

General Certificate of Education
January 2008
Advanced Subsidiary Examination



ECONOMICS
Unit 3 Markets at Work

ECN3

Thursday 17 January 2008 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 will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

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: Homeowners fall behind on mortgage repayments

Extract A is a passage of text taken from The Times newspaper on 13 September 2006. It has not been reproduced here due to third-party copyright restraints.

Extract B: Homeowners under pressure

Extract B is two graphs taken from The Times newspaper on 13 September 2006.
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Question 1

- (a) Define the term ‘recession’ (**Extract A**, line 25). (3 marks)
- (b) Describe the possible relationship between mortgage defaults and base interest rates shown in **Extract B**. (4 marks)
- (c) Explain how a change in the rate of inflation can affect the rate of interest **and**, therefore, affect homeowners. (8 marks)
- (d) Suppose that mortgage defaults result in lenders repossessing an increasing number of houses. They then put these houses on sale in order to recover the money they have lent.

Using a supply and demand diagram to help you, analyse the likely effects of this sale on the housing market. (10 marks)

- (e) Discuss the economic problems that might arise from large numbers of people falling behind with their mortgage repayments **and** evaluate policies which a government could adopt in response. (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: The air suffers as coal powers Chinese boom

One of China's lesser-known exports is a dangerous brew of soot, toxic chemicals and climate-changing gases from the smokestacks of coal-burning power plants. 1

In early April, a dense cloud of pollutants over northern China sailed to nearby Seoul, sweeping along dust and desert sand before wafting across the Pacific. An American satellite spotted the cloud as it crossed the west coast of the USA. 5

Researchers in California, Oregon and Washington State detected specks of sulphur compounds. These microscopic particles can work their way deep into the lungs, contributing to respiratory damage, heart disease and cancer.

Unless China finds a way to clean up its coal plants and the thousands of factories that burn coal, pollution will soar both at home and abroad. The increase in global-warming gases from China's coal use will probably exceed that for all industrialised countries combined over the next 25 years, surpassing by five times the reduction in such emissions that was sought by the international agreement on climate change, known as the Kyoto Protocol. 10

The sulphur dioxide produced in coal combustion poses an immediate threat to the health of China's citizens, contributing to about 400 000 premature deaths per year. It also causes acid rain that poisons lakes, rivers, forests and crops. 15

Already, China uses more coal than the United States, the European Union and Japan combined. However, international climate experts, when criticising China, also point out that the average American still consumes more energy than, and is responsible for the release of 10 times as much carbon dioxide as, the average Chinese citizen. 20

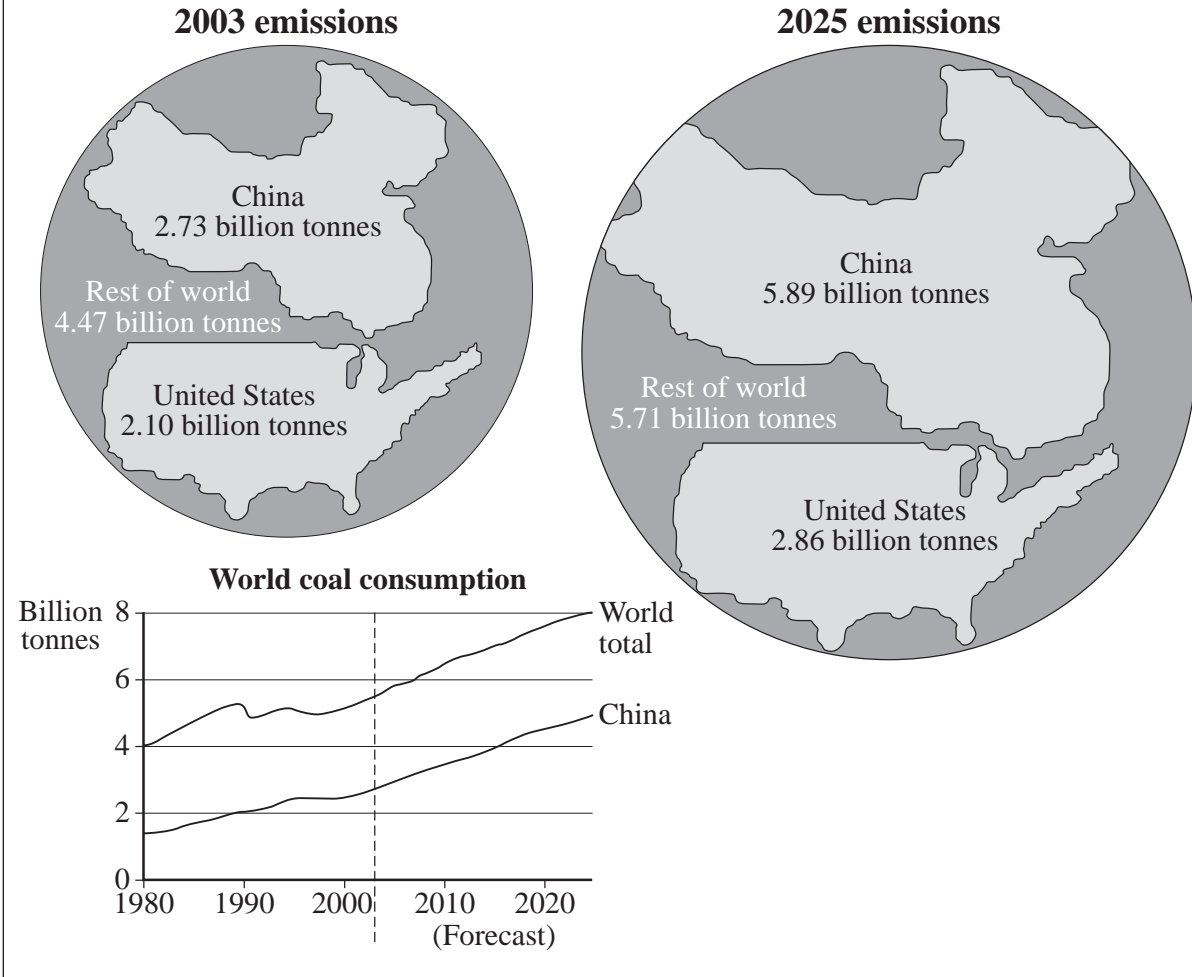
To make a big reduction in emissions of global-warming gases and other pollutants, China must install the most modern equipment, which for the time being must come from other nations such as the USA and the UK.

With China's leaders under constant pressure to create jobs for the millions of workers flooding from farms into cities each year, as well as for the growing ranks of college graduates, there has been little enthusiasm for a change of strategy. Indeed, China is actually using subsidies to make energy even cheaper, a strategy that is familiar to Western consumers. 25

Source: adapted from an article by KEITH BRADSHAW and DAVID BARBOSA, *New York Times*, 18 June 2006.
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Extract D: Actual and forecast world carbon dioxide emissions from the burning of coal, 2003 and 2025, and world coal consumption

More than half of the carbon dioxide, the primary global warming gas, produced from the burning of coal came from China and the United States in 2003. By 2025, if current trends continue, China would produce roughly twice as much as the United States.



Source: adapted from an article by KEITH BRADSHAW and DAVID BARBOSA, *New York Times*, 18 June 2006. Copyright © 2006 by The New York Times Company. Reprinted with permission.

Question 2

- Define the term 'subsidies' (**Extract C**, line 28). (3 marks)
- Describe the possible relationship between carbon dioxide emissions and coal consumption shown in **Extract D**. (4 marks)
- Using the concept of 'externality', explain how the consumption of coal in China can affect citizens of the UK. (8 marks)
- Suppose that the Chinese government makes it compulsory for power stations to fit 'clean' coal equipment, which is currently available from British manufacturers. Using a supply and demand diagram to help you, analyse the likely effects on the UK market for this equipment. (10 marks)
- Discuss the economic problems that might arise from carbon dioxide emissions and evaluate policies which the UK government could adopt in response. (15 marks)

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE

Total for this question: 40 marks

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

Extract E: Tourism, terrorism and tomorrow

Before 11 September 2001, travel and tourism was the world's largest industry, accounting for one in every twelve jobs. When the massive \$3.6 trillion industry almost ground to a halt after the terrorist attacks, the ripple effects spread well beyond the United States, exposing the vulnerability of countries too dependent on international tourism. 1 5

Tourism is one of the top five export categories for over 80 per cent of all countries. Revenues from tourism have been especially important in poorer countries, which stand to suffer severe negative multiplier effects from any slowdown. "Tourism is the only economic sector where developing countries consistently run a trade surplus," says Lisa Mastny of the Worldwatch Institute, an environmental research organisation. 10 "Tourism is especially significant in poorer countries that have few other options: for the world's 49 so-called least developed countries, it is the largest source of foreign exchange after oil."

Even in the best of times, the consequences of tourism's rapid growth have not always been positive. On average, as much as 50 per cent of tourism earnings ultimately become 'withdrawals' from the national income of countries in the less developed world in the form of profits earned by foreign-owned businesses, promotional spending abroad, or repayments for imported goods and labour. 15

Source: adapted from www.worldwatch.org, Worldwatch Institute, accessed on 28 August 2006

Extract F: Ten Britons hurt in bomb blasts in Turkey

Extract F is a passage of text taken from BBC news online.
It has not been reproduced here due to third-party copyright restraints.

Extract G: Ryanair sues UK government

Extract G is a passage of text taken from euronews.net on 28 August 2006.
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Extract H: Tourism receipts and national income per head: selected countries

Extract H is a table of figures taken from nationmaster.com in 2004.
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Question 3

- (a) Define the term 'national income' (**Extract E**, line 16). *(3 marks)*
- (b) Describe the possible relationship between international tourism receipts and national income per head indicated by the figures shown in **Extract H**. *(4 marks)*
- (c) Explain how terrorism might lead to multiplier effects in an economy with a significant tourist industry. *(8 marks)*
- (d) Suppose that British tourists are discouraged from travelling abroad because of terrorism and strict security.

Using a supply and demand diagram to help you, analyse the likely effects on the market for holidays at destinations in the UK. *(10 marks)*

- (e) Discuss the economic problems that might arise from a country having a large tourist sector **and** evaluate policies which a government could adopt in response. *(15 marks)*

END OF QUESTIONS

There are no questions printed on this page

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