

General Certificate of Education
January 2006
Advanced Subsidiary Examination



ECONOMICS
Unit 3 Markets at Work

ECN3

Wednesday 18 January 2006 9.00 am to 10.00 am

For this paper you must have:

- 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.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

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

OPTION 1 THE HOUSING MARKET

Total for this question: 40 marks

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

Extract A:

Extract A was an extract of text.

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copyright constraints.

Extract B:

Extract D was a graph.
It has not been reproduced here due to third-party
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Question 1

- (a) Define the term ‘equilibrium price’ (**Extract A**, line 15). *(3 marks)*
- (b) Use the concept of income elasticity of demand to explain why people’s earnings are an important influence on the UK housing market. *(4 marks)*
- (c) **Extract A** (lines 18–20) suggests that ‘long run changes in rents’ are a good indicator of realistic levels of underlying house prices. Explain why the market for rented accommodation is linked to the market for owner-occupied houses. *(8 marks)*
- (d) The extracts suggest that lower house prices would reduce GDP growth. With the help of an aggregate demand and aggregate supply (AD/AS) diagram, analyse how interest rates could help restore growth. *(10 marks)*
- (e) Should the government leave house prices to market forces, or actively intervene to prevent a house price crash? Justify your answer. *(15 marks)*

OPTION 2 THE ENVIRONMENT

Total for this question: 40 marks

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

Extract C: French ‘guzzler tax’ under fire

- 1 France is coming under intense pressure from overseas car makers hoping to block government plans to introduce a ‘sin tax’ of up to £2300 on gas-guzzling SUV 4x4s (Sports Utility Vehicle four-wheel drive) and big luxury cars from January 2005.
- 5 Prime Minister Jean-Pierre Raffarin is due to set out details on Thursday of the pioneering anti-pollution scheme which has been cheered by many in France as a blow against drivers who barge their way through urban traffic on board two-tonne off-road vehicles. Under the plan, buyers of low-polluting cars will benefit from a £550 purchase tax reduction. Buyers of the dirtiest vehicles, big 4x4s and the largest saloons, will finance the reductions with the penalty tax, reducing the affordability 10 of 4x4s, while leaving no cost to the state. Half of all vehicles, in the middle polluting range, will not be affected and the measure will apply only to new vehicles.

The scheme, which has run into opposition from motoring organisations, comes after a warning from Paris city council earlier this month that it wants to ban big 4x4s from the capital as a menace to safety and the environment.

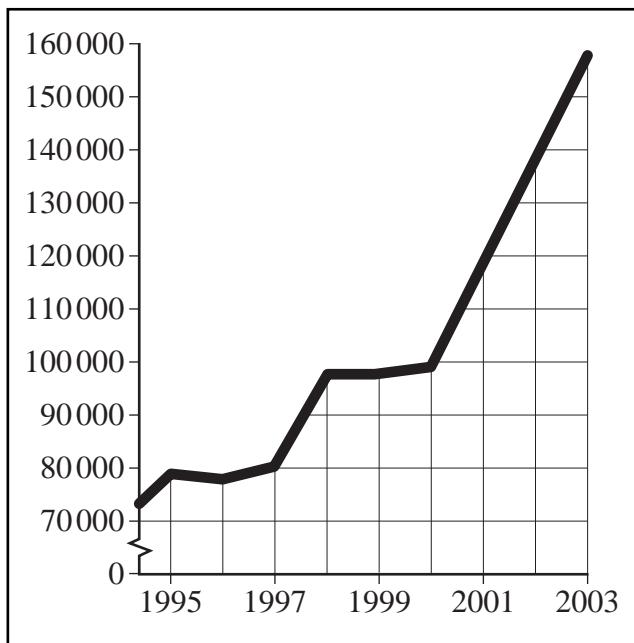
- 15 Denis Baupin, a deputy mayor and Green Party official, said that the big vehicles, which emit up to four times the carbon dioxide and particles of average cars, should have no rights to use the city’s streets.

- 20 The French government’s approach to 4x4s was endorsed last weekend by Professor David Begg, the British government’s most senior adviser on transport. He suggested higher car tax and congestion charges for drivers of what he described as irresponsible and dangerous vehicles with high social costs.

- 25 The French plan has prompted quiet satisfaction from Renault and Peugeot-Citroën, France’s two big manufacturers. The reason, industry sources say, is that they make no models that would qualify for the highest penalty, and only a few people-carriers that would incur a £1030 tax.

- The big 4x4s and saloons account for 17.3% of the French car market, and there has been a 16% increase in sales since last year. Taking Britain and France together, they account for 6% of new private vehicle sales. As well as being more polluting, they are up to three times more likely than small cars to kill pedestrians because of their extra 30 bulk and weight. They are mainly made by American, British, Japanese and German manufacturers. The foreign makers are likely to claim that the proposed law breaches EU rules on free trade by being discriminatory. France lost a similar legal challenge brought by foreign brewers two years ago after it tried to tax high-alcohol beer. No French brewers produced such beer.

Extract D: SUV sales figures, UK



Source: adapted from © *The Times*, 29 June 2004

Question 2

- (a) Define the term ‘social costs’ (**Extract C**, line 21). *(3 marks)*

- (b) Use the concept of elasticity of demand to explain why the ‘affordability’ (**Extract C**, line 9) of 4x4s is likely to be an important influence on the sales figures in **Extract D**. *(4 marks)*

- (c) Paris city council is planning to ban 4x4s whilst the French government is planning to tax them more heavily (**Extract C**). Explain the likely economic effects of the **two** policies. *(8 marks)*

- (d) With the help of an aggregate demand and aggregate supply (AD/AS) diagram, analyse how government action against 4x4s, as described in the data, could affect the economy of a country which exports cars. *(10 marks)*

- (e) Should governments leave car prices to market forces, or actively intervene to influence the demand for and supply of cars which may be damaging the environment? Justify your answer. *(15 marks)*

OPTION 3 THE ECONOMICS OF SPORT AND LEISURE

Total for this question: 40 marks

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

Extract E:

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Extract F: Riding the surfing wave

- 1 Here in the west, surfing has become big news and potential big business. A surf development plan is being drawn up by the City and County of Swansea, and a degree in Surf and Beach Management is on offer from Swansea Institute, a member college of the University of Wales. Applicants will study marketing, technology, coast
- 5 management, conservation and entrepreneurship. This follows in the footsteps of Plymouth University's BSc in Surf Science and Technology which has been so successful that its format has been exported to Australia. The surf industry is worth about £2.8 billion a year worldwide, and last year around 100 000 people visited Wales purely to surf, contributing £11 million to Welsh economic growth. It is this
- 10 expanding market that Swansea Institute and Swansea Council hope to tap into, encouraging the growth of tourism and services to boost the economy of an area that used to be dependent on heavy industry and manufacturing.

According to the British Surfing Association, income from surfing tuition and trade in Cornwall alone tots up to £64 million annually, excluding knock-on tourism spending.

- 15 More than 1600 full-time and 500 part-time jobs depend on the industry. Simon Jayham, who runs surf school Gower Surf Development, says that Swansea, with its shorter distance from London, coastal water conditions to suit all levels of surfer, and its vibrant nightlife, has the potential to leave Newquay in its wake.

Source: adapted from an article by MATTHEW GUNTHER-BUSHELL, *The Western Mail Business News*, 2 August 2004

Extract G: Surfing by numbers

Estimated number of surfers in the UK	1994: 25 000
	2004: 500 000
Pupils attending Newquay surf school	1994: 200
	2004: 8 000
Students on first year of Swansea Institute's surf management degree	2004: 20 (from 130 applicants)
	2007: 50 (planned)
Approximate cost of essential basics (board, wetsuit, neoprene boots, etc.)	£ 350
Approximate cost of fashion accessories (shorts, T-shirt, sunglasses, etc.)	£ 300

Source: adapted from an article by ARIFA AKBAR, © *The Independent*, 27 July 2004

Question 3

- (a) Define the term 'entrepreneurship' (**Extract F**, line 5). *(3 marks)*

- (b) Use the concept of cross elasticity of demand to explain how the market for surfing is affected by 'developments in advanced and affordable wetsuit technology' (**Extract E**, line 6). *(4 marks)*

- (c) Explain how 'encouraging the growth of tourism and services', such as surf-related activities, can 'boost the economy of an area that used to be dependent on heavy industry and manufacturing' (**Extract F**, lines 11–12). *(8 marks)*

- (d) With the help of an aggregate demand and aggregate supply (AD/AS) diagram, analyse how the trends shown in **Extract G** could affect the economy of the UK. *(10 marks)*

- (e) Should the government and public bodies such as local councils and universities encourage the growth of activities such as surfing? Justify your answer. *(15 marks)*

END OF QUESTIONS

There are no questions printed on this page

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