

General Certificate of Education
June 2007
Advanced Level Examination



ECONOMICS **ECN5**
Unit 5 Business Economics and the Distribution of Income

Tuesday 19 June 2007 1.30 pm to 3.00 pm

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

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 ECN5.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- 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 approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

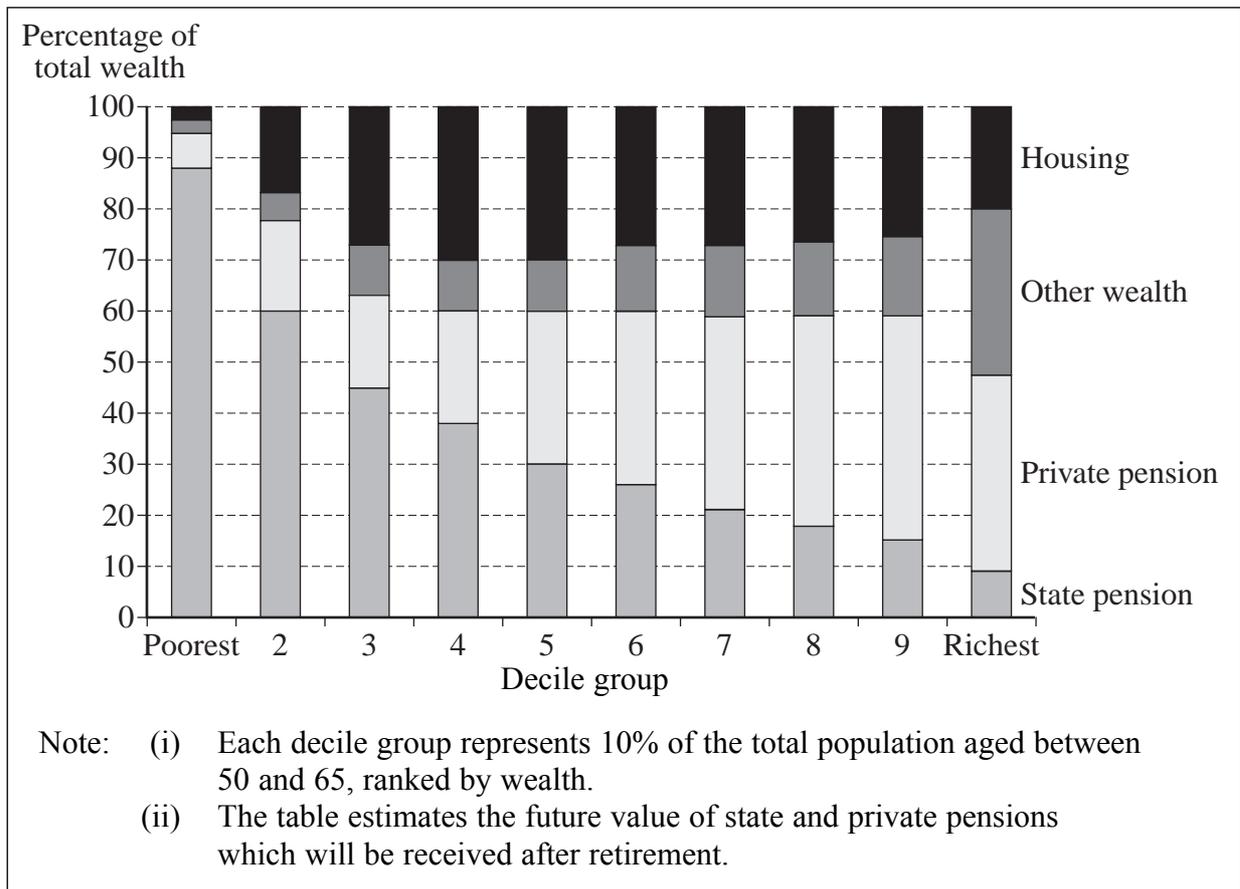
SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

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

Extract A: Composition of the wealth of UK residents aged 50 to 65 by decile group, 2005



Source: *A New Pension Settlement for the Twenty-First Century*, The Second Report of the Pensions Commission, 2005

Extract B: Causes of wealth inequality

Two factors that promote wealth inequality:	1
<ul style="list-style-type: none"> • People save as they age, which affects the distribution of wealth between young and old age-groups. 	
<ul style="list-style-type: none"> • Home-ownership is a very important determinant of overall wealth levels and inequalities. 	5

Source: adapted from *The long-term relationship between poverty and debt*,
The Joseph Rowntree Foundation, November 2005

Extract C: Market failure and income and wealth inequality

Extract C is an extract of text.

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Extract D: Young people face ‘pensions time bomb’

Extract D is an extract of text.

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Question 1

- (a) Using **Extract A**, compare **two** ways in which the composition of the wealth of UK residents aged 50 to 65 changes as their wealth increases. *(4 marks)*

- (b) **Extract B** identifies two factors that promote wealth inequality.

Explain the difference between wealth and income **and** explain **one** factor which causes wealth inequality. *(6 marks)*

- (c) ‘Society may come to the view that too much inequality is unacceptable or undesirable’ (**Extract C**, lines 3-4).

Analyse how the existence of inequality can cause economic problems, such as market failure. *(10 marks)*

- (d) Using the data and your economic knowledge, evaluate the view that the most effective way to reduce poverty is to increase significantly the state pension. *(30 marks)*

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

- 2 (a) Explain how the equilibrium level of output is determined in perfect competition, **both** for the whole market **and** for **one** firm within the market. (20 marks)
- (b) In recent years, British Telecom, the supermarket industry and 50 private schools have been investigated by the competition authorities for limiting competition.
- Evaluate different ways in which governments could make markets more competitive. (30 marks)
- 3 (a) Explain how interdependence **and** uncertainty affect the behaviour of firms in oligopolistic markets. (20 marks)
- (b) Evaluate the view that **only** producers, and **not** consumers, benefit when oligopolistic firms collude to try to reduce the uncertainty they experience. (30 marks)
- 4 (a) Explain how the equilibrium wage rate in a labour market is determined **both** by the marginal productivity of labour **and** by influences upon the supply of labour. (20 marks)
- (b) Do you agree that if a trade union persuades employers to increase wage rates in a labour market, employment must inevitably fall in that labour market? Justify your answer. (30 marks)

END OF QUESTIONS

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Extract B: From the *Findings: The long-term relationship between poverty and debt* published in November 2005 by the Joseph Rowntree Foundation. Reproduced by permission of the Joseph Rowntree Foundation.