

General Certificate of Education  
June 2008  
Advanced Subsidiary Examination



**ECONOMICS** **ECN1/2**  
**Unit 1 Part 2 Data Response: Markets and Market Failure**

Wednesday 4 June 2008 1.30 pm to 2.30 pm

**For this paper you must have:**

- an 8-page answer book
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: the total time for papers ECN1/1 and ECN1/2 together is 1 hour

**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 ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

**Information**

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend at least 45 minutes on paper ECN1/2.

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Answer **EITHER** Question 1 **OR** Question 2.

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**EITHER**

**Total for this question: 25 marks**

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

**Extract A: Annual average percentage change in world demand for (consumption of) metals, 1993–2002 and 2002–2005**

<b>Metal</b>	<b>Annual average % change 1993–2002</b>	<b>Annual average % change 2002–2005</b>
Aluminium	3.8	7.6
Copper	3.5	3.8
Lead	3.0	4.3
Nickel	4.4	3.6
Steel	3.4	9.2
Tin	1.3	8.1
Zinc	3.4	3.8

Source: adapted from MARTIN SOMMER, 'The Boom in Non-fuel Commodity Prices: Can it Last?',  
*IMF World Economic Outlook*, September 2006

**Extract B: The commodity price boom looks spent**

Extract B has been removed due to third party copyright constraints.

It was adapted from an article in The Times newspaper on 16 September 2006.

Source: adapted from an article by GRAHAM SEARJEANT, © *The Times*, London 2006 & 2007, 16 September 2006

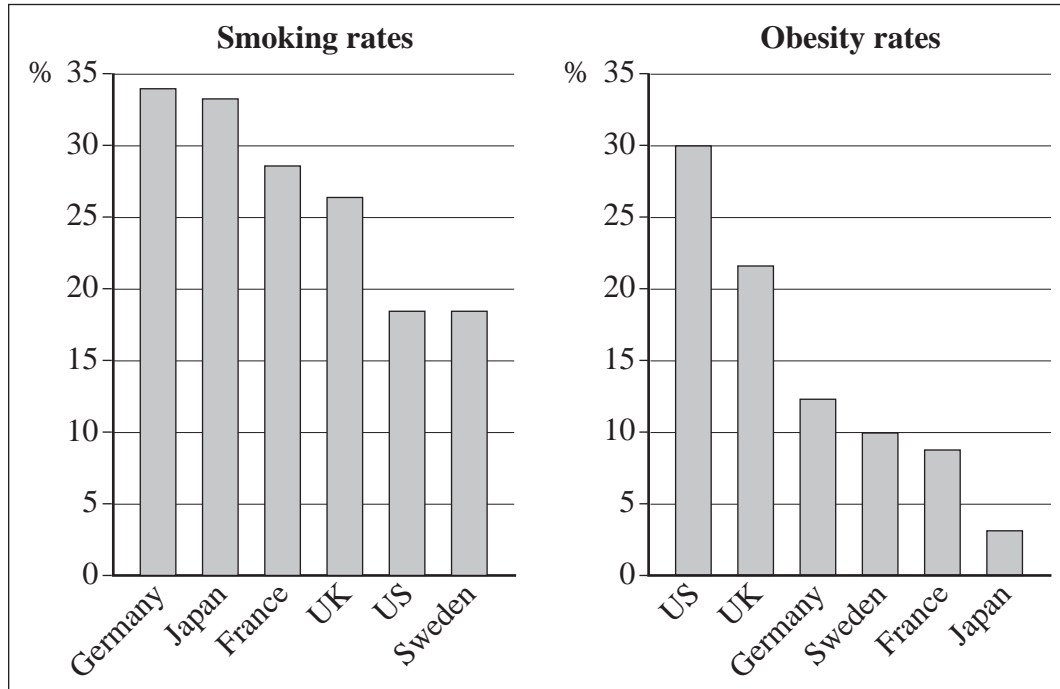


OR

Total for this question: 25 marks

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

**Extract E: Smoking and obesity in selected high-income countries: percentage of the adult population, 2000**



Sources: 'Smoking rates' adapted from World Health Organisation; 'Obesity rates' adapted from OECD (Organisation for Economic Co-operation and Development) health statistics

**Extract F: Elasticities of demand and cigarette consumption in the US**

According to estimates, the short-term price elasticity of demand for cigarettes lies within the range  $-0.36$  to  $-0.44$ . The long-term price elasticity of demand ranges from  $-0.73$  to  $-0.79$ .

1

There is a rich body of evidence on the income elasticity of demand for cigarettes. Although the estimates of income elasticity of demand differ substantially from study to study, the evidence is that income elasticity of demand is positive at lower levels of income and negative at higher income levels.

5

Source: adapted from an article by DAVID M. CUTLER and EDWARD L. GLAESER, *Why do Europeans smoke more than Americans?*, US National Bureau of Economic Research, 26 August 2006

### Extract G: Reasons why Americans smoke less than Europeans

Americans have one of the lowest smoking rates in the developed world. 19.1 per cent of adult Americans smoke, as opposed to 27 per cent of adult Britons.	1
It is clearly not the case that low levels of cigarette smoking in the US are the result of higher cigarette prices. Cigarettes are, on average, 37 per cent cheaper in the US than in the European Union. For example, the average price per pack in the United Kingdom is \$6.25, while the average price per pack in the US is \$3.60. And if anything, tobacco consumption in the US is less regulated than in most European countries.	5
Income is generally higher in the US than in the EU. Income has two important effects on consumption, which work in opposite directions. Higher levels of income mean that the cost of cigarettes in terms of cash is less important; thus, people will smoke more as they get richer. On the other hand, there is evidence that the value of life increases with income and this will lead to less smoking. When the health effect becomes relatively more important as income rises, cigarette consumption falls.	10
There are important differences in beliefs about the health effects of smoking in the US and in some European countries. The US has one of the highest rates of belief that smoking is harmful; according to evidence, 91 per cent of Americans believe that smoking causes cancer. Given the high proportion of Americans that believe in Unidentified Flying Objects (UFOs), this must represent one of the most remarkable instances of the influence of science upon popular belief in the country.	15
In contrast to the US, only 73 per cent of Germans believe that smoking causes cancer. In the UK, the percentage is only just below the US rate, at 87 per cent.	20

Source: adapted from an article by DAVID M. CUTLER and EDWARD L. GLAESER, *Why do Europeans smoke more than Americans?*, US National Bureau of Economic Research, 26 August 2006

### Question 2

- 2 (a) Compare the smoking and obesity rates in the adult populations of the high-income countries shown in **Extract E**. (4 marks)
- (b) **Extract F** provides information on the elasticities of demand for cigarettes in the United States.
- Explain how the elasticities mentioned in **Extract F** may affect US demand for cigarettes. (6 marks)
- (c) Using the data and your economic knowledge, evaluate the policies the UK government could use to bring UK smoking rates down to US rates. (15 marks)

END OF QUESTIONS

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