

Surname	Centre Number	Candidate Number
Other Names		2



**GCE AS/A level**

1131/01



S15-1131-01

**ECONOMICS – EC1**

A.M. MONDAY, 11 May 2015

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	4	
2.	4	
3.	6	
4.	8	
5.	6	
6.	6	
7.	8	
8.	8	
<b>Total</b>	<b>50</b>	

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**DO NOT OPEN THIS BOOKLET UNTIL YOU ARE TOLD TO DO SO.**

**ADDITIONAL MATERIALS**

In addition to this paper, you will need a calculator.

**INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions in the spaces provided. You may use continuation paper on pages 15 and 16 if necessary, taking care to number the continuation correctly.

**INFORMATION FOR CANDIDATES**

Mark allocations are shown in brackets. This paper has a total of 50 marks.



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*Answer all the questions in the spaces provided.*

1. The table below shows the savings interest rates available on various tax-free individual savings accounts (ISAs).

<b>CASH ISAs – easy access</b>	
<b>Type of account</b>	<b>Interest rate</b>
Cheshire BS ISA Saver	2.50%
Tesco Instant Access Cash ISA	2.30%
Nationwide WEB ISA	2.00%
Halifax ISA Saver	1.95%
Santander Direct ISA	1.75%

Define opportunity cost and use the data to explain what would be the opportunity cost of putting £1000 into a Tesco Instant Access Cash ISA. [4]

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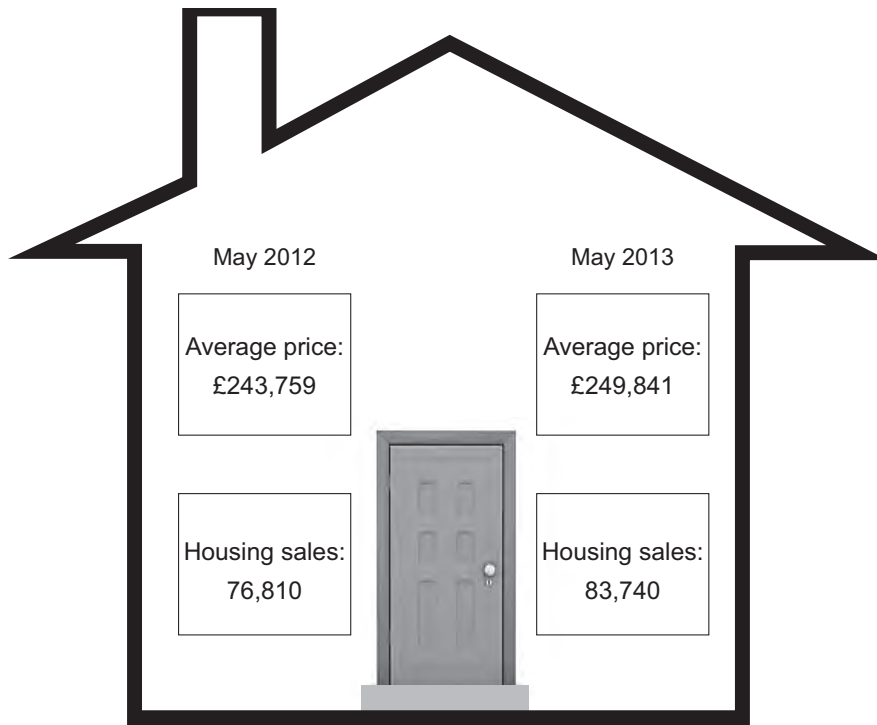
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2. The graphic below gives information on house prices and the number of housing sales in 2012 and 2013.



Using a supply and demand diagram, explain a possible reason for the changes in the data for the UK housing market shown between May 2012 and May 2013. [4]

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3. The table below shows the estimated income elasticity of demand figures for three goods.

Good	Income elasticity of demand
A	+0.6
B	-0.2
C	+1.4

Using economic theory, explain the differences between goods A, B and C.

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**4. Thai government to reduce guaranteed minimum price for rice**

In June 2013, the Thai government announced that it was cutting the guaranteed price it pays farmers for rice by 20%.

The guaranteed price policy, originally introduced after the 2011 government elections was designed to raise the incomes of farmers, paying farmers a price 30-50% higher than the world price, costing the Thai government 136 billion Baht (about \$4bn) in 2012.

The government is also paying 300 million Baht/month just to store the rice, some of which is now beginning to rot.



- (a) Using a diagram, explain how the guaranteed minimum price scheme was supposed to 'raise the incomes of farmers'. [4]

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(b) Explain why the guaranteed minimum price scheme might be seen as an example of government failure. [4]

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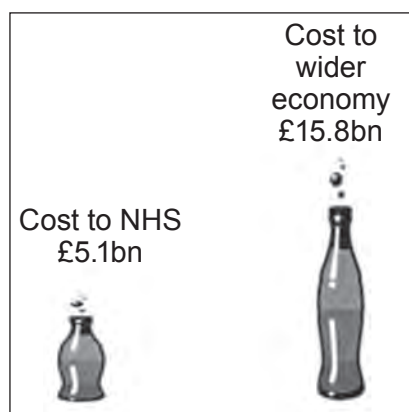
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**5. Tax on sugary drinks urged by doctors**

Britain's 220,000 doctors are demanding a 20% tax to be imposed on sugary drinks and a ban on fast food outlets near schools in an attempt to tackle the UK's obesity crisis; money raised could help to fund an increase in state-financed weight management programmes.

Obesity is estimated to cost the NHS £5.1 billion per year and to cost the wider economy £15.8 billion per year (in terms of lower productivity and higher absenteeism and unemployment) and is forecast to double over the next 35 years.



Explain how the policies suggested by Britain's doctors might help to correct market failure.

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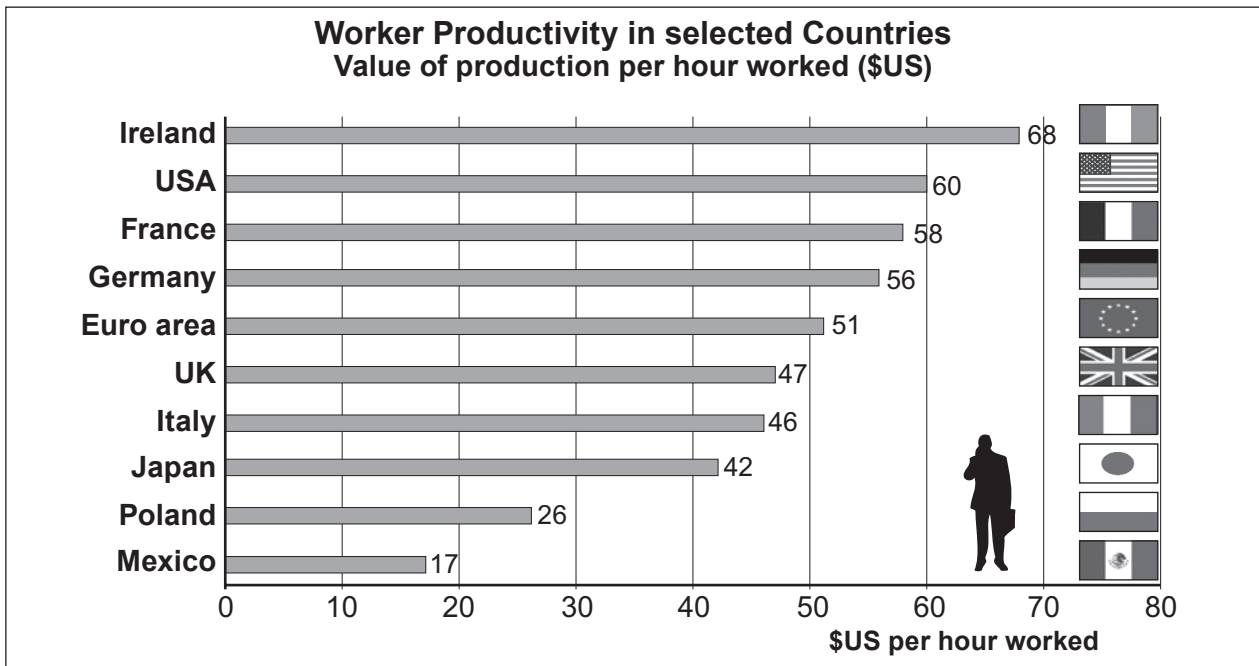
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6. UK monthly trade deficit in goods and services reaches £2.4bn



Discuss whether the data shown on productivity makes it difficult for the UK to reduce its trade deficit. [6]

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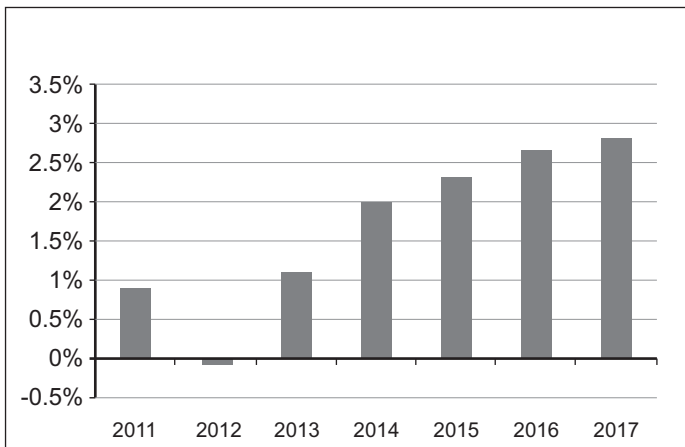


**7. Economists raise UK growth forecasts**

Strong demand for services has helped to boost economic growth and has led forecasters to be more optimistic about GDP over the next few years.

However, with global food and oil prices rising, some commentators fear that higher growth may contribute to higher inflation.

**GDP growth forecasts**



Source: OBR

**UK Economic fact-file: July 2013**

Output gap	-3.1%
Inflation	2.7%
Unemployment	2.51m (7.8% of the labour force)

With reference to the data and using an AD/AS diagram, discuss whether the growth forecasts in the chart above were likely to lead to higher inflation in the UK economy after 2013. [8]

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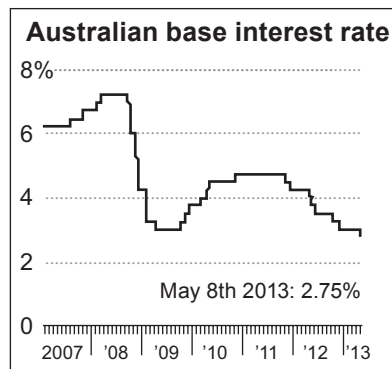
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**8. Australian Central Bank cuts interest rates to hold down exchange rate**

Australia’s central bank cut interest rates to a record low of 2.75% in May 2013, seeking to protect the economy from a strong currency that has been driven high by a resources boom that attracted a large number of foreign investors into industries such as copper and coal mining.

The Australian dollar fell after the interest rate cut, but remains strong despite a series of seven interest rate cuts over the previous two years.



Source: Reserve Bank of Australia  
The Wall Street Journal

With reference to the data, discuss whether further cuts in interest rates are likely to significantly weaken the Australian dollar. [8]

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<b>Question number</b>	<b>Additional page, if required. Write the question number(s) in the left-hand margin.</b>	<b>Examiner only</b>



