farms.	1 5
There is evidence that, while the wholesale costs of generating electricity differ quite considerably, retail prices charged to customers all end up being very similar. Critics say that the market is not working efficiently for various reasons, including insufficient separation between generating and selling electricity. The main concern of the regulator, Ofgem, has been to promote consumer choice. It has therefore encouraged consumers to consider switching suppliers. Prime Minister, David Cameron, has suggested that customers should shop around as they would when buying groceries from supermarkets. The generators are now charging prices which have given profit margins of between 8 and 32 per cent, while the retailing divisions have profit margins of 5 or 6 per cent.	10 15

For comparison, supermarkets can operate on profit margins as low as 2 or 3 per cent. The electricity companies claim that they have to make high profits in order to invest. Critics argue that supermarkets also have to invest, and are more genuinely competitive.

In 1997, the Labour Government announced a one-off windfall tax on the privatised utilities, which took a percentage of their supernormal profits (also referred to as 'abnormal' or 'excess' profits). This was done to put right the bad deal customers and taxpayers were alleged to have got from privatisation. In 2013, when Leader of the Opposition, Ed Miliband, announced a possible future government policy of freezing energy prices for 20 months, the companies claimed this would hit investment in much needed new generating capacity.

Source News reports, 2013

### Extract C: Some international trends

Some of the costs facing firms in the electricity market are domestic, such as, the charges levied by the companies who own the transmission cables. However, many input costs are determined internationally, including coal, gas and even labour costs. For example, npower, which is owned by a German company, recently announced plans to cut 1400 office and call centre jobs (about 15% of its UK workforce) as part of a major re-structuring, outsourcing them to India. While reducing labour costs this way, it increased prices by 10.4 per cent.

The costs of producing electricity could go down if the UK adopts fracking, a process widely used in the USA. Fracking involves the use of chemicals to extract oil and gas from rocks deep underground. In the USA, electricity prices have fallen as a result of the production of shale gas using this controversial process. Would there be a similar reduction in electricity prices in the UK? Some economists predict that this will not be the case. American shale gas is sold within the USA, whereas, without government intervention, UK gas is more likely to be exported via pipelines to generators on the Continent, to take advantage of high prices there.

Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets. They claim that this is due to differences between the two industries, such as the type of product sold, entry barriers, minimum efficient scale, company objectives, effects of technological change and international factors.

Source: News reports, 2013

**0 1** Using **Extract A**, identify **two** significant points of comparison between the changes in electricity costs and prices between 2010 and 2012. **[5 marks]**

**0 2** Explain what is meant by 'supernormal profits' (**Extract B**, line 21) and analyse the likely effects on an electricity company of a one-off windfall tax that would take a percentage of its supernormal profits. **[10 marks]**

**0 3** 'Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets.' (**Extract C**, lines 15–16).

Using the data and your knowledge of economics, assess the arguments for and against the UK electricity industry being brought back into public ownership. **[25 marks]**

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

**Total for this Context: 40 marks**

or

## Context 2

### THE EUROPEAN UNION CONTEXT

Study **Extracts D, E and F**, and then answer **all parts of Context 2** which follow.

#### Extract D: Housing tenure in England, as a percentage of households, for selected years

Housing tenure	2000	2010	2020*
Owner occupied, with a mortgage being repaid	43	35	29
Owner occupied, owned outright (no mortgage)	27	33	34
Social rented (from a council or housing association)	20	18	17
Private rented	10	14	20

Source: Official statistics, 2014

\* The figures for 2020 are projected from current trends

#### Extract E: Housing tenure and externalities

Most Spaniards and Estonians live in flats, while most people in the UK and Ireland live in semi-detached houses. Housing markets are made up of different sectors or 'tenures' which describe the legal basis under which houses are occupied. Most of the population of the EU live in owner-occupied houses. Social housing is built or funded by the public sector and, in the past, the UK has been almost unique in Europe in providing such houses mainly through local councils. In France, this is done by not-for-profit organisations, similar to UK housing associations. About two-thirds of tenants across the EU pay a market price rent, while the rest receive some form of subsidy. In the UK, the concept of social housing has become complicated by the large number of private landlords whose tenants are receiving welfare benefits. While the UK government has moved away from rent controls, it has attempted to influence rents indirectly by capping housing benefits for low income tenants.	1 5 10
While housing has many of the characteristics of a merit good, externalities from housing can be positive or negative. Bad housing is often associated with crime, ill-health and other problems, and the opposite is true of good housing. Tenure can also be linked to externalities, for example, if poorly designed social housing, such as an inner-city block of flats, is compared with high-quality private housing in a prosperous area. Much depends on the quality of the build, the surrounding social conditions and the economic infrastructure.	15

Source: News reports, 2014

## Extract F: Housing and Inequality

The EU Commission has said: 'Decent housing at an affordable price in a safe environment is a fundamental need and right. Ensuring this need is met, which is likely to alleviate poverty and social exclusion, is still a significant challenge in a number of European countries.'	1
Housing inequality can result in part from income inequality and can, in turn, help cause wealth inequality. Most houses are bought using mortgages which are issued by banks and building societies on the basis of income. The UK's 'Right to Buy' policy, dating from the 1980s, makes a one-off redistribution of wealth from the state to low income families when tenants buy their council houses at a subsidised price. Regional and international differences enable some house owners to convert their housing assets into other forms of wealth. For example, someone who sells a former council house they have owned for 30 years in south-east England might release enough profit to be able to purchase a similar house in north-west England, or even two houses in Bulgaria, while still having cash left over.	5
In most EU countries, 'austerity' pressures on public finances can be expected to cause a further withdrawal by government from a direct role in housing. The financial crash of 2007 was made worse in Europe by excessive property speculation, particularly in the UK, Ireland and Spain. In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth. Moreover, in 2013, a government 'Help to Buy' scheme, intended to assist first-time buyers with their deposits, has also subsidised would-be landlords buying property to rent out. Yet the UK remains short of social housing and affordable private housing.	10
	15
	20

Source: News reports, 2014

0 | 4

In 2010, there were 6.91 million households in England who lived in rented accommodation.

Using **Extract D**, calculate to the nearest half million, the total number of households in England in 2010, and identify **one** significant point of comparison between the different housing tenures over the period shown.

[5 marks]

0 | 5

Explain what is meant by the term 'externalities' (**Extract E**, line 12) and analyse how housing can create **both** positive and negative externalities.

[10 marks]

0 | 6

'In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth.' (**Extract F**, lines 17–20)

Should government intervene in the UK housing market, for example using subsidies, or leave the provision of housing to market forces? Using the data and your knowledge of economics, justify your answer.

[25 marks]

Turn over for Section B

Turn over ►

---

**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**Either**

**Essay 1**

**0 7**

'The internet has benefited small firms and has helped to make some markets more competitive.'

Explain why this might be the case.

**[15 marks]**

**0 8**

Critically assess the proposition that perfect competition will always result in an efficient allocation of resources, no matter what good or service is being produced and consumed.

**[25 marks]**

**or**

**Essay 2**

**0 9**

Explain how the determination of prices and output by oligopolists is affected not only by the reactions of their customers, but also by their interdependence with other producers.

**[15 marks]**

**1 0**

The European Commission prevents mobile phone networks from colluding on 'roaming charges' when consumers travel around Europe. Meanwhile, the EU has forced mobile phone manufacturers to cooperate in making a single design of phone charger.

Evaluate the view that governments should never intervene to influence how oligopolists collude or cooperate on such issues as fixing prices, varying output, conducting research, developing products, or carrying out any other aspect of their business.

**[25 marks]**

**or**

**Essay 3**

**1 1**

'Nurses, who benefit society, earn comparatively little, while some bankers, whose work may cause harm, can earn millions. This is not fair.'

How does economic theory explain such differentials in pay?

**[15 marks]**

**1 2**

'Government should be concerned about incentives and disincentives to work. They should not be concerned with fairness in the treatment of various income groups.'

Assess the case for and against governments intervening in labour markets to achieve a fairer distribution of income.

**[25 marks]**

**END OF QUESTIONS**



**There are no questions printed on this page**

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General Certificate of Education  
Advanced Level Examination  
June 2014

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Tuesday 3 June 2014 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer **EITHER** Context 1 **OR** Context 2.

**Total for this Context: 40 marks**

**Either**

**Context 1**

### THE GLOBAL CONTEXT

Study **Extracts A, B and C**, and then answer **all** parts of **Context 1** which follow.

#### **Extract A: Pension data from selected countries**

	Australia	UK	USA	India
Percentage of total population over 60 in 2010	20	23	18	8
Projected percentage of population over 60 in 2050	35	34	33	22
Average monthly basic state pension (\$ US) in 2010	1558	960	674	4
Purchasing power of the average monthly basic state pension as a percentage of the United Nations 'poverty line'*, 2010	2521%	2347%	1773%	27%

\* The UN 'poverty line' measures the ability of the population of a country to purchase a basic basket of goods. It used to be referred to as 'a dollar a day' and is an indicator of absolute poverty.

Source: Pensionwatch, 2012

#### **Extract B: Poverty and age**

The UN estimates that half the children in the world live in poverty. The 40 poorest countries in the world contain 500 million people who share a total annual income which is less than the total personal wealth of the 40 richest people in the world.	1
When measuring poverty within countries, economists generally use an indicator of relative poverty. In the UK, government statisticians generally view people as being 'at risk of poverty' if their household disposable income after housing costs is less than 60% of the average. Politicians in the UK often focus on child poverty, because children from poor families are likely to grow into poor adults, and remain poor into old age. In 1999, the then Prime Minister, Tony Blair, promised to eliminate child poverty by 2020. In 2012, the Office for National Statistics (ONS) reported that relative poverty, as measured by the gap between a family's income and the national average, had fallen since 2008. However, this was likely to be because people in the middle had become worse off, rather than the poorest becoming better off. People aged 18 to 24 saw their risk of poverty rise, due to rising unemployment among that age group. However, it is not necessary to be unemployed to be poor. It has been said that some UK government benefits, such as tax credits, subsidise low wages paid by employers to many workers whose jobs are essential but may require few specialist skills. Training schemes and minimum wage legislation are among government policies aimed at reducing the number of 'working poor' in the labour market.	5  10  15

Sources: news reports, government statistics, 2013

**Extract C: Pensions and poverty**

A major factor in tackling global poverty is the provision of adequate pensions. According to the think tank, Pensionwatch, four out of five older people around the world have no access to a pension, with many millions living in poverty or working well into their old age. Around 80 countries have some form of state pension which gives a basic income in old age. 1

An important question is whether individuals should take responsibility for their old age by choosing to contribute to a scheme provided by the state, or an employer, or via the insurance industry. Only a few wealthier countries also have a basic 'universal' state pension, financed from general taxation rather than contributions. These have a cost to the taxpayer but they reduce the social costs of old age poverty. 5

Statisticians can make long-term predictions of population changes and yet many private and public sector pension schemes are in crisis as countries are faced with ageing populations and rising levels of national debt. This can be seen as government failure, caused by poor forward planning. There has also been some market failure. For instance, due to the selling of inappropriate insurance-based private pension schemes, and a significant fall in the value of pensions being provided by even the better schemes, many consumers have lost trust in the private sector pensions industry. 10 15

It could be that many people are simply too poor to be able to afford to save, or it might be that people often prefer current consumption over future consumption. This form of market failure could be tackled by the government imposing a high rate of compulsory pension saving, as in Chile and Singapore. There was a small step in this direction in the UK in 2012 when the government launched 'auto-enrolment', an occupational pension scheme pioneered in Australia and New Zealand where employees are automatically included unless they opt out. While rich countries argue over who should pay for pensions, and by what methods, in poor countries, where pensions are needed the most, they are likely not to exist at all. 20

Sources: news reports, government statistics, 2013

0 | 1

Using **Extract A**, calculate to **two** decimal places the average monthly basic state pension in India as a percentage of the monthly pension in the UK, **and** identify **one** other significant feature of the data shown.

[5 marks]

0 | 2

Explain what is meant by 'market failure' (**Extract C**, line 13) **and** analyse **two** reasons why markets might fail to provide adequate pensions.

[10 marks]

0 | 3

'...children from poor families are likely to grow into poor adults, and remain poor into old age' (**Extract B**, lines 7–8).

Using the data and your economic knowledge, evaluate whether it is better for the UK government to reduce poverty by using policies to improve people's ability to earn higher wages during their working lives, rather than through the provision of state benefits to those who are poor for various reasons.

[25 marks]

Turn over ►

Do not answer Context 2 if you have answered Context 1.

**Total for this Context: 40 marks**

or

## Context 2

### THE EUROPEAN UNION CONTEXT

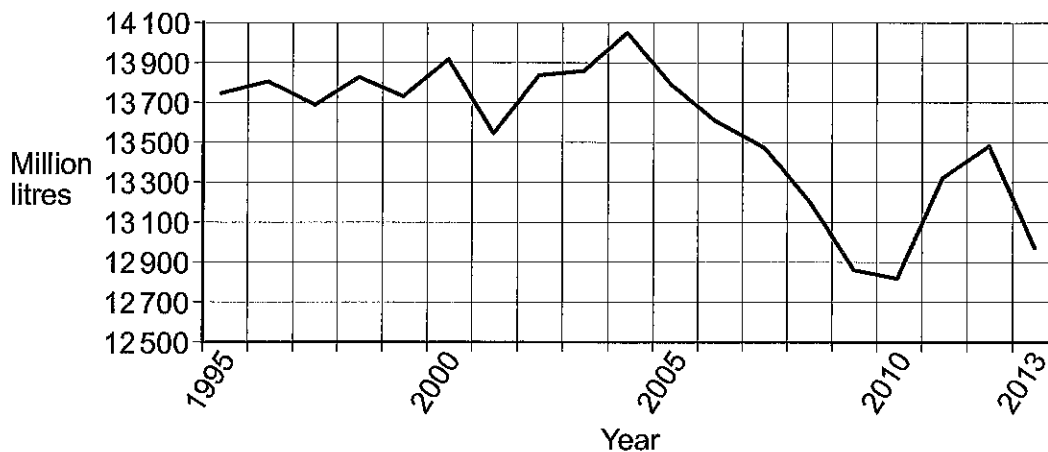
Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

#### Extract D: EU milk production, 2007 and 2013

	2007	2013
Output (million tonnes)	148	151
Dairy cows (millions)	24	22

Source: Euromilk.org 2013

#### UK milk production, 1995–2013 (millions of litres)



Source: [www.dairyco.org.uk](http://www.dairyco.org.uk) 2013

#### Extract E: British milk from British cows

Milk is the single largest part of the UK agricultural sector by value of output. Almost all the milk in the UK is purchased by just six major processors who then sell on to a market dominated by five or six large supermarket chains. UK dairy farmers complain that while they have to act competitively as price takers, there is a combination of some degree of monopsony power and oligopoly standing between the farms and the public. They claim that dairy processors have too much power when they buy milk from the farms and, in turn, the market for the processors' output is dominated by the buyers working for large, powerful supermarkets, which then sell to the public as oligopolists.

1

5

The supermarkets argue that British producers are in a weak position because alternative sources of cheap milk are available for import. The farmers claim that this argument is unsustainable because, if they were forced into bankruptcy, consumers would have no alternative but to buy imported milk which would no longer be offered at low prices.

10

In 2013, there were concerns about complicated supply chains across Europe resulting in a lack of traceability in meat products, leading to problems such as supermarket beef burgers containing horse meat. If more dairy farms go out of business, similar problems might occur with milk.

15

Sources: news reports and government information, 2013

### Extract F: The EU milk market

Over recent decades, the governments of most industrialised countries have intervened in their agricultural markets to offer support through subsidies and other measures. In Europe, agriculture employs less than 5% of the workforce, while agricultural intervention has traditionally taken about 50% of the EU budget.

1

Aimed at limiting state spending on the dairy sector, controlling milk production, and stabilising both milk prices and producer incomes, the EU introduced a milk quota system in 1984 as part of the Common Agricultural Policy (CAP). Milk quotas place a limit on the amount of milk that a farmer can sell every year without paying a 'levy' or penalty to the EU. The CAP has forced dairy farmers to work below capacity and even to dump milk, damaging the EU's reputation for economic efficiency.

5

10

The EU plans to end milk quotas in 2015 and wants agriculture to be less influenced by government intervention and more responsive to market forces. As quotas are removed, farms might be expected to become fewer, larger and more intensive. In Spain, for example, the industry has been allowed three times as much milk output since 1993, while the number of dairy farms has fallen drastically and productivity has risen. Meanwhile, like the UK government, the Spanish government has intervened to try to negotiate new pricing contracts between farmers, food processors and retailers. There is always a risk that government intervention in such negotiations in any market can adversely affect efficiency.

15

Sources: news reports and government information, 2012

0 4

Using the table in **Extract D**, calculate to **two** decimal places the increase in annual productivity (tonnes of output per dairy cow) when 2013 is compared with 2007, and identify **one** significant feature of the data shown in the graph.

[5 marks]

0 5

Explain the distinction between 'monopsony power' and 'oligopoly' (**Extract E**, line 5) and analyse how the market power of supermarkets can affect the profitability of dairy farms.

[10 marks]

0 6

In recent years, the EU has decided that the agricultural sector must become 'more responsive to market forces' (**Extract F**, line 12).

Using the data and your economic knowledge, discuss whether UK farming would benefit from greater responsiveness to market forces and less intervention by the UK government and the EU.

[25 marks]

Turn over ►

---

**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**Either**

**Essay 1**

Small, independent coffee shops face competition from large multinational companies with well-promoted brands. In the High Street of a major British city, one such independent business advertises in the following way:

'Cappuccino or Pot of Tea: £1.19 before 12 noon; £1.39 during lunch time (12–2.30 pm); and only 99p after 2.30 pm.'

**0 7** Explain how such a pricing strategy is influenced by price elasticities of demand, revenues and costs. **[15 marks]**

**0 8** Economists sometimes analyse small and large businesses through a 'structure, conduct, performance model' and consider such issues as a 'divorce' of ownership from control.

Discuss ways in which the size of firms and the structure of the coffee-shop market might affect the conduct **and** performance of the firms within it.

**[25 marks]**

**or**

**Essay 2**

Thirty years ago the computer market was dominated by one huge monopoly called IBM (International Business Machines). Today, most people have never even heard of IBM. Newer companies such as Microsoft, Apple and Google have grown rapidly to become very competitive giants.

**0 9** Explain the main sources of monopoly power. **[15 marks]**

**1 0** Evaluate the view that competition policy is never necessary because, in the long run, market forces will ensure that monopolies cannot abuse their power and will not last.

**[25 marks]**



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or

**Essay 3**

The UK government is considering building a high-speed train line (known as HS2) linking London with cities in the north. It is claimed that HS2 will enable significant reductions in journey times for passengers and goods.

- |   |   |
|---|---|
| 1 | 1 |
|---|---|

 Explain the likely short-run and long-run effects of investment in infrastructure projects such as HS2 on both labour and product markets in the UK. **[15 marks]**
- |   |   |
|---|---|
| 1 | 2 |
|---|---|

 Assess how useful a cost-benefit analysis (CBA) would be in helping to decide whether a project, such as a high-speed train line, should go ahead. **[25 marks]**

**END OF QUESTIONS**

**There are no questions printed on this page**



General Certificate of Education  
Advanced Level Examination  
January 2013

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Tuesday 22 January 2013 9.00 am to 11.00 am

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Total for this Context: 40 marks

Context 1

### THE GLOBAL CONTEXT

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

#### Extract A: Trade union membership and density, UK, selected years 1995–2010

	1995	2000	2002	2004	2006	2008	2010
Membership (number of employees, millions)	7.1	7.1	7.0	7.1	7.0	6.9	6.5
Density (total UK trade union membership as a % of all UK employees)	32.4	29.8	28.8	28.8	28.3	27.4	26.6

Source: official statistics, 2011

#### Extract B: Workers united?

<p>In 1776, Adam Smith argued that business people often ‘combined’ (today we would say ‘colluded’) in order to fix prices and wages, while ‘combinations’ of workers were illegal. In his opinion there was an imbalance between the actions of employers and the rights of employees. In 1948, all members of the United Nations signed up to the Universal Declaration of Human Rights. Article 23 states: “Everyone has the right to form and to join trade unions for the protection of their interests.” The Declaration also states that union membership cannot be made compulsory.</p>	1  5
<p>In the UK and in other modern democracies, most people would probably agree with the Australian Bureau of Statistics that a trade union is ‘an organisation consisting predominantly of employees, the principal activities of which include the negotiation of rates of pay and conditions of employment for its members’. To an economist, a trade union replaces ‘individual bargaining’ with ‘collective bargaining’, which may enable workers to create a monopolistic supply of labour to counteract the monopsonistic demand for labour from powerful employers.</p>	10
<p>A prominent British trade union leader claimed recently that union membership was holding steady despite major economic difficulties, and advised workers worried about further shocks to the economy to join a union. He claimed that union members tended to be better paid than workers who are not part of a trade union but who do the same job. Union members earn on average nearly 17%, or £2 an hour, more than other workers.</p>	15

Source: news reports, 2011

**Extract C: Walmart and China**

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company <i>Walmart</i> , the world's largest retailer and owners of <i>Asda</i> in the UK, has been known to stop operating in some countries rather than have to recognise unions.	1
With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as <i>Walmart</i> , <i>McDonald's</i> and <i>FedEx</i> , have adopted an anti-union stance in the countries in which they operate.	5
In China, however, <i>Walmart</i> has signed 'collective bargaining' agreements with the <i>All-China Federation of Trade Unions</i> (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on <i>Walmart's</i> part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. <i>Walmart</i> gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if <i>Walmart's</i> management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business.	10
ACFTU discourages strikes at a time when working conditions in China have come in for international criticism. ACFTU has also been accused of failing to represent its members properly because the Chinese government prefers to promote business investment and business growth at the expense of workers' rights. However, there is a view that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation. For this reason, it is argued, the UK government should encourage businesses, wherever they operate in the world, to engage fully with trade unions.	15
	20
	25

Source: news reports, 2011

**0 1** Using **Extract A**, calculate to one decimal place the percentage decrease in the number of employees who were union members in 2010 compared with 1995 and identify **one other** significant feature of the data shown. (5 marks)

**0 2** Explain what is meant by 'monopsonistic demand for labour' (**Extract B**, lines 13–14) and analyse how a trade union can influence wages and employment levels in an imperfectly competitive labour market. (10 marks)

**0 3** '...any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation' (**Extract C**, lines 21–23).

Using the data and your economic knowledge, evaluate whether governments, such as those of the UK or China, should intervene in labour markets to increase trade union membership. (25 marks)

Turn over ►

Do not answer Context 2 if you have answered Context 1.

OR

Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

Extract D: Average annual household gas bills, England and Wales, selected years 1998–2010

	1998	2000	2002	2004	2005	2006	2008	2010
Cash terms (£)	277	264	281	309	353	425	582	640
Real terms, 2005 prices (£)	325	300	303	315	353	412	532	560

Source: official statistics, 2011

Extract E: Getting gas to market

In the EU as a whole, there are over 72 million domestic consumers of piped natural gas. The largest consumers of piped gas are Belgium, France, Germany, Italy, the Netherlands and the UK. In the UK, six energy companies control 99% of the market for natural gas. *British Gas*, the privatised utility, dominates the market with over 50% market share. There are no signs, at present, of any significant new entrants to the market.

The EU Commissioner for Energy has called for the 'Europeanisation' of energy policy. The Commissioner argues that it is necessary to assure all EU consumers that their energy sources are safe, competitive, efficient and sustainable. To help achieve this, the *Agency for the Cooperation of Energy Regulators (ACER)* was launched in 2011 as an agency of the EU. At present, it has an advisory and coordinating role across the EU, rather than a regulatory one. In the UK, The *Office for Gas and Electricity Markets (OFGEM)* is the main regulator for piped natural gas.

Consumers might have doubts about the effectiveness of regulators such as OFGEM. In August 2011, price increases averaging 18% were announced for piped natural gas, while general inflation was 4.5%. Observers noted that, while wholesale prices were volatile, domestic retail prices tended to follow them upwards and then became 'sticky' and unlikely to follow them downwards. One problem is that there is very little storage capacity in the UK. OFGEM does not directly regulate prices, and is far more concerned with the ease with which consumers can switch between suppliers.

Source: news reports, 2011

**Extract F: The 'Butane Man'**

One reason why it is difficult to regulate gas in the same way across all 27 member states of the Single European Market is that most EU states do not have well-developed pipeline distribution networks. Spain, Portugal, Greece and Ireland are leading the way in the process of catching up. In Spain, for example, where most of the population live near town centres in apartments that were built some time ago, there has been a strong tradition of using liquid petroleum gas (LPG). The 'Butane Man', who regularly delivers gas cylinders to households, has much the same standing in popular culture as the traditional 'milkman' in the UK. A recent proposed strike by butane delivery workers was regarded as a very serious threat by Spanish media, government and consumers.	1 5
Putting homes onto the gas mains is least costly when new housing estates are being built, meaning that such houses can all be connected at the same time. It is often forgotten that there are over 4 million homes in the UK not connected to gas mains and which therefore rely on deliveries of LPG. It would also appear that the market for LPG is a highly concentrated oligopolistic market, with just four main suppliers: Shell, BP, Calor and FloGas. However, the market is unregulated and, according to OFGEM, this is because it is not dependent on a pipeline and therefore is 'not a natural monopoly'.	10 15
However, in 2011, a BBC consumer affairs programme alleged that these companies were carrying out anti-competitive practices, such as locking consumers into long-term contracts, and that a smaller new entrant, Extra Gas, was the only company with transparent prices on its website. The programme found 30 houses in one neighbourhood all paying different prices, ranging from 35p to 52p per litre, with companies apparently charging the highest prices to customers using the least gas. While their MP called for OFGEM to get involved, one group of 51 households in a village in Devon saved £14 000 a year between them by forming a buying group and negotiating a single contract with a petroleum gas supplier.	20

Sources: news reports, 2011

- 0 | 4** Using **Extract D**, calculate to one decimal place the percentage increase in gas bills in real terms in 2010 compared with 1998 and identify **one other** significant feature of the data. *(5 marks)*
- 0 | 5** Explain what is meant by an 'oligopolistic market' (**Extract F**, line 14) and analyse why such a market might lead to 'sticky' gas prices (**Extract E**, line 16). *(10 marks)*
- 0 | 6** 'Consumers might have doubts about the effectiveness of regulators such as OFGEM' (**Extract E**, line 13).

Using the data and your economic knowledge, assess methods that could be used by the UK government and the EU to promote competition in the supply of domestic gas. *(25 marks)*

**Turn over for Section B****Turn over ►**

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER**

**Essay 1**

0	7
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 Explain why a perfectly competitive firm might be regarded as statically efficient while a monopoly might be regarded as dynamically efficient. *(15 marks)*

0	8
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 'While some economic theories become dated, the theory of perfect competition has become more realistic over time.'

Discuss whether technological developments, such as the internet, are making markets more competitive and making perfect competition theory more realistic. *(25 marks)*

**OR**

**Essay 2**

In August 2011, the UK Secretary of State for Culture said that while there were many local television stations broadcasting in the USA, they did not exist in the UK due to 'market failure'. He proposed a subsidy of £40m from public funds to help create stations which would then be financed by advertising.

0	9
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 Explain why TV broadcasting might be classified as a public good **and** explain why TV broadcasting can also have some characteristics of a private good. *(15 marks)*

1	0
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 Evaluate the view that attempts by governments to eliminate market failure by intervening in markets for public goods and merit goods will inevitably lead to government failure. *(25 marks)*

**OR**

**Essay 3**

1	1
---	---

 A government has a policy of reducing taxes on income while increasing taxes on spending, such as Value Added Tax (VAT).

Distinguish between equity and equality **and** explain the effects of this government policy on both equity **and** equality. *(15 marks)*

1	2
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 Assess the economic costs **and** benefits of government action which results in the UK becoming a less equal society. *(25 marks)*

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2013

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Tuesday 4 June 2013 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

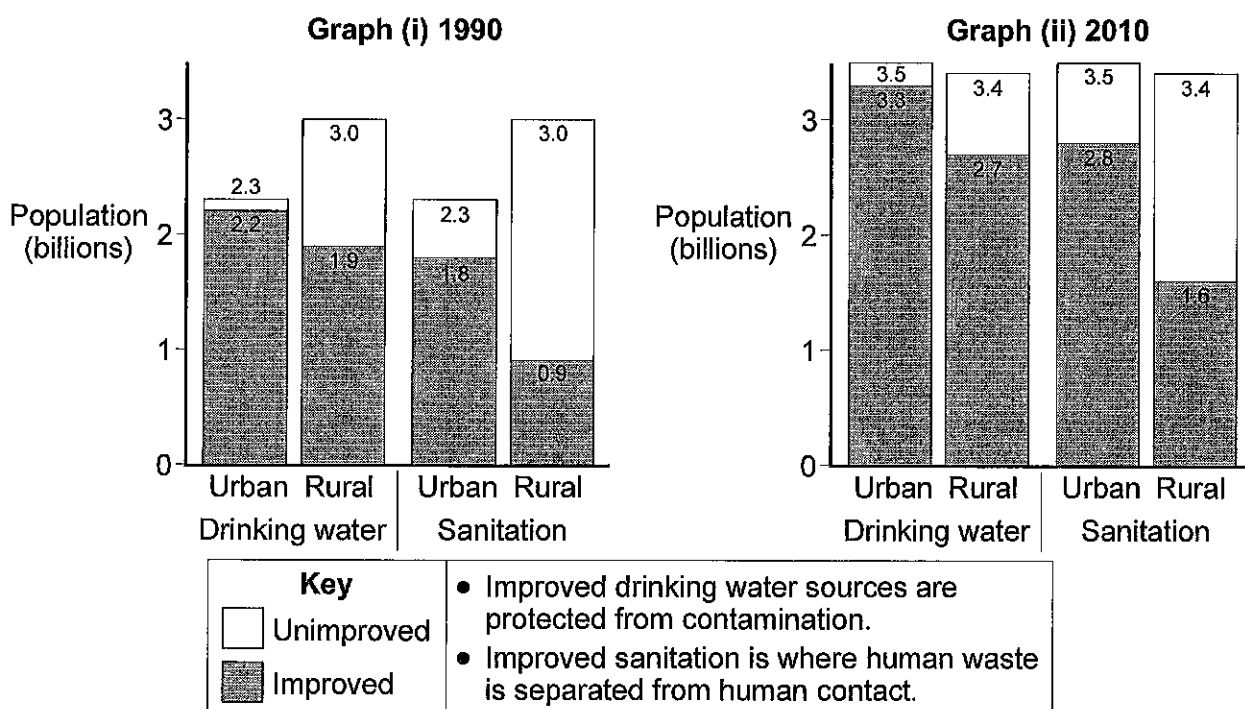
Total for this Context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A, B and C, and then answer all parts of Context 1 which follow.

## Extract A: World population access to drinking water and sanitation



Source: Unicef and World Health Organisation, [www.unicef.org/media/files/JMPReport2012.pdf](http://www.unicef.org/media/files/JMPReport2012.pdf) accessed 25 November 2012.

## Extract B: Water, water everywhere

Access to clean water is closely linked to production, income and wealth, both within and between countries. This planet is mainly covered in water, and water might appear to be a free good. However, only a small proportion can be used to support human life and even this is not freely available to all.

1

As underground water levels drop in industrialised countries, and as waterways become polluted, some places, like southern Spain, are desperately short of water. Meanwhile, poorer countries, such as Bangladesh, sometimes suffer from too much water, with sudden disastrous floods. Unlike developed countries, such as the Netherlands, they cannot afford flood defence infrastructure. In Kenya, people living in villages without drinkable water can see irrigation systems in nearby fields spraying water over vegetables and flowers being grown for export to Europe.

5

10

There are problems with property rights to water. Indeed, some experts have predicted that, during the twenty-first century, countries controlling the world's fresh water supplies will be in a similarly powerful position to that of the twentieth century's oil producers, and that wars might even take place because of disputes over water. 15

The supply and use of water result in many externalities, both positive and negative. One-third of the water used by UK households is flushed down the toilet. The water used to carry human waste through sewers has to be kept separate from drinking water. When the water industry was privatised by the UK Government, shares were sold in 'water and sewerage businesses', and these companies were regulated by OFWAT (The Water Services Regulation Authority) for their commercial activities as regional monopolies, and by the Environment Agency for their wider impact such as the extraction of water from rivers. 20

In recent years, several regions of the UK have repeatedly been declared to be suffering from 'drought', and there has been some debate over which policy responses are appropriate. These include hosepipe bans, metering of water supplies, a national 'grid' for transporting water around rivers and canals, and more reservoirs. The privatised companies have made massive investment in infrastructure which has transformed polluted rivers such as the Wandle, near London, from open sewers into trout streams, but further measures are necessary to prevent annual droughts. 25

### Extract C: A lot of bottle

The global market for bottled water is dominated by a small number of large firms, and demonstrates another of the curiosities of globalisation. A plastic bottle of water contains two of the world's most precious commodities: oil and water. Many millions of people, living in absolute poverty, are in need of clean water, and yet the water bottling industry in the more developed countries transports water from people who have water to other people who already have water. Critics say that, in terms of productive resources, it takes three litres of water and one-fifth of a litre of oil to manufacture one litre of bottled water and transport it to a shop shelf. 1  
5

In the UK, drinking water is cheap, and if unmetered it is even 'free' in terms of marginal cost to the user. Safe drinking water is available on tap through water mains almost anywhere. Thames Water estimates that a litre of mains water creates 600 times less carbon dioxide than a litre of bottled water. Yet the British public spends over £2 billion each year on bottled water, relying mainly on local councils to dispose of the resulting 3 billion plastic bottles. 10

**0 1** Using **Extract A**, identify **two** significant points of comparison between 1990 and 2010 for the data shown in **Graphs (i) and (ii)**. (5 marks)

**0 2** Explain what is meant by 'absolute poverty' (**Extract C**, line 4) and analyse how access to clean water is 'closely linked to production, income and wealth, both within and between countries' (**Extract B**, lines 1 and 2). (10 marks)

**0 3** 'The supply and use of water result in many externalities, both positive and negative' (**Extract B**, line 16).

Using the data and your economic knowledge, evaluate UK government policies that could be used to deal with problems associated with the supply and use of water.

(25 marks)

Turn over ►

Do not answer Context 2 if you have answered Context 1.

OR

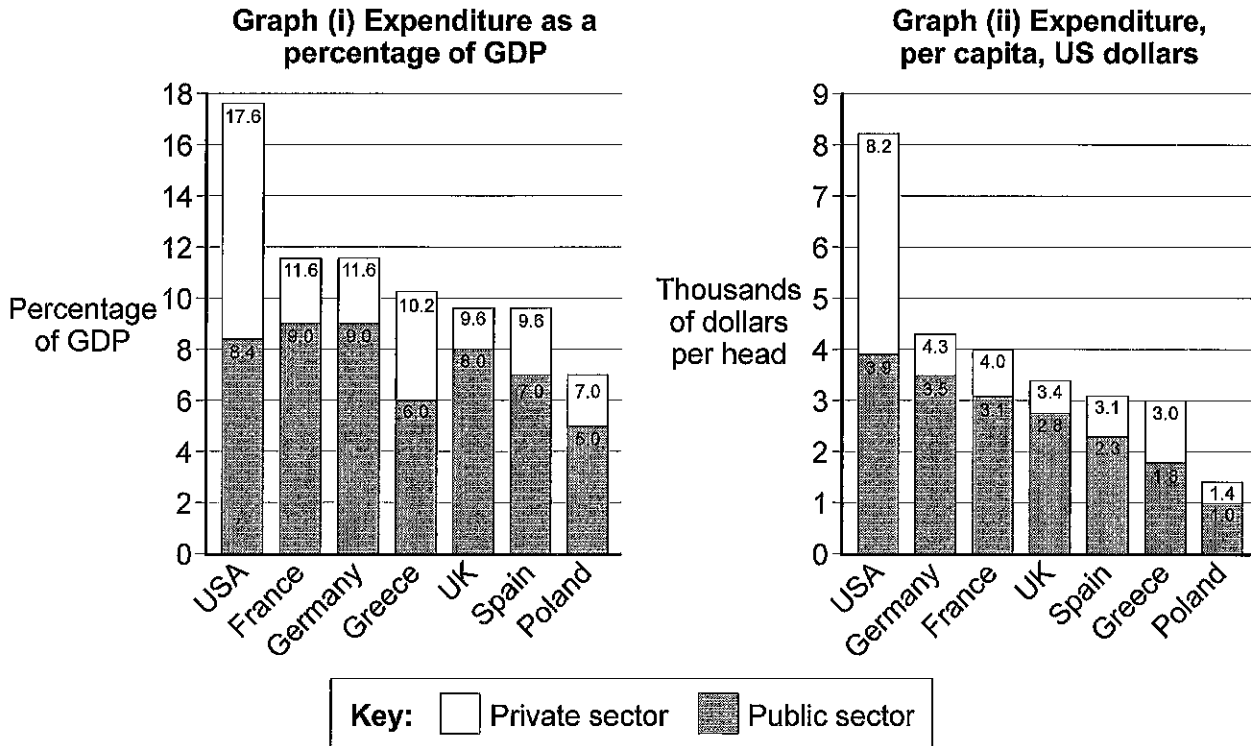
Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Context 2 which follow.

Extract D: Health expenditure in the USA and selected EU countries, 2010



Source: OECD, [www.oecd.org/united states/BriefingNoteUSA2012.pdf](http://www.oecd.org/united%20states/BriefingNoteUSA2012.pdf) accessed 7 January 2012.

Extract E: The price of health

<p>The European Health Insurance Card (EHIC) is issued free to EU citizens via national governments. It allows anyone entitled to state health care in their home country to receive basic medical treatment in another member state for free or at a reduced cost. While there is no charge for the EHIC, insurance-based health care systems generally involve the purchase of a policy from a company which then pays for treatment for people whose medical conditions are covered.</p>	<p>1 5</p>
<p>The UK's National Health Service (NHS) is predominantly in the public sector and is mostly paid for out of taxation. Treatment is 'universal', available to all UK citizens, and usually to visitors as well. While there are some treatments for which charges might be made, for example, for some dental work and spectacles, a guiding principle of the founders of the NHS was that treatment should be based on 'need' rather than 'ability to pay', and provided 'free at the point of use'. In the UK there is also a private sector consisting of hospitals and other facilities. They mostly work with commercial health insurance companies, but they can undertake some work on contract for the NHS.</p>	<p>10</p>

In Germany, private health care is used approximately twice as much by patients as it is in the UK, but this does not necessarily mean that patients pay directly for their treatment. Roughly one-third of German hospitals are owned by the state, another third are not-for-profit organisations and the remaining third are in the private sector. German citizens can use any hospital in the system. 15

The founders of the NHS thought that its costs would fall as living standards rose and the population became healthier. However, when the state or an insurance company acts between the patient and the health provider, the patient's price elasticity of demand for medical treatment is likely to be very low, while income elasticity of demand is likely to be high. Costs have increased due to these unusual elasticities, together with new drugs, more sophisticated medical technology, a wider range of treatments, more complex procedures and increased life expectancy. 20 25

### Extract F: UK health reforms

Many ideas in the UK for coping with rising health care costs are imported from other EU countries. For example, in 2002, the Labour Government introduced the idea of 'Foundation Trust Hospitals', which had been tried in Spain. These not-for-profit organisations are able to set their own clinical and financial priorities and have greater freedom to borrow money, invest their surpluses, and form public-private partnerships. Meanwhile, in Spain, some doctors were complaining that their newly formed Foundation Hospitals had fewer beds, fewer staff and more complaints from patients than before. Some hospitals were returned to their former status because they were said to be bureaucratic, inefficient and 'cherry-picking', that is choosing the easiest patients to treat. 1 5

During 2011 and 2012, the UK Coalition Government legislated for NHS reforms, promoting the idea of an 'internal market' in health provision, with local doctors working in groups to buy hospital services on behalf of their patients. In February 2012, a hospital in East Anglia was the first in the NHS to be taken over by a private company, which hoped to clear the hospital's £45m debts and make it 'profitable' by 'competing' for patients with neighbouring hospitals. 10 15

**0 4** Using **Extract D**, calculate to one decimal place the percentage of total per capita health expenditure that takes place in the public sector in the UK, **and** identify **one** significant point of comparison between countries for the data shown. (5 marks)

**0 5** Distinguish between price elasticity of demand and income elasticity of demand, **and** analyse why, when people have medical insurance, the price elasticity of demand for medical treatment might be 'very low' while the income elasticity of demand is 'likely to be high' (**Extract E**, lines 22 to 24). (10 marks)

**0 6** 'Many ideas in the UK for coping with rising health care costs are imported from other EU countries' (**Extract F**, lines 1 and 2).

Using the data and your economic knowledge, assess whether the UK Government should encourage greater use of market forces in the provision of health care. (25 marks)

Turn over for the next section

Turn over ►

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## Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

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### EITHER

#### Essay 1

0	7
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 Explain why the average and marginal revenue curves of a perfectly competitive firm are horizontal, while those of a monopoly slope downwards. *(15 marks)*

0	8
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 'Most people would say that the ending of the BT telephone monopoly, and competition in the telecommunications market, have been beneficial. However, Britain's railways show why some monopolies should not be replaced by a number of competing firms.'

Evaluate the view that consumers are always better off and producers are always worse off if monopolies are broken up to encourage as much competition as possible. *(25 marks)*

### OR

#### Essay 2

0	9
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 In January 2012, a BBC consumer programme reported that British nationals living in Florida were paying £3000 for a return flight to London, while the same airline was charging British tourists flying from London £300 for a return flight to Florida.

Explain the market conditions that enable firms to charge different customers different prices for a product. *(15 marks)*

1	0
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 Assess whether price discrimination is always undesirable. *(25 marks)*

### OR

#### Essay 3

1	1
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 'Although the wage differential has increased between top executives and other employees, the government cannot tell people what they should be paid. However, it should act where there has been market failure, because labour markets are not perfect.'

Explain **three** reasons why labour markets may be imperfectly competitive. *(15 marks)*

1	2
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 Assess the view that wide wage differentials are good for the economy and that governments should therefore play no part in deciding wage rates. *(25 marks)*

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
January 2012

## Economics

## ECON3

Unit 3 Business Economics and the Distribution of Income

Monday 23 January 2012 1.30 pm to 3.30 pm

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

### Time allowed

- 2 hours

### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer **EITHER** Context 1 **OR** Context 2.

**EITHER**

**Total for this Context: 40 marks**

**Context 1**

### THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

#### Extract A: UK production and imports of natural gas

	2007	2008	2009	Year X (forecast)
UK production of natural gas (GWh)	840 000	810 000	700 000	560 000
Index of UK production of natural gas	120	116	100	?
UK imports of natural gas (GWh)	340 000	410 000	460 000	540 000
Index of UK imports of natural gas	74	89	100	117

Note: A gigawatt hour (GWh) is a measure of the energy content of gas.

Sources: industry information, 2010, and independent forecast

#### Extract B: Supplying the energy market: the case of Milford Haven

For hundreds of years, the harbour of Milford Haven in West Wales has responded to changes in the global economy. It has accommodated many global activities, including trade, defence, transport and tourism. These activities are often in potential conflict with the environment. Although it is surrounded by the Wales coastal footpath and the <i>Pembrokeshire National Park</i> , Milford Haven contains two massive oil refineries, several leisure marinas, an international car ferry port and quays for what little remains of the West Wales fishing industry.	1  5
<i>Milford Haven Port Authority</i> (MHPA) is a nationalised enterprise, accountable to the <i>Department of Trade and Industry</i> in London. Ports have often developed historically as 'public works' due to their strategic importance and because of the large amount of investment needed to build port installations. Governments are trying to reduce the size of the public sector in order to improve efficiency and competition. However, given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised. For example, the MHPA has argued that privatisation would reduce its ability to take part in infrastructure projects in public-private partnerships. These partnerships involve a variety of companies and government bodies at local, regional, national and international levels.	10  15

A major strategy adopted by the MHPA involves anticipating and reacting to changes in the global energy market. The boom years of North Sea oil and gas, which created high wages in skilled jobs for northern ports such as Aberdeen, are drawing to a close. Global oil and gas markets are often concentrated markets. For this reason, as well as for reasons of ensuring security of supply, new sources such as biofuels and other diverse forms of energy are being sought. 20

The MHPA, together with the UK government, has negotiated a long-term deal with the government of Qatar in the Arabian Gulf for the supply of liquefied natural gas (LNG). This is sent to Milford Haven in refrigerated container ships and then stored in huge tanks at the port. When the gas is warmed up, it expands to 600 times its liquefied volume. The gas is sent through a new pipeline to a pumping station 150 miles away in Gloucestershire. It is then distributed into the UK national grid for industrial and domestic use. This is an example of a public-private partnership in action. 25 30

The distribution of fuels such as gas and oil involves some negative externalities. There was controversy when the new pipeline was laid through attractive Welsh countryside, including the *Brecon Beacons National Park*. Some 15 years ago, the oil tanker *Sea Empress* sank near the entrance to Milford Haven and it took the local economy several years to recover from the environmental impact of the resulting pollution. Given the recent environmental experiences of BP in the Gulf of Mexico, environmentalists are concerned about the possibility of some sort of disaster arising from the storage or movement of LNG. 35

There are also concerns about the UK's possible over-reliance on a single product (LNG) from a monopoly source (the state of Qatar) and a single distribution channel (the Pembroke-Gloucester pipeline). Supporters of the MHPA strategy claim that the LNG business actually aids consumer choice and competition through diversification, adding gas installations to the existing oil and renewable energy installations in and around the port. The MHPA states that safety and the prevention of environmental incidents are the 'most important priorities' of their business. 40

Sources: news reports and industry information, 2010

- 0 1** Using **Extract A**, calculate the index of UK production of natural gas for **Year X** and identify **one** significant feature of the data for the years 2007 to 2009. (5 marks)
- 0 2** Explain what is meant by 'concentrated markets' (**Extract B**, line 21) and analyse **two** possible consequences of energy being supplied through concentrated markets. (10 marks)
- 0 3** '...given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised' (**Extract B**, lines 12–14).

Using the data and your economic knowledge, do you agree with the view that enterprises such as the MHPA should be privatised? Justify your answer. (25 marks)

Turn over ►

Do not answer Context 2 if you have answered Context 1.

OR

Total for this Context: 40 marks

## Context 2

### THE EUROPEAN UNION CONTEXT

Study Extracts C and D, and then answer all parts of Context 2 which follow.

#### Extract C: Quantity and value of fish landed in UK ports, all species

	2003	2006	2009	Year Y (forecast)
Quantity of fish (tonnes)	700 000	530 000	500 000	400 000
Index of quantity of fish	140	106	100	?
Value (£ million)	475	590	611	620
Index of value of fish	78	97	100	101

Sources: official statistics and industry information, 2010

#### Extract D: Changing markets and EU policy: the case of Grimsby

Deep sea fishermen have been called the last of the hunter-gatherers. They chase a scarce natural resource which is not farmed or domesticated. While there is pressure to achieve economies of scale, large super-efficient factory ships are in danger of eradicating the very raw material upon which they rely. The market for fish operates efficiently in many ways, with buyers and sellers who have good knowledge of the product and of prices. However, at the European Union level, a great deal of time and money is spent on trying to reduce failures in this market for fish. 1  
5

Marine scientists have said that, without government intervention, fish stocks will collapse completely by 2050 and that intervention is necessary to prevent various market failures. Sea fish are not a public good, although they tend to be treated as one largely due to a lack of property rights. For the past 30 years, the national fisheries of EU member states within Community waters have been governed by the Common Fisheries Policy (CFP). The CFP includes measures which are aimed at conservation by regulating the amount of fish taken from the sea, controlling the fishing methods that are used, and policies for matching supply and demand. Policies include quotas and restrictions on the times that boats can spend at sea. Trawler captains usually operate as small business entrepreneurs, often with expensive loans, and have costs to pay even when a boat is laid up in harbour. New boats cost about £25 million and EU licences can insist that, when taken out of service, the boats are destroyed. Ultimately, these boats have to be efficient enough to catch sufficient fish to earn a profit during the equivalent of only two months at sea each year. 10  
15  
20

The CFP has been widely criticised. For example, critics claim that quotas are wasteful since, if too many fish are caught, perfectly edible fish have to be dumped at sea rather than brought ashore. On the other hand, supporters of the CFP would argue that it gives hope of avoiding the collapse of stocks or even the complete extinction of some species. 25

In the 1950s, deep sea fishing was a multi-million pound business and Grimsby in North Lincolnshire was the largest fishing port in the world. Generations of families found employment in fishing and its related industries, such as food manufacture. The UK's first frozen 'fish finger' was produced in Grimsby in 1955. Demand in product markets leads directly to a derived demand in labour markets and the CFP has had a massive impact on towns such as Grimsby. 30

Nationally, fisheries represent well under one per cent of the UK economy. However, their effects on local and regional labour markets are much greater than this figure would suggest. Workers in the fishing industry tend to be immobile occupationally, in terms of their experience and skills, and geographically, in terms of where they are prepared to live and work. 35

In 1964, 22 000 fishermen were employed in the UK. This fell slowly to 21 000 in 1994 and then more rapidly to 12 000 by 2009. While fishing has been in decline for many years, Grimsby retains several major companies which produce some of the best known brands of fish and other frozen food products in the UK. Also, Grimsby still has the largest fish market in the UK, although most of what is sold is now transported to Grimsby by road from other ports or imported in container ships. New industries such as light engineering, chemicals and plastics have become important employers. Grimsby, like many other towns, relies heavily on retailing as a source of employment, together with tourism in the nearby resort of Cleethorpes. 40  
45

Sources: news reports and industry information, 2010

- 0 4** Using **Extract C**, calculate the index of quantity of fish for **Year Y** and identify **one** significant feature of the data for the period 2003 to 2009. (5 marks)
- 0 5** Explain what is meant by 'economies of scale' (**Extract D**, line 3) and analyse how **two** types of economy of scale could affect the fishing industry. (10 marks)
- 0 6** Using the data and your economic knowledge, evaluate the view that intervention in the fishing industry by the EU is unlikely to correct market failure but is likely to result in government failure in **both** UK product markets **and** UK labour markets. (25 marks)

**Turn over for the next question**

**Turn over ►**

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**EITHER**

**Essay 1**

**0 7**

'A pharmaceutical company can expect to make supernormal profits on a new drug or medicine in the short run.'

Explain why some firms might be able to **continue** to make supernormal profits in the **long run**. *(15 marks)*

**0 8**

Evaluate whether profit maximisation is always the most important objective of firms. *(25 marks)*

**OR**

**Essay 2**

**0 9**

Explain why competition might lead to **both** productive efficiency **and** allocative efficiency. *(15 marks)*

**1 0**

Evaluate the view that, providing there is market contestability, government intervention to ensure competition is unnecessary. *(25 marks)*

**OR**

**Essay 3**

**1 1**

Explain how marginal revenue product can help to determine **both** wage rates **and** employment in particular occupations. *(15 marks)*

**1 2**

A government wishes to make the distribution of **both** income **and** wealth more equal.

Discuss whether the most effective way to achieve these aims is to tax income more progressively. *(25 marks)*

**END OF QUESTIONS**



**There are no questions printed on this page**

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General Certificate of Education  
Advanced Level Examination  
June 2012

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Tuesday 12 June 2012 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Total for this Context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

Extract A: Carbon emissions from fossil fuels, world and selected countries, 2007

(i) Total CO<sub>2</sub> emissions

	Millions of tonnes
China	6 500
USA	6 000
Russia	1 500
UK	500
Brazil	400
Nigeria	95
Qatar	60
Morocco	45
World	29 300

(ii) Per capita CO<sub>2</sub> emissions

	Tonnes per head
Qatar	55.5
USA	19.0
Russia	11.0
UK	9.0
China	5.0
Brazil	2.0
Morocco	1.5
Nigeria	0.5
World	4.5

Note: Figures are rounded

Source: official statistics

## Extract B: Climate change

In 2004, Russia signed up to the Kyoto Protocol, an international agreement on policies to manage climate change. This committed Russia to a United Nations programme to reduce emissions of greenhouse gases. In 2010, Russia's emissions were as low as their 1990 levels, but this was less to do with environmental policy and more to do with the collapse of heavy industry following the fall of the Soviet Union. A large contribution towards the UK's Kyoto targets also came from deindustrialisation. However, China, like the USA, did not sign up to the Kyoto Protocol.	1 5
International action to control carbon emissions is necessary. One policy is known as 'carbon trading'. Countries agree overall emissions limits and try to create an international market for permits to pollute. The idea is to put a money value on emissions and, over time, to create incentives for businesses to invest in less-polluting technology. As well as the large compulsory 'compliance' market for carbon credits, there is also a smaller voluntary market for 'carbon offsets'.	10

For example, an organisation can be paid to plant trees to allegedly offset the damage that an airline journey does to the ozone layer. Some companies are using these offsets, together with greater energy efficiency and reduced polluting activities, to claim to be 'carbon neutral'. Some environmentalists are suspicious of offset schemes and claim, for instance, that offset schemes have hidden environmental costs. 15

Some economists argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights. Critics say that carbon trading amounts to 'privatisation of the atmosphere', with property rights in this vast new market being grabbed by speculators or by those who already pollute the most. They also claim that activities such as buying credits from Russia are an 'accounting fraud' because they do not necessarily arise from energy efficiency but from the collapse of heavy industry. There is concern that carbon trading is a further blow to manufacturing and that service industries are treated more leniently. If the UK relies on manufactured imports, it can be argued that factories located in China are actually creating UK emissions. 20 25

Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel. There is a suspicion that carbon trading might mislead the public into believing that pollution from airlines and other industries is no longer damaging. Governments are accused of being overgenerous in allotting permits to industries that they see as nationally important, such as car manufacturing and electricity generation. While the UK might reduce its domestic demand for carbon, it continues to contribute to the world supply of fossil fuels through activities such as oil prospecting and opencast mining. Russia, China and less-developed countries with coal reserves show few signs of reducing their output of this form of carbon. 30 35

Source: news reports, 2010

- 0 1** Using **Extract A**, calculate to one decimal place the percentage of world CO<sub>2</sub> emissions generated by the UK and identify **one other** significant feature of the data shown. (5 marks)
- 0 2** Explain what is meant by 'property rights' (**Extract B**, line 20) and analyse how an absence of property rights can worsen the environmental market failures of **both** pollution and the rapid depletion of natural resources. (10 marks)
- 0 3** 'Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel' (**Extract B**, lines 29–30).  
Using the data and your economic knowledge, evaluate the possible impact on UK businesses of policies to reduce pollution and climate change. (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

**Total for this Context: 40 marks**

**Context 2**

**THE EUROPEAN UNION CONTEXT**

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

**Extract C: Some comparisons of pay in the EU and UK**

(i) **Estimated monthly minimum wage, selected EU countries, 2007**

	€ (euros)
Luxembourg	1570
Ireland	1400
UK	1360
France	1250
Spain	670
Portugal	470
Poland	250
Bulgaria	90

(ii) **Comparative pay over time, selected UK occupations**

Typical annual pay of:	Year	
	1980 (£)	2009 (£)
Office cleaner	4 500	14 000
Nurse	5 000	29 500
Teacher	6 500	35 000
Doctor	12 500	78 500
Chief Executive of a FTSE 100 company	85 000	4 900 000

Note: Figures are rounded

Source: official statistics

**Extract D: Policies for fairness**

The European Union is one of the richest areas in the world but both absolute poverty and relative poverty exist within the EU. Although unemployment is a major cause of poverty, the working poor, whose wages are at or below the 'poverty line', are estimated to number 20 million across the EU.	1
The EU named 2010 as the 'European Year for Combating Poverty and Social Exclusion', but this hardly featured at all in the UK media. However, the concept of fairness is very much on the national agenda. For example, the UK Prime Minister, David Cameron, did at one stage suggest that the earnings of the highest paid public servant should be no more than 20 times that of the lowest. Furthermore, many commentators have suggested that, if such a formula were introduced, the idea could spread to the private sector.	5
The UK is one of 20 out of 27 EU member states with a minimum wage. Across those 20 countries, minimum wages are between 30% and 50% of average earnings. The European Parliament has floated the idea of an all-EU 'minimum income' but this is not expected to be taken up by governments just yet. And how long before there are also serious proposals for a national, or even an all-EU, maximum wage?	10
Between 1980 and 2005, the distribution of income in the UK became less equal. In 1980, the top 1% of earners received 12% of all income. However, by 2005 the top 1% of earners received 16% of all income, with bonuses in the financial sector pushing this figure nearer	15

to 18%. The trend towards greater income inequality in the UK in recent years has largely been justified by the idea that market forces provide 'incentives' for successful businesses and that the spending power of high earners 'trickles down' to the rest of society. 20

Fairness is difficult to define. One view, suggested by the UK's *Institute for Public Policy Research*, is that fairness involves basic minimum entitlements and equal opportunities, plus an absence of obstacles created by factors such as where an individual is born or where they happen to live. Addressing unfairness in the UK tends to focus on policies to redistribute income after it has been earned: for example, through the tax and benefits system. On the other hand, much EU policy is aimed at reducing the unequal distribution of income at source, through what are called cohesion policies to target supply-side obstacles. 25

EU policies are, to a large extent, aimed at boosting the employability and earning potential of workers through measures such as skills training and business advice. They work on the 'supply side' of the labour market but the demand for labour cannot be ignored. For example, despite receiving significant levels of EU funding, recently Wales lost 900 well-paid, skilled jobs when the German company *Robert Bosch* moved its factory to Hungary, where wages are much lower. Perhaps an all-EU minimum wage would have helped to prevent this. 30 35

Source: news reports, 2010

**0 4** Using **Extract C**, calculate to one decimal place the typical annual pay of a teacher in 1980 as a percentage of the typical annual pay of a teacher in 2009 **and** identify **one other** significant feature of the data. (5 marks)

**0 5** Explain the distinction between absolute poverty and relative poverty (**Extract D**, lines 1–2) **and** analyse **two** causes of poverty. (10 marks)

**0 6** 'Addressing unfairness in the UK tends to focus on policies to redistribute income after it has been earned... On the other hand, much EU policy is aimed at reducing the unequal distribution of income at source...' (**Extract D**, lines 25–28).

Using the data and your economic knowledge, evaluate the view that a fair distribution of income can better be achieved by policies which aim to redistribute income after it is earned rather than by policies which tackle supply-side obstacles in the economy. (25 marks)

**Turn over for the next question**

**Turn over ►**

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

---

**EITHER**

**Essay 1**

'Bigger is better.... Small is beautiful.... Size does not matter.'

0	7
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 Explain how a firm can experience diminishing returns in the short run **and** economies of scale in the long run. (15 marks)

0	8
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 Discuss whether large firms in the UK today are necessarily more efficient than small firms. (25 marks)

**OR**

**Essay 2**

An oligopolistic firm is trying to decide on the selling price and output of its product, and is also considering colluding with other firms in the industry.

0	9
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 Explain why oligopolistic firms are affected by both interdependence and uncertainty when selling their product. (15 marks)

1	0
---	---

 Evaluate policies which a UK government could use to control the activities of oligopolists. (25 marks)

**OR**

**Essay 3**

1	1
---	---

 Explain the main principles that would be involved in a cost-benefit analysis (CBA). (15 marks)

1	2
---	---

 In December 2010, the *Federation of Small Businesses* estimated that UK industry had lost at least £1 billion due to the disruption caused by one week's heavy snow. It was suggested that both product markets and labour markets would benefit from investment in snow-clearing equipment.

Evaluate the advantages **and** disadvantages of using CBA when deciding whether or not to invest in snow-clearing equipment. (25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
January 2011

## Economics

## ECON3

Unit 3 Business Economics and the Distribution of Income

Friday 28 January 2011 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Question 1 OR Question 2.

EITHER

Total for this question: 40 marks

## Question 1

## THE GLOBAL CONTEXT

Study Extracts A, B and C, and then answer all parts of Question 1 which follow.

## Extract A: Value of music sales in the USA (\$US million)

Digital Format	2007	2008	Physical Format	2007	2008
Download single	802	1023	CD single	12	4
Download album	425	569	CD album	7452	5471
Download music video	28	41	CD/DVD music video	485	219
Mobile ringtones and downloads	881	816	Vinyl albums	23	58
<b>Total Digital Format</b>	<b>2136</b>	<b>2449</b>	<b>Total Physical Format</b>	<b>7972</b>	<b>5752</b>

Source: industry statistics, 2009

## Extract B: Technological change and the recorded music industry

Technological change presents both threats and opportunities to the global music industry. Around the world in 2008, 1.4 billion song tracks were legally downloaded to computers and paid for over the internet. However, an estimated 40 billion tracks (over 95% of music downloads) were obtained illegally. From the point of view of people sharing and using these tracks, new technology has changed recorded music into a form of public good.	1 5
To stay in business, record companies and retailers have to find ways of selling recorded music to people who do not want to pay because people expect everything on the internet to be free. Some politicians and industry representatives want to use the force of law to punish the people who download illegally, while some businesses, such as satellite broadcasters and computer games developers, appear to be using technology successfully in order to sell to paying customers and exclude 'free riders'. For example, <i>BSkyB</i> subscribers are sent a decoder card so they can access programmes.	10
While <i>iTunes</i> and others have had great success in selling downloads, CD sales are still important for on-line retailers like <i>Amazon</i> , traditional high street music stores such as <i>HMV</i> and <i>Virgin</i> and the large supermarkets. These sellers of music in physical format are taking on the new digital competition with aggressive pricing, persuasive TV advertising and differentiated products such as special edition CD box sets.	15
Many new and established artists have used the internet to their advantage. It is possible to record a song in a bedroom, place a clip on <i>YouTube</i> and go on to sell to a global market. Barriers to entry have changed and the music industry as a whole has to be creative to compete in new ways that build upon legal downloading and the on-line selling of CDs.	20

Source: news reports, 2008–9

**Extract C: The creative industries and intellectual property**

The UK government regards the 'creative industries' as an important source of income and employment. This sector is defined as comprising 13 sub-sectors, including architecture, films, music, fashion, television and video games. The UK creative industries contribute nearly 8% of annual Gross Domestic Product (roughly half the contribution of the manufacturing sector) and produce exports worth £10 bn (almost equal to oil industry exports). The creative sector is expected to grow at twice the rate of the rest of the economy between now and 2013. 1  
5

The main distinguishing feature of a 'creative' industry is that it depends on intellectual property rights (IPRs). These include copyrights (e.g. for music, literature, art works and films), trademarks, patents, industrial design rights and trade secrets. In effect, IPRs enable creative people and businesses to enjoy a degree of monopoly power. This is strongest when IPRs are enforced throughout the world. Although monopolies are generally regarded by economists as undesirable, legally-backed monopolies created by IPRs can be justified as being in the public interest. 10

Source: news reports, 2008–9

**Question 1**

- 0 1** Using **Extract A**, identify **two** significant points of comparison between sales of digital and physical formats over the period shown. (5 marks)
- 0 2** Explain the term 'Barriers to entry' (**Extract B**, line 20) and analyse **two** ways in which technological change can affect entry into creative industries such as recorded music. (10 marks)
- 0 3** 'Although monopolies are generally regarded by economists as undesirable, legally-backed monopolies created by IPRs can be justified as being in the public interest' (**Extract C**, lines 12–14).  
  
Evaluate the case for stronger action by governments to protect the monopoly power of firms involved in UK creative industries. (25 marks)

**Turn over for the next question**

**Turn over ►**

Do **not** answer Question 2 if you have answered Question 1.

OR

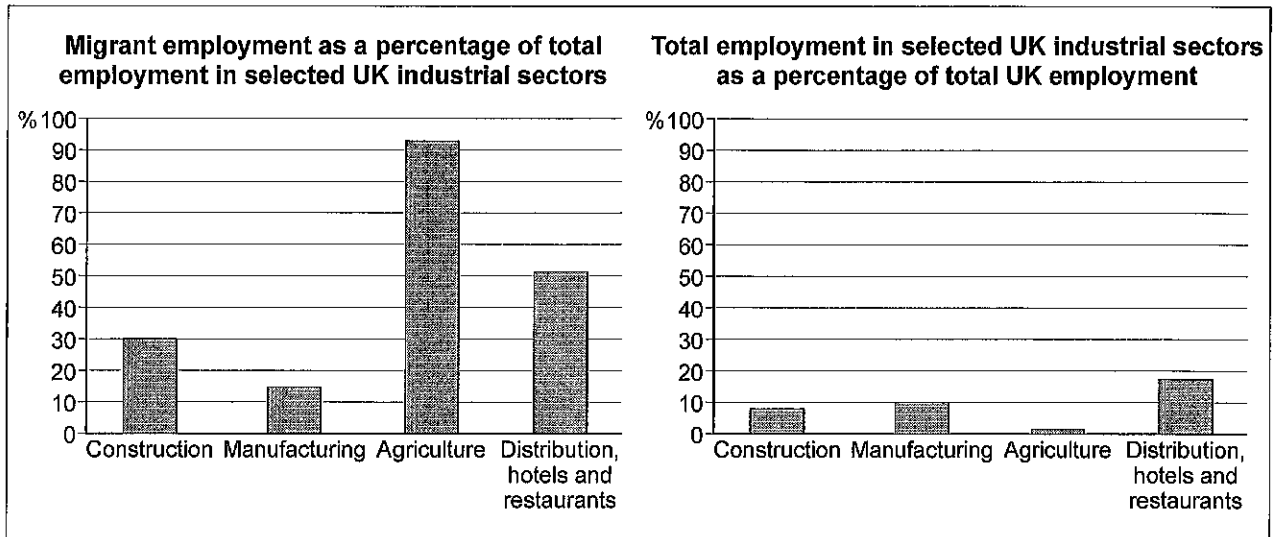
Total for this question: 40 marks

### Question 2

#### THE EUROPEAN UNION CONTEXT

Study Extracts D, E and F, and then answer all parts of Question 2 which follow.

#### Extract D: Selected UK industrial sectors employing migrant workers, 2006



Source: official statistics, 2007

#### Extract E: Wage differentials in the UK in 2008

In 2008, the average doctor in general practice earned £105 000 and, while the average earnings of dentists doing NHS work were £89 000, over 700 dentists earned more than the Prime Minister, who earned £190 000. The Lord Chief Justice earned £236 000 and the Director-General of the BBC earned £816 000. The average annual earnings of all UK workers in full-time employment was around £30 000. Someone with a normal full-time working week on the national minimum wage would have earned about £11 000 over the year.

1

5

Source: news reports, 2009

**Extract F: The supply of dentists and the mobility of labour**

According to economic theory, wages are the price of labour and price signals have an 'incentive' role in stimulating supply. Sometimes, differences in rates of pay alone are not enough to eliminate shortages or surpluses of labour due to imperfections in labour markets, such as the immobility of labour. Account also has to be taken of non-monetary considerations, as well as the effects of government intervention. 1  
5

The European Union (EU) wishes to improve the mobility and flexibility of labour. The Single European Market (SEM) promotes not only the free movement of goods, services and capital, but also the free movement of labour among EU citizens. The architects of the single market believed that the labour market in the USA was more 'flexible' than in the EU and that this flexibility was largely due to workers in the USA being more mobile than their European counterparts. It was thought that this helped explain why US businesses were more productively efficient than those in the EU. 10

The single labour market of the EU is famous for the phenomenon of the 'Polish Plumber' and, when Poland joined the EU, some sections of the UK media predicted that the British labour market would be 'swamped' by low-wage workers from Eastern Europe. In 2005–2006, when the NHS was renegotiating its contracts with British dentists, many in the profession refused to accept the terms of the new contracts being offered and went into private practice. One response from the NHS was to recruit from Poland where, it was claimed, there was a surplus of qualified dentists. 15

The Scottish Executive, Welsh Assembly Government and a number of English NHS Primary Care Trusts took advantage of the existence of a single labour market across the EU and introduced schemes to attract dentists from Poland to work in their health services. In due course, several hundred arrived in the UK. 20

Source: news reports, 2009

**Question 2**

**0 | 4** Using **Extract D**, identify **two** significant points of comparison between the data shown in the two bar charts. (5 marks)

**0 | 5** **Extract E** gives examples of wage differentials. Explain what is meant by the term 'wage differentials' **and** analyse **two** reasons, suggested by economic theory, why wage differentials occur. (10 marks)

**0 | 6** 'The European Union (EU) wishes to improve the mobility and flexibility of labour' (**Extract F**, line 6). Evaluate the possible **costs** and **benefits** for the UK economy of the free movement of labour within the EU. (25 marks)

**Turn over for the next question**

**Turn over ►**

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**Section B**

Answer **one** question from this section.

Each question carries 40 marks.

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**Question 3**

0	7
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Many of the world's large companies, such as *Microsoft* and *Ryanair*, started out as small businesses.

Explain the different ways in which a firm can grow in size.

(15 marks)

0	8
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Discuss whether the objective of profit maximisation becomes less important than other possible objectives as a firm grows in size. (25 marks)

**Question 4**

0	9
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'Oligopolistic markets, such as supermarkets or car manufacturing, can be defined in terms of market structure or in terms of market conduct (behaviour).'

Using examples of particular industries, explain this statement.

(15 marks)

1	0
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Assess the view that making an oligopolistic market more contestable is the best way to improve the efficiency of that market. (25 marks)

**Question 5**

1	1
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'Imperfect information may lead to market failure.'

Explain how imperfect information may result in the failure of markets for merit and demerit goods.

(15 marks)

1	2
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Discuss whether markets alone can be relied upon to reduce the problems of environmental pollution. (25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2011

## Economics

## ECON3

Unit 3 Business Economics and the Distribution of Income

Friday 17 June 2011 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer EITHER Context 1 OR Context 2.

EITHER

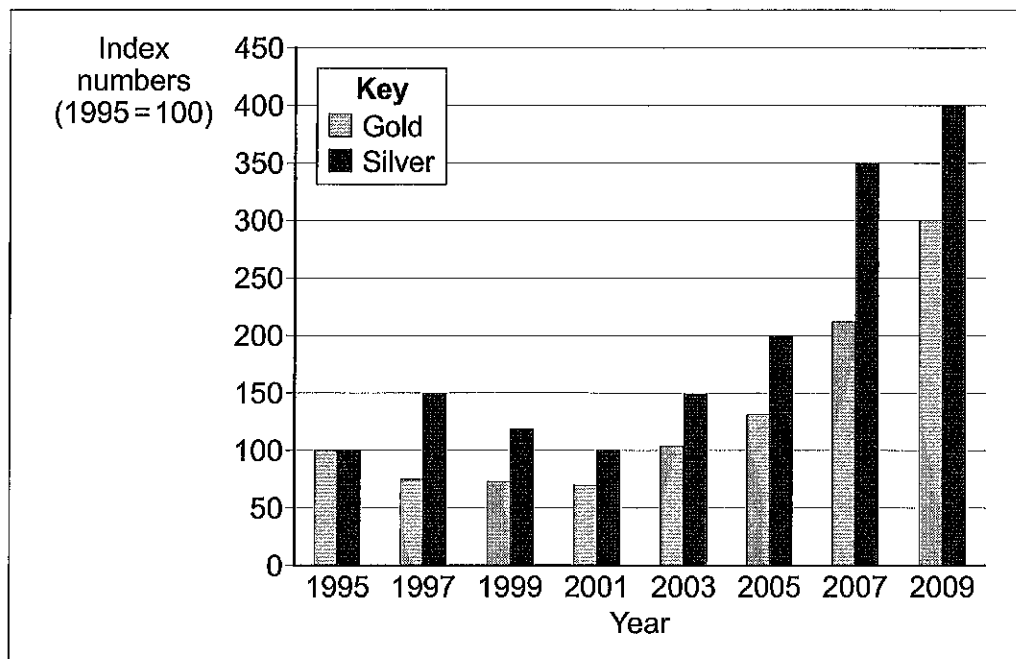
Total for this context: 40 marks

Context 1

## THE GLOBAL CONTEXT

Study Extracts A and B, and then answer all parts of Context 1 which follow.

## Extract A: Gold and silver, world price indices



Source: industry statistics, accessed 2010

## Extract B: The recycling market

Scrap metal dealers are once again touring housing estates in their pick-up trucks obtaining steel and other metals from householders. Increased demand for steel and other metals on world markets has led to a change in the fortunes of these dealers, who are price takers. 1

Recycling has become a global activity. In 2009, with gold selling internationally at well over \$1000 an ounce, there were TV adverts from companies wanting to buy unwanted jewellery. A mobile phone also contains tiny traces of precious metals which can be extracted profitably from the millions of phones discarded each year. This is done at large processing centres, usually near sea ports, and much of the recovered material is exported to factories in China. The Olympic stadium in Beijing, China, was built almost entirely using recycled steel. 5 10

Germans, Scandinavians and Canadians are used to sorting their rubbish into different coloured bins. But instead of matching the recycling rates achieved in some countries, the UK still dumps many potentially useful materials. These include plastics, glass, paper

and metals, which are buried in landfill sites partly because there are insufficient market incentives for recycling. The UK's strong reliance on landfill indicates the existence of widespread environmental market failure. Landfill creates greenhouse gases, threatens to pollute water sources and wastes scarce resources.	15
Some critics suggest that it would be better for the UK to aim at waste reduction, eliminating unnecessary packaging and other 'bads' at the production and retail stages. The UK pressure group <i>Waste Watch</i> also suggests more reuse, for example encouraging people to buy second-hand clothes from charity shops. However, other methods, such as returnable milk bottles, are in sharp decline.	20
There are now landfill taxes and regulations which provide incentives for recycling. Households could face the prospect of fines for breaking 'bin-bag rules'. However, this may lead to unintended consequences such as illegal dumping of waste. <i>Waste Watch</i> wants national targets and other policies to promote composting because, by weight, garden and kitchen waste make up the majority of material sent to landfill. <i>Waste Watch</i> also suggests increasing the landfill tax each year and extending it to cover incineration and other waste-disposal methods.	25
Recovery is a further option. In less developed countries, some homeless people live on city rubbish dumps making a living from what they can find and sell. In the UK, market conditions are such that the metal in a 2p coin is now actually worth 3p. Some experts even predict that within ten years it will be economic to excavate landfill sites to 'mine' the tin cans and other scrap materials that have been buried there.	30

Source: news reports, 2009–10

- 0 1** Using **Extract A**, identify **two** significant points of comparison between the world price index for gold and the world price index for silver over the period shown. (5 marks)
- 0 2** Explain the term 'price taker' **and** analyse the likely effects of an increase in the world demand for scrap metals on the output **and** profits of a scrap metal dealer (**Extract B**, lines 1–4). (10 marks)
- 0 3** 'The UK's strong reliance on landfill indicates the existence of widespread environmental market failure' (**Extract B**, lines 16–17).  
Using the data and your economic knowledge, evaluate alternative methods of correcting market failure arising from waste disposal. (25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Total for this context: 40 marks

**Context 2**

**THE EUROPEAN UNION CONTEXT**

Study **Extracts C and D**, and then answer all parts of Context 2 which follow.

**Extract C: Air traffic between the UK and abroad: indices of flight and passenger numbers, 2001–2008 (2001=100)**

Year	Index of number of flights	Index of passenger numbers
2001	100	100
2002	100	100
2003	96	101
2004	104	109
2005	108	119
2006	112	122
2007	115	129
2008	115	126

Source: official statistics, 2009

**Extract D: *British Airways and Iberia Airlines***

Until about twenty years ago, most European countries had at least one large 'national carrier' airline which was in public ownership. When airlines were privatised, there were fears that a state-owned monopoly would simply become a private monopoly. On some routes, de-regulation took some time and it was not until 2008 that the 'Open Skies' agreement sought to eliminate anti-competitive practices among airlines flying from Europe to North America. These anti-competitive practices included denying smaller airlines the opportunity to rent landing slots (landing spaces) at major airports. 1  
5

In the face of greater competition from smaller, more innovative airlines such as *Virgin Atlantic* and the low-cost carriers such as *easyJet*, there has been increasing collaboration between some of the larger, traditional companies. *British Airways (BA)*, *Iberia Airlines (Spain)* and *American Airlines (AA)*, together with five other airlines, belong to *One World Alliance*, an arrangement which enables member airlines to sell seats on each other's flights. 10

With *BA* reporting a pre-tax loss of £401m in May 2009, its Chief Executive proposed a 'tie-up' with *Iberia* and *AA* which would come closer to a full-blown horizontal merger, enabling not only the marketing of flights but also joint pricing and a sharing of revenues. The proposal needed to be cleared by both EU and US anti-monopoly authorities, but it quickly failed when the European Union's Competition Commissioner objected, mainly on the grounds that it would raise prices and reduce consumer choice. 15

In October 2009, two European members of *One World Alliance*, *BA* and *Iberia*, tried again to reach a preliminary agreement for a full merger which they aimed to complete in late 2010. They claimed that a merger would be good for consumers as well as for the companies involved because duplicated European routes could be rationalised, while the routes operated in North America by *BA* and in South America by *Iberia* were complementary rather than competitive. The merger would need to be approved by the European Commission but there was a precedent because, in 2004, *Air France* was allowed to merge with Dutch airline *KLM*. 20

The merger between *BA* and *Iberia* would create Europe's biggest airline. Critics raised concerns about the new company's market share and claimed that *BA*'s dominance at Heathrow Airport would increase to even more than its existing 44% of landing slots. 25  
Meanwhile, both *BA* and *Iberia* workers were planning strikes over cost-cutting proposals and pay offers. 30

Source: news reports, 2009

- 0 4** Using **Extract C**, identify **two** significant points of comparison between the index of number of flights and the index of passenger numbers over the period shown. (5 marks)
- 0 5** Explain the term 'public ownership' (**Extract D**, line 2) and analyse **two** economic reasons that could be used to support public ownership of industries such as airlines. (10 marks)
- 0 6** Using the data and your economic knowledge, evaluate the view that mergers, such as the one proposed between *British Airways* and *Iberia Airlines*, are usually 'good for consumers as well as for the companies involved' (**Extract D**, lines 22–23). (25 marks)

Turn over for the next question

Turn over ►

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**Section B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER****Essay 1**

'The law of diminishing returns is an economic principle which will definitely operate at some point, whereas economies of scale are less certain.'

0	7
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 Explain how a firm's costs of production may be affected by diminishing returns in the short run and economies of scale in the long run. (15 marks)

0	8
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 Evaluate the view that firms will always try to minimise their costs and maximise their revenues. (25 marks)

**OR****Essay 2**

0	9
---	---

 'On a typical train journey, there could be as many as twenty different fares being paid by passengers travelling between the same two stations.'

Using the concept of price discrimination to help you, explain how and why this might happen. (15 marks)

1	0
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 Is price discrimination always good for producers and bad for consumers? Justify your answer. (25 marks)

**OR****Essay 3**

'*The Spirit Level*, a book by Richard Wilkinson and Kate Pickett published in 2009, is subtitled: *Why More Equal Societies Almost Always Do Better*.'

1	1
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 Explain the causes of inequality in the distribution of income and wealth in the UK. (15 marks)

1	2
---	---

 Evaluate the view that the government should rely less on market forces to determine the distribution of income and wealth in the UK and should increase its intervention to make the UK more equal. (25 marks)

**END OF QUESTIONS**



**There are no questions printed on this page**

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General Certificate of Education  
Advanced Level Examination  
January 2010

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Friday 29 January 2010 1.30 pm to 3.30 pm

**For this paper you must have:**

- a 12-page answer book.

You may use a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

#### Information

- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## SECTION A

Answer EITHER Question 1 OR Question 2.

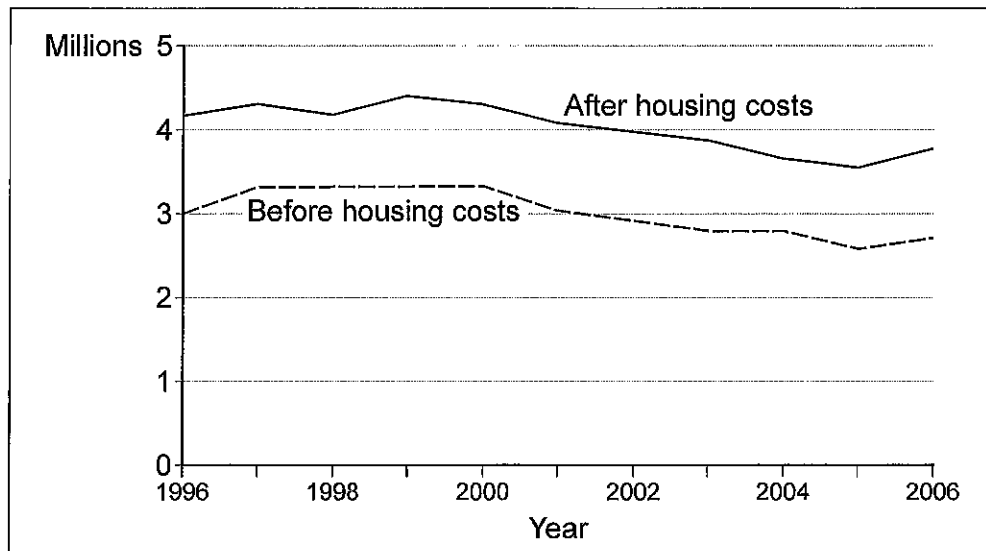
## EITHER

## 1 THE GLOBAL CONTEXT

Total for this question: 40 marks

Study Extracts A, B and C, and then answer all parts of Question 1 which follows.

## Extract A: Number of children living in poverty, UK



Source: adapted from official statistics

## Extract B: Child poverty in the UK

In the mid to late 1990s, the United Kingdom suffered higher child poverty than nearly any other industrialised nation in the world. Over a period of 20 years, the proportion of children in relatively low-income households had more than doubled, and one in five families had no one in work. When the Labour Party came to power in 1997, it was estimated that more than one British child in four (nearly 5 million children) were living in households where family income was less than 60% of median (average) income after accounting for housing costs. It is considered important to allow for the impact of house rents and mortgage repayments because of the significant impact they have on the remaining disposable income of families, especially those on low incomes. In 1999, the then Prime Minister, Tony Blair, promised to halve child poverty (as measured this way) by 2010, and to eliminate it by 2020.

Children who grow up in relative poverty in the UK have poorer life chances than children from higher-income families. Every area of a child's development is affected: social, educational, personal, economic. There are long-term effects because childhood poverty tends to persist into adulthood. Children from poor families have worse school attendance records and are less likely to do well at school. They have more illnesses and are more likely to die in accidents. As adults, they are more likely to be unemployed, commit crimes, enter into abusive relationships or develop alcohol and/or drug dependencies.

Source: news reports, 2008

**Extract C: Child poverty in less developed countries**

Living in absolute poverty is the norm for the majority of people alive today. Almost half the world's population, over 3 billion people, live on less than \$2.50 a day. The annual total of Gross Domestic Product (GDP) of the 41 countries described by the United Nations as being 'Heavily Indebted Poor Countries' (HIPCs), which together contain 567 million people, is less than the total personal wealth of the world's seven richest individuals. Every year, the world spends on weapons more than 100 times the amount needed to put every child into school. Meanwhile, nearly a billion people worldwide are unable to read or write. While multinational companies spend millions of pounds every year marketing fizzy drinks to poorer countries, thousands of children in those countries die every day from intestinal diseases linked to a lack of clean drinking water. Meanwhile, the World Bank and International Monetary Fund have pursued policies that controversially encourage governments to privatise water supplies.	1 5 10
Child poverty is a particular problem, and the UN estimates that half the children in the world live in poverty, defined as having 'severe deprivation' in two or more of the following basic needs: shelter, sanitation, information, water, food, health or education. Economists have estimated that, if appropriately measured, the long-run economic rate of return on national investment in basic services such as primary education is greater than would be expected from stocks and shares.	15

Source: news reports, 2008

*Question 1*

- 1 (a) Using **Extract A**, identify **two** significant points of comparison between the number of children living in poverty before and after housing costs over the period shown. (5 marks)
- (b) Distinguish between absolute and relative poverty **and**, using the data to help you, explain why this distinction is useful when investigating poverty in the UK and in less developed countries. (10 marks)
- (c) Evaluate whether the UK government should attempt to eliminate poverty, and child poverty in particular, **or** leave the issue to market forces. (25 marks)

**Turn over for the next question****Turn over ▶**

Do not answer Question 2 if you have answered Question 1.

OR

**2 THE EUROPEAN UNION CONTEXT**

**Total for this question: 40 marks**

Study **Extracts D and E**, and then answer **all** parts of Question 2 which follows.

**Extract D: Motor vehicle manufacturers supplying the EU market, 2007**

Company	Market share (%)
Volkswagen (Germany)	18.3
Peugeot-Citroën (France)	13.2
Ford (USA)	10.7
General Motors (USA)	9.6
Renault (France)	9.4
Fiat (Italy)	8.8
Mercedes (Germany)	5.9
BMW (Germany)	4.6
Japanese companies	13.8
Korean companies	3.2
Others	2.5

**Extract E: Mergers among car producers**

In Germany, where it is estimated that one job in seven is dependent on the motor industry, the so-called 'Volkswagen Law' states that any shareholder in Volkswagen (VW) cannot exercise more than 20% of voting rights, even if their stake in the firm is bigger. In 2007, the European Union's highest court ruled that this law, protecting the car-maker VW from takeovers, was illegal. 1  
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The German Government resisted demands to scrap the VW law, but in 2008 the family-owned Porsche group took its shareholding in VW above 74%, saying that it wished to protect VW from 'foreign' takeover, anticipating that the German Government would have to back down. VW had itself completed a takeover of Sweden's Scania. The end result is a global giant that makes cars, buses and trucks, and contains not only VW and Porsche, but also Bentley, Audi, Lamborghini, Seat and Skoda. 10

At one time there were at least 20 car manufacturers in Britain alone; today, there is no single independent British manufacturer, and there are only about 20 major manufacturers in the whole world. Several well-known British brands have merged with each other or become the property of companies based elsewhere in the EU, in the USA, or as far afield as China. However, the employment and skills profiles of many British towns benefit from the fact that overseas manufacturers invest in this country in order to have unhindered access to the Single European Market. For example, since 1983 Ford has been making engines in 15

Wales which are then installed in cars at its assembly plants in Spain and other EU countries.

As well as full-blown mergers, there are many instances of cross-industry collaboration, 20  
 some of which date back several decades. In 1979, for example, the then Rover Group  
 began cooperating with Honda to produce some models using resources in both Britain and  
 Japan. This collaboration was phased out after 1994 when Rover was taken over by BMW.  
 Today, the Ford Galaxy, VW Sharan and Seat Alhambra (seven-seater multi-purpose vehicle 25  
 models) all look remarkably similar, as they share the same basic body design and some  
 components. The attempt by producers to benefit from economies of scale through  
 collaboration needs to be carefully distinguished from cases of collusion. When oligopolists  
 collude, the results can be anti-competitive and against the consumer interest.

**EU Commission estimates of minimum efficient scales (MES)  
 in motor manufacturing (2006)**

Product	MES as a % of production in the EU
Cars	20
Lorries	19

The tendency for the car market in Europe to become dominated by fewer, larger firms is 30  
 at least partly explained by the concept of minimum efficient scale (MES). Where the MES  
 is a large proportion of EU production, the industry will find it difficult to support many  
 firms.

Source: news reports, 2008

*Question 2*

- 2 (a) Using **Extract D**, identify **two** main features of the market for motor vehicles in the EU. (5 marks)
- (b) Explain the concept of ‘minimum efficient scale’ (**Extract E**, line 30) **and** analyse its implications for the structure of, **and** barriers to entry to, the motor manufacturing industry. (10 marks)
- (c) ‘When oligopolists collude, the results can be anti-competitive and against the consumer interest’ (**Extract E**, lines 27–28).

Evaluate policies that could be used to deal with this problem. (25 marks)

**Turn over for the next question**

**Turn over ▶**

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**SECTION B**

Answer **one** question from this section.

Each question carries 40 marks.

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- 3 (a) The *British Airports Authority* (BAA), a private-sector monopolist which operates Heathrow Airport, says it needs to build a third runway. Critics say that this would cause air and noise pollution and add to global warming.

Explain why, even if this runway were profitable, an economist could argue that it would be a case of market failure. (15 marks)

- (b) A government is considering subsidising a series of high-speed rail lines in order to reduce short-haul air flights.

To what extent might cost benefit analysis be a useful method of evaluating this proposal? (25 marks)

- 4 (a) *Home Farm* is one of many small firms producing lettuces and attempting to maximise profits.

Explain the circumstances in which *Home Farm* might make supernormal profits in the short run, but only normal profits in the long run. (15 marks)

- (b) Evaluate the argument that managers controlling large companies might follow policies which do **not** necessarily maximise the profits of the owners. (25 marks)

- 5 (a) Explain why a television journalist working on the BBC's *Newsnight* current-affairs programme would usually be paid a much higher wage rate than a reporter on a local newspaper.

(15 marks)

- (b) Evaluate the view that the best way to narrow wage differentials is to increase the National Minimum Wage (NMW).

(25 marks)

**END OF QUESTIONS**



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General Certificate of Education  
Advanced Level Examination  
June 2010

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use a calculator.

**Time allowed**

- 2 hours

**Instructions**

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

**Information**

- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## SECTION A

Answer EITHER Context 1 OR Context 2.

EITHER

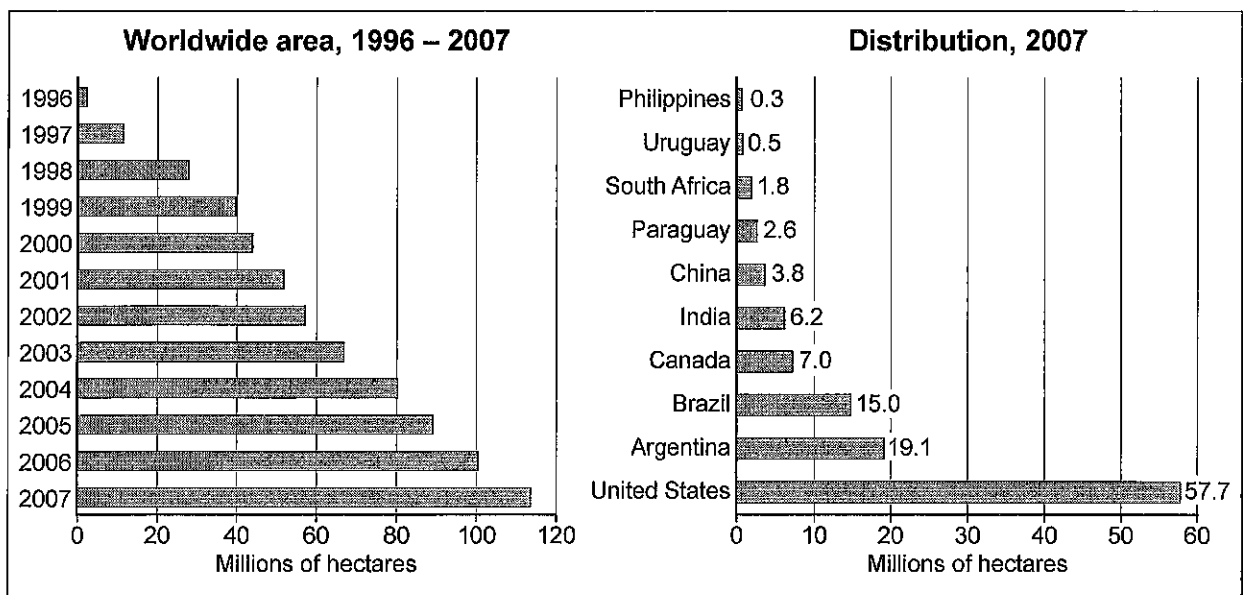
CONTEXT 1

THE GLOBAL CONTEXT

Total for this Context: 40 marks

Study Extracts A and B, and then answer all parts of Context 1 which follow.

Extract A: Cultivation of genetically modified crops



Source: official statistics

Extract B: Diminishing returns and food production

The British political economist Thomas Malthus (1766-1834) argued that because cultivatable land is in fixed supply, food production is subject to the law of diminishing returns and cannot keep pace with population growth. Technological improvements and international trade have meant that his gloomy predictions of famine and drought have largely been avoided, certainly for industrialised countries like the UK. Now that the world has more than 6 billion people, predicted to rise to 9 billion by 2050, there is a worry once again that diminishing returns will set in. Some estimates suggest that the world's undernourished could soon number over a billion people.

Genetically modified (GM) crops are seen by some experts as providing a way around the problem of diminishing returns. Supporters of GM technology claim that by developing crops that are resistant to disease, drought, salty soil and flooding, more land can be cultivated and existing farmland used more efficiently. The result is improved agricultural

productivity. They also claim that private goods like rice and tomatoes can be turned into merit goods by being modified to contain vaccines or cures for diseases.

Anti-GM groups have mounted high profile campaigns against what the media have called 'Frankenstein foods'. In response, the British frozen food chain Iceland decided that there was a competitive advantage in announcing that all of its products would aim to be GM-free and the major British supermarkets quickly followed. Meanwhile, the UK Government's official position is that it has an open mind, and that its priority is to protect human health and the environment while being 'pro-consumer choice'. In the USA, the 'choice' argument has been undermined by the view that foods containing GM products need not be labelled as such. 15 20

Can GM crops really guarantee 'food security'? Critics claim that a lack of spending power, not food supply, is the real problem, with poor people in failing economies often starving in front of full stores and granaries. They also claim that GM crops cause negative externalities. For instance, their pollen can contaminate the crops of nearby organic businesses. Also, most GM crops are developed for resistance to weed-killers and pesticides, and this encourages farmers to use more chemicals, killing wildlife and reducing biodiversity. Furthermore, there are fears that eating GM foods might have long-term risks to human health which have yet to be fully investigated. 25 30

Regulations in Europe are so strict that it costs a seed manufacturer at least ten times as much to develop a new GM crop than a conventional crop. This means that only big companies can afford to develop them. Globally, the American company Monsanto controls the seeds on over 80 per cent of the world area of planted GM crops. Furthermore, Monsanto bans 'seed saving'. It uses patent laws to sue farmers if they save seeds for planting, rather than buying new seeds every year. 35

Almost every single piece of evidence on each side of the debate is contested, making it difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side-effects on human health. 40

Source: news reports, 2008/9

**0 1** Using **Extract A**, identify **two** significant features of the data. (5 marks)

**0 2** Explain what is meant by 'diminishing returns' (**Extract B**, line 2-3) **and** analyse why the introduction of GM crops could help farmers to increase their productivity in the long run. (10 marks)

**0 3** It is 'difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side effects on human health' (**Extract B**, line 38-40).

Using the data and your economic knowledge, evaluate the view that the UK Government should support the production and use of GM crops. (25 marks)

Turn over ►

Do not answer Context 2 if you have answered Context 1.

OR

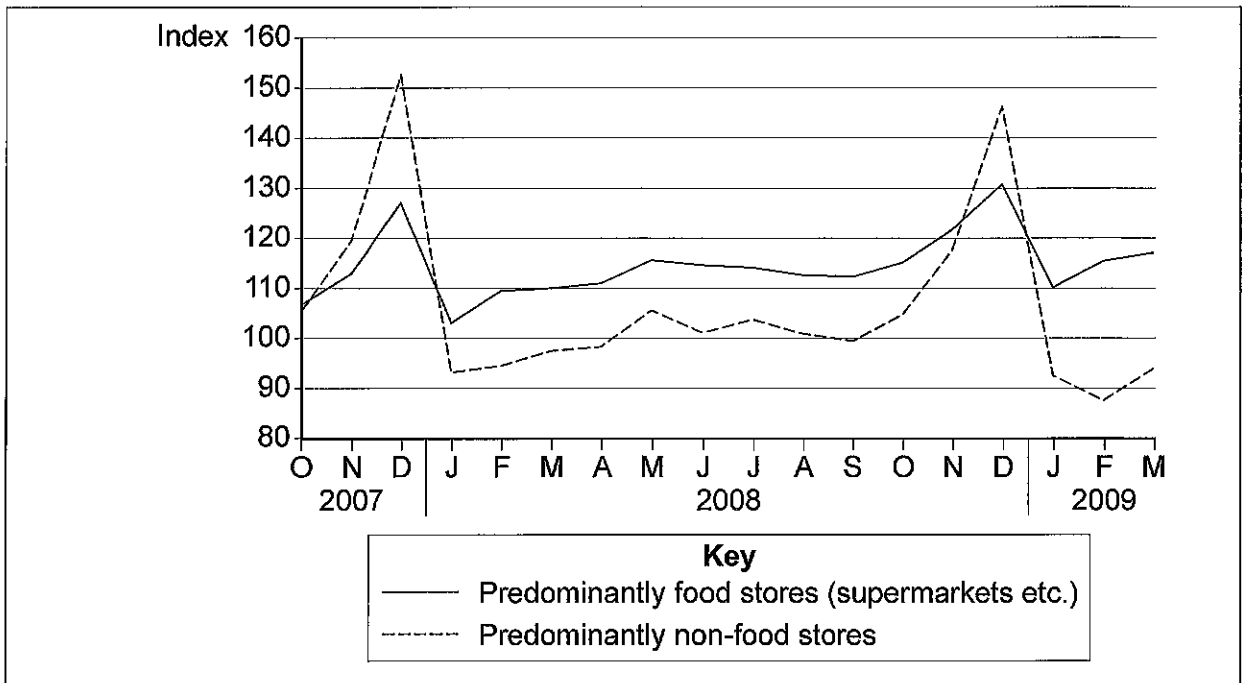
## CONTEXT 2

### THE EUROPEAN UNION CONTEXT

Total for this Context: 40 marks

Study Extracts C and D, and then answer all parts of Context 2 which follow.

#### Extract C: UK retail sales at current prices, index numbers, monthly, October (O) 2007 – March (M) 2009



Source: official statistics

#### Extract D: Trouble on the High Street

The retail industry in the UK receives two thirds of its annual total revenue during the three months leading up to Christmas. Economists therefore pay close attention to Christmas spending as an indicator of the health of the retail sector. In the wake of the credit crunch and the spread of recession in 2008, the UK Government acted in order to try to lift consumer spending by measures such as encouraging interest rates to fall and reducing the rate of VAT. The fall in the value of the pound against the euro hit some British retailers particularly hard, and assisted the process of sorting the retail trade into losers and winners.

Among the losers were Woolworths (household goods), Adams (children's clothing), Zavvi (music and films) and MFI (furniture), all of which went completely or partly out of business. In February 2009, the Confederation of British Industry (CBI) reported that job losses on the High Street, in the previous November and December, were the worst since they started tracking these labour market statistics in 1983.

Among the winners were the medium-sized European low-cost supermarket operators such as Lidl and Aldi. They sell a narrower range of products than the large UK

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companies, with less expensively advertised brands. They also operate on lower profit margins, at one to two per cent of turnover (total revenue) compared with the five to six per cent which large UK supermarkets expect. Such factors enable them to offer low prices in a very competitive market. It can be argued that, in practice, the actual behaviour or conduct of firms in a market might be very competitive and their performance efficient, even if the market structure is basically that of a monopoly or an oligopoly. 20

In December 2008, analysts reported that, unlike the situation in EU countries such as the UK, Germany and Spain, the retail sector in France had not suffered as quickly from the effects of recession. One reason for this is that as well as being fond of massive supermarkets, French consumers also strongly support a huge number of local markets. These provide outlets for items such as fresh meat and fruit and vegetables from a large number of small firms, which is one of the assumptions in the economist's model of a perfectly competitive market. There are also producers and consumers who are very knowledgeable about the nature and quality of the products being bought and sold, and who are sensitive to prices. However, even in France there were signs of a slow-down in retailing affecting both small and large firms as Christmas approached. 25 30

It is significant that some large UK retailers such as Tesco and Marks and Spencer have a presence on the Continent. The Single European Market (SEM) enables retailers to make full use of economies of scale in such fields as purchasing and marketing. It also reduces many costs, such as those created by differing national standards and regulations. The founders of the SEM were mainly focused on manufacturing, but the free movement of goods, services, capital and labour is also important to retailing. The Single European Market creates clear opportunities for the further expansion of large retailers. Although they might be less obvious, there are also some possible advantages of the SEM for smaller retailers, such as those supplying specialist markets or making use of on-line selling. In 2009, it became clear that the British giant Tesco was one of the winners of the retail industry. This company has been accused of having a monopoly in many British towns. In April, it announced record profits for the previous twelve months. 35 40 45

Source: news reports: 2008/9

**0 4** Using **Extract C**, identify **two** significant points of comparison between food stores and non-food stores over the period shown. (5 marks)

**0 5** Explain what is meant by a 'perfectly competitive market' (**Extract D**, line 29) **and**, using a diagram to help you, analyse how a fall in demand across the retail industry can be expected to affect the sales and profits of an individual retail firm operating in a perfectly competitive market. (10 marks)

**0 6** 'It is significant that some large UK retailers such as Tesco and Marks and Spencer have a presence on the Continent... there are also some possible advantages of the SEM for smaller retailers' (**Extract D**, lines 34-35 and 41-42).

Using the data and your economic knowledge, assess the **costs** and **benefits** to British retailers **and** consumers of being part of a single market across the EU. (25 marks)

Turn over ►

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**SECTION B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER**

**Essay 1**

Although there have been laws against wage discrimination in the UK for many years, women's average wages are still about 20% lower than those of men.

0	7
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 Explain the factors that might account for the continuing difference between male and female earnings. *(15 marks)*

0	8
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 Assess the view that increased female membership of trade unions would be the most effective way to raise women's earnings. *(25 marks)*

**OR**

**Essay 2**

Telephone services in the UK were once publicly owned, and there was only one supplier of these services to most British households. Today, consumers can choose their telephones and networks from a variety of privately-owned companies.

0	9
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 Explain how technological change has affected the structure **and** competitiveness of markets, such as those for telephone services, recorded music or cars. *(15 marks)*

1	0
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 Discuss whether utilities, such as gas, electricity and water, are better left in the private sector and open to competition or whether all, or some, should be taken back into public ownership. *(25 marks)*

**OR**

**Essay 3**

During 2009, the large bonuses and pensions of some banking executives were widely criticised, while many commentators claimed that the UK Government would not achieve its targets for reducing poverty.

1	1
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 What are the likely economic effects of poverty in the UK? *(15 marks)*

1	2
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 Is the use of the tax and benefits system the best method of reducing poverty or are alternative methods more effective? Justify your answer. *(25 marks)*

**END OF QUESTIONS**



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