

General Certificate of Education
June 2008
Advanced Subsidiary Examination



ECONOMICS
Unit 3 Markets at Work

ECN3

Wednesday 4 June 2008 1.30pm to 2.30pm

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 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 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: House prices soaring even faster

Extract A has been removed due to third-party copyright constraints.

It was adapted from an article in the Daily Express on 9 March 2007.

Extract B: Housing market statistics from the Nationwide Building Society

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

It was adapted from an article in the Daily Express on 9 March 2007.

Source: adapted from an article by SARAH O'GRADY, *Daily Express*, Express Newspapers, 9 March 2007

Question 1

- 1 (a) Define the term 'inflation' (**Extract A**, line 30). (3 marks)

- (b) **Extract A** (lines 22-23) says that 'the increase in interest rates since last summer is dampening housing demand'.

Explain **one** reason why lower housing demand might result from higher interest rates.

(4 marks)

- (c) Explain why governments in the UK do not leave the supply of housing entirely to the private sector (**Extract A**, lines 19–21). (8 marks)

- (d) Suppose that the government reacts to the housing 'shortage' (**Extract A**, line 12) by subsidising housebuilders.

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

- (e) Are 'soaring' house prices (**Extract A**, lines 1–2) necessarily a reason for individuals **and** businesses **and** the economy as a whole to 'celebrate'? 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: European Union (EU) switches off our old light-bulbs**

The death knell for the traditional light-bulb was sounded today. Tony Blair and other EU leaders agreed that it should be phased out within two years to make way for the low-energy version. 1

They told the European Commission to rush through proposals to phase out traditional bulbs (the conventional version with a filament) in private homes by 2009. The most likely plan is to ban the sale of such bulbs from that date, although existing stocks could still be used. 5

The replacement low-energy fluorescent bulbs are more expensive to buy, but they are longer-lasting and work out cheaper in the long run, as well as using far less electricity. 10

This will cut greenhouse gases because CO₂ is produced in generating the electricity which powers the bulb. Although low-energy replacements for halogen bulbs and others with non-standard fittings are currently hard to find, it is hoped that cheap and plentiful supplies will be in place in two years.

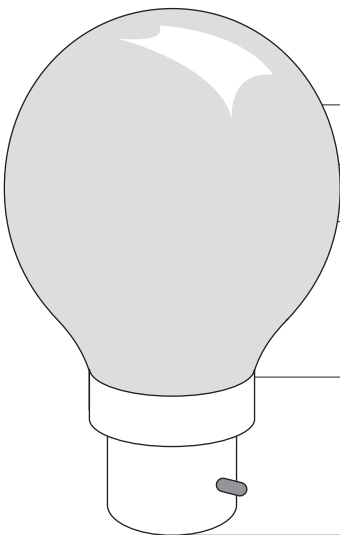
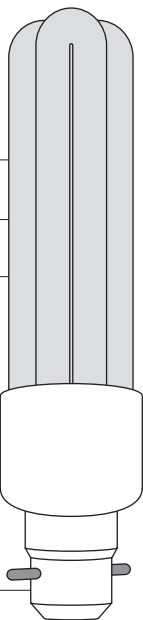
The massive switch-over, which will affect all of the EU's 490 million citizens, was ordered at a Brussels summit as part of an ambitious policy to fight climate change. It agreed a package of 'green' measures aimed at influencing both consumer demand and industrial output, which should see a switch to renewable energy sources. Australia has already announced it is to ban traditional bulbs. 15

Existing fluorescent strip-lights are relatively energy-efficient, but halogen bulbs, used in spotlights and particularly popular in kitchens and bedrooms, are highly energy-intensive. They can be replaced with low-energy variants, but very few are currently on the market and they are very expensive. Industry sources said, however, that as they become more available, prices will fall. For such bulbs, the phasing-in period is likely to be extended. 20
25

Under other parts of the agreed package, the EU has pledged to cut greenhouse gas emissions by 20 per cent by 2020. However, businesses have warned that a decision to make the targets legally binding could lead to an increase in prices and a loss of jobs. Some British politicians have even been suggesting some form of rationing of people's annual air mileage, and a personal tradeable carbon allowance. 30

Source: adapted from an article by KIRSTY WALKER and FIONA MACRAE, *Daily Mail*, 10 March 2007

Extract D: The great light switch

How they compare			
	Traditional light-bulb		Energy-saving light-bulb
	From 20p each	Cost	From £1.70 each
	1000 hours	Lifespan	5000 hours
	60 kg	Average CO₂ produced per year to light the bulb	20 kg
	8 – 15 lumens (brightness index)	Amount of light produced per watt of electricity	50 – 75 lumens (brightness index)
			

Source: adapted from an article by KIRSTY WALKER and FIONA MACRAE, *Daily Mail*, 10 March 2007

Question 2

- 2 (a) Define the term ‘market’ (**Extract C**, line 23). (3 marks)
- (b) Give an example of a ‘renewable’ energy resource (**Extract C**, line 18) **and** explain why it is described as ‘renewable’. (4 marks)
- (c) Explain why the EU might decide to ban traditional light-bulbs rather than taking alternative action such as taxing them. (8 marks)
- (d) It is suggested in **Extract C** (lines 20–24) that as low-energy halogen light-bulbs become more available, prices will fall.

Using a supply and demand diagram to help you, analyse the effects on the market for low-energy halogen light-bulbs of a ban on selling the high-energy version. (10 marks)

- (e) Are ‘green’ measures such as those described in the data good or bad for consumers **and** businesses **and** the economy as a whole? Justify your answer. (15 marks)

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE**Total for this question: 40 marks**

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

Extract E: Save the Queen – and the British music scene

Extract E has been removed due to third-party copyright constraints.

It was adapted from an article in The Observer newspaper on 11 March 2007

Source: adapted from an article by NICK MATHIASON, *The Observer*, 11 March 2007

Extract F: DVD market faces decline as digital downloading takes hold

Extract F has been removed due to third-party copyright constraints.

It was adapted from an article in The Times newspaper on 5 January 2007.

existing DVDs, and which is being adopted by most, but not yet all, major film companies. HD-DVD is a competing new format which has similar features to Blu-ray.)

The new formats have the potential to benefit from a joint demand with internet links and more interactive possibilities.

When the PlayStation 3, a games console, is launched in Europe in March, it will contain a Blu-ray player, which could boost the market. The industry is also counting on the growth of legal film downloads. *Screen Digest* expects the film download market in the UK to be worth £2.6 million in 2007, £8.4 million in 2008 and £28.9 million in 2009. The under 40s have fully embraced online buying. 25

Source: adapted from an article by AMANDA ANDREWS, © *The Times*, 5 January 2007

Question 3

- 3 (a) Define the term ‘joint demand’ (**Extract F**, line 23). (3 marks)
- (b) Explain why exports of **both** goods **and** services are part of the output of the UK creative economy. (4 marks)
- (c) Explain the economic benefits the UK economy might gain if the export initiative described in **Extract E** were successful. (8 marks)
- (d) **Extract F** (lines 25-26) suggests that there could be a ‘boost’ to the market when the PlayStation 3 is sold with a Blu-ray player.

Using a supply and demand diagram to help you, analyse the possible effects on the market for games consoles of successful advertising campaigns promoting new formats such as Blu-ray. (10 marks)

- (e) Are frequent changes in technology, including the introduction of new formats such as the switch from CDs and DVDs to internet downloads, good or bad for consumers **and** producers **and** the economy as a whole? Justify your answer. (15 marks)

END OF QUESTIONS

There are no questions printed on this page

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Extract F: © The Times, London 2006 & 2007

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