

General Certificate of Education
January 2004
Advanced Subsidiary Examination



ECONOMICS
Unit 3 Markets at Work

ECN3

Friday 16 January 2004 Morning Session

In addition to this paper you will require:

an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or 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 ECN3.
- Choose **one** of the Options and answer **all** parts of the question on that Option.

Information

- The maximum mark for this paper is 40.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Choose **one** of the Options and answer **all** parts of the question on that Option.

OPTION 1: THE HOUSING MARKET

1

Total for this question: 40 marks

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

Extract A: Buy-to-let: that's it, the party's over

Tenants: force your landlords to cut the rent. Landlords: sell up now before too many other landlords put their properties on the market. Figures this week indicate that the buy-to-let market, one of the key drivers of the house price boom, is on the verge of collapse. 1

More than £6 billion was lent last year to amateur landlords who went on a buying spree of one and two-bedroomed properties, especially in London and the South East. Many thought that the rent would more than cover the cost of the mortgage, while they would gain from the never-ending rise in the house price index. 5

But now rents are falling fast, as local markets have been flooded with flats for rent. Tenants have become almost impossible to find, and landlords often have to take a rent of 30% below what they originally thought was their market-clearing price. Many new landlords, sucked in by the availability of buy-to-let mortgages from banks and building societies, are now in a state of near panic. The fear now is that if interest rates rise, the new landlords will be hit by a double squeeze of higher money costs and lower (or non-existent) rents, and decide to dump their properties on the market. If sufficient numbers do this, it could be the event that sparks the end of the property price boom. 10 15

At the top end of the London market, luxury flats are finding it especially difficult to find tenants, hit by the fall in the stock market and the reduced number of American and European investment bankers seeking accommodation in the capital. In the more 'normal' property market in the London suburbs, the situation is similar. Estate agent, Andrew Gilbert, says: "This time last year, a typical two-bedroomed flat in this area would have sold for around £225 000. Now the same property would be worth nearer £265 000, but the rent you could achieve from such a property has fallen from £1200 to around £1000 a month". 20

Outside London and the South East, the picture is far less grim for landlords. Rental markets in the North, the Midlands and Wales continue to see firmer demand than London, but one thing is sure. The party is over for buy-to-let landlords. There are too many landlords chasing too few tenants, driving rents down to a level where making a profit is difficult. 25

Source: adapted from PATRICK COLLINSON, The Guardian, 1 June 2002

Extract B: House prices keep soaring but rents are collapsing

Source: adapted from PATRICK COLLINSON, *The Guardian*, 1 June 2002

Question 1

- (a) Define the term “house price index” (**Extract A**, line 7). (3 marks)
- (b) Give an example of why people rent, rather than buy, a house, and describe **one** way in which the availability of rented accommodation can affect the local economy. (4 marks)
- (c) Distinguish between “money costs” (**Extract A**, line 13) and ‘opportunity costs’, and explain how opportunity costs can affect the housing market. (8 marks)
- (d) With the help of a supply and demand diagram, explain why rents are ‘collapsing’, as shown in **Extract B**. (10 marks)
- (e) Assess the economic **advantages** and **disadvantages** of ‘soaring’ house prices occurring together with ‘collapsing’ rents. (15 marks)

OPTION 2: THE ENVIRONMENT

2

Total for this question: 40 marks

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

Extract C: On the brink of disaster

It's 30 years since the first UN Conference on the Human Environment at Stockholm, when mankind began to wake up to the mess it is making of the planet. But with the next Earth Summit in Johannesburg a month away, it's clear that the changes needed to prevent the planet from descending into barren and polluted poverty are still a distant dream. Up to a third of the natural world has been damaged by human consumption since Stockholm, and the gap between rich and poor has yawned wider than ever.	1 5
The wealthiest fifth of the earth's population consumes nine-tenths of its products. Forests and glaciers are shrinking, half the rivers are depleted or polluted, thousands of creatures teeter on the brink of extinction and four billion people live on less than \$2 a day.	
If everyone gobbled things up at the same rate as Americans and Europeans, we would need eight planets to survive beyond 2050, say Friends of the Earth. Many campaigners fear that all the Earth Summit will do is confirm the awesome power of multinational companies, led by corporate America, over the natural world. Craig Bennet of Friends of the Earth says: "Fifty-one of the world's top economies are multinational companies while only forty-nine are countries. Big businesses are not under any legally binding framework to stop them damaging the environment. Cold, hard laws are the only way to save the planet."	10 15
Key changes since 1972 include: areas turning to desert (desertification); savannah (grasslands) destroyed by human-induced fires; areas affected by melting glaciers and ice caps; countries facing famine (800 million people don't get enough to eat); decline in seawater and freshwater fish populations; millions of square kilometres of forest lost (deforestation).	20
When the 160 000 delegates get together in Johannesburg, they must remember how the earth's natural economic resources have been depleted since that first summit 30 years ago.	

Source: adapted from GILL SWAIN, Daily Mirror, 24 July 2002

Extract D: Key problems

PROBLEM AREA	EXAMPLES
POPULATION	<ul style="list-style-type: none"> • Earth's population was 3.7 billion in 1972. • Now growing at 1.4% or 85 million people a year.
BIODIVERSITY	<ul style="list-style-type: none"> • Animals endangered by habitat clearance include: <ul style="list-style-type: none"> – Asian elephant: 50 000 left in India, Sri Lanka, Sumatra and Borneo; – Florida Manatee: down to 2 000 animals.
GLOBAL WARMING	<ul style="list-style-type: none"> • Average sea level has risen by 10 to 25 cm over 100 years. • CO₂ emissions (main greenhouse gas) up from 4 billion tons per year (mid-1970s) to 6.6 billion tons.
ATMOSPHERE	<ul style="list-style-type: none"> • Hole in the ozone layer: <ul style="list-style-type: none"> – 1989 – CFC emissions that cause the hole controlled by the Montreal Protocol; – 2002 – Most scientists concerned that the hole is still expanding.
FORESTS	<ul style="list-style-type: none"> • A 12% decline in forests since 1972 due to logging and farming. • A football pitch sized area of rainforest is destroyed every second.
WATER	<ul style="list-style-type: none"> • 80 countries, including 40% of the world's population, suffer serious water shortage. • 1.1 billion people lack safe drinking water; 2.4 billion have no basic sanitation.

Source: adapted from GILL SWAIN, *Daily Mirror*, 24 July 2002

Question 2

- (a) Define the term “economic resources” (**Extract C**, line 22). (3 marks)
- (b) **Extract C** refers to multinational firms (large firms operating in more than one country). Give an example of an actual multinational, and describe **one** way in which its “awesome power” (**Extract C**, line 12) might affect the environment. (4 marks)
- (c) **Extract C** assumes that environmental problems are closely linked to problems of poverty and unequal incomes. Explain why this might be so. (8 marks)
- (d) With the help of a supply and demand diagram, predict how the market for fish (**Extract C**, lines 19-20) is likely to be affected by pollution. (10 marks)
- (e) **Extract C**, line 16, suggests that “cold, hard laws are the only way to save the planet”. Evaluate policies, including stricter laws, that economists might recommend to tackle problems discussed in the data. (15 marks)

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE

3

Total for this question: 40 marks

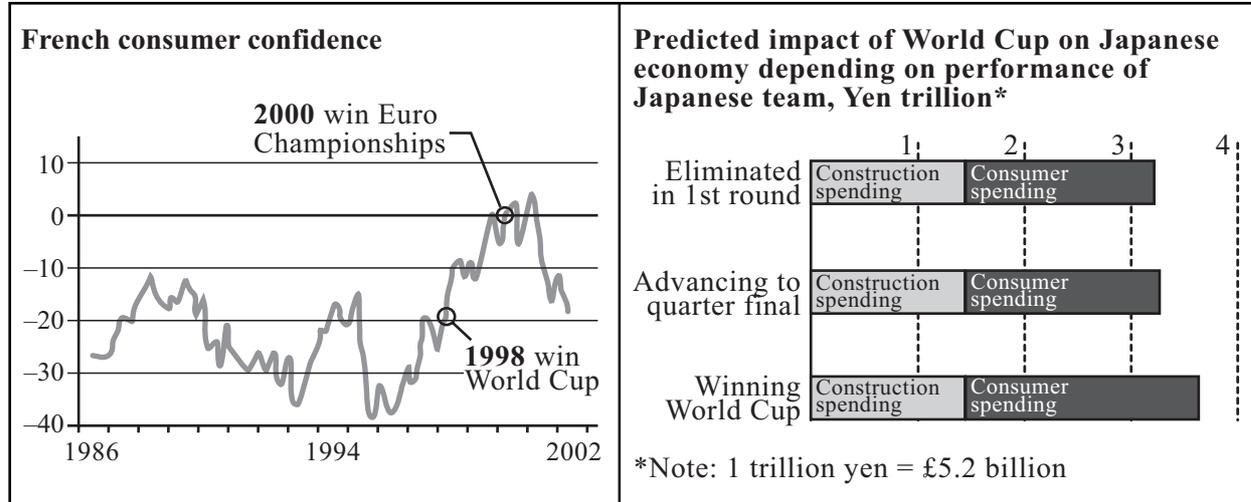
Study **Extracts E and F**, and then answer **all** parts of Question 3 which follows.

Extract E: The cup that cheers

<p>Winning the world title does more than prove which country plays the best football. It can increase national optimism and create jobs. Take France, for example. The hosts and eventual winners of the 1998 World Cup experienced a revolution in the economic psychology of the country. For the first time in more than a decade, the consumer confidence survey (the balance between positive and negative views on the country's economic prospects) rose above -10 after the World Cup win. As France won the European Championships in the Netherlands and Belgium in 2000, this index number became positive.</p>	1 5
<p>For Germany, victory in Euro '96 coincided with a turning-point in consumer confidence. During the 2002 World Cup, the world economy would benefit from Japanese consumers feeling exuberant enough to spend a little more. The Japanese construction industry has had a bonanza in the past two years, as regional governments built more stadiums than Fifa required for staging the cup. However, predictions of 800 000 extra tourists might be overblown. During France '98, tourists actually stayed away from top attractions such as the Palace of Versailles, and overall visitor numbers fell by more than 10 per cent.</p>	10
<p>The 'winning host effect' would go a long way to help Japan, where levels of saving are traditionally very high. The advertising agency Dentsu predicts an economic stimulus of 1 per cent of Gross Domestic Product (GDP) if high-saving Japan wins the World Cup, but it might as well say 10 per cent as Japan are not going to win.</p>	15
<p>In Britain, there are three main concerns: interest rates; productivity and stock markets. Football optimism can mean bad economic news. A good performance by England in Japan could boost consumer spending, which is already too high, and the Bank of England would be forced to raise interest rates. The effects of watching games, taking time off work and nursing hangovers will not help Britain's productivity performance. There is also a tendency for the stock market to fall on the first trading day after England is knocked out of a major tournament. Low morale among market traders affects their performance. On the other hand, national optimism and a business boom can have an economic impact on sectors such as leisure, sportswear, advertising, media and alcohol. However, if the World Cup were to be awarded on the basis of need, Argentina would be a grateful recipient.</p>	20 25

Source: adapted from FAISAL ISLAM, The Observer, 2 June 2002

Extract F: Wins lifted the French but what might happen in Japan?



Source: adapted from FAISAL ISLAM, *The Observer*, 2 June 2002

Question 3

- (a) Define the term “Gross Domestic Product (GDP)” (**Extract E**, line 17). (3 marks)
- (b) Using the data, suggest **one** example of how a *multiplier effect* might result from hosting the World Cup, and describe its possible impact on the economy. (4 marks)
- (c) Explain how the economic impact of a business boom on sectors such as leisure and sportswear (**Extract E**, line 26) depends, at least partly, on *income elasticity of demand*. (8 marks)
- (d) With the help of an aggregate demand and supply diagram (AD/AS), explain why there might be “an economic stimulus ... if high-saving Japan wins the World Cup” (**Extract E**, lines 16–17). (10 marks)
- (e) Evaluate the arguments **for** and **against** the view that major sports events are good for the economy. (15 marks)

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE

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