

Surname	Centre Number	Candidate Number
Other Names		2



GCE A level

1133/01



S15-1133-01

ECONOMICS – EC3

P.M. THURSDAY, 11 June 2015

1 hour 45 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	2	
2.	5	
3.	3	
4.	6	
5.	6	
6.	6	
7.	6	
8.	6	
9. or 10. or 11.	20	
Total	60	

ADDITIONAL MATERIALS

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

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

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

Answer all the questions in Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

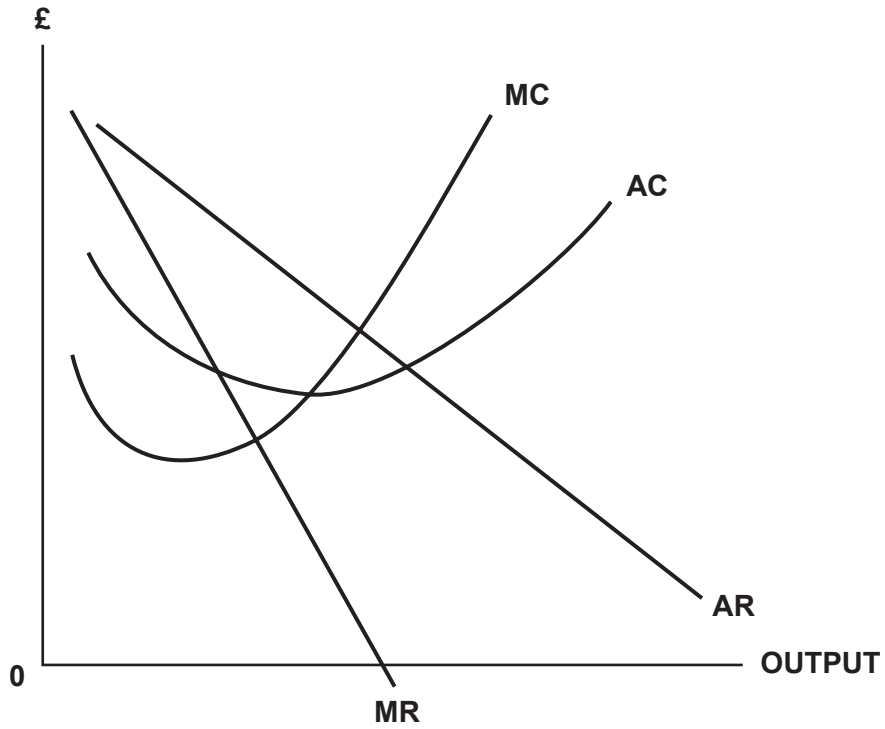
You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A

Answer **all** questions in this section.

1. The diagram below shows a firm operating in an imperfect market.



Mark on the diagram the price and output where a firm would make only normal profits in the long run. Explain your answer. [2]

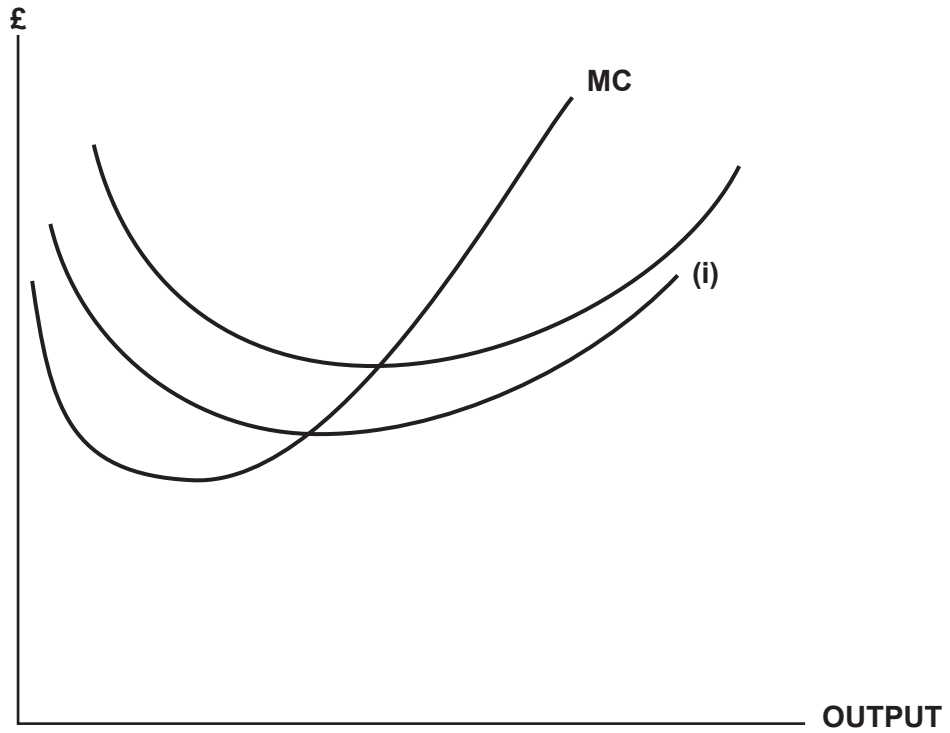
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2. The diagram below shows the short run cost curves of a firm.



(a) Identify the curve marked (i) in the diagram.

[1]

(b) Explain how and why the marginal cost curve changes as more output is produced by the firm.

[4]

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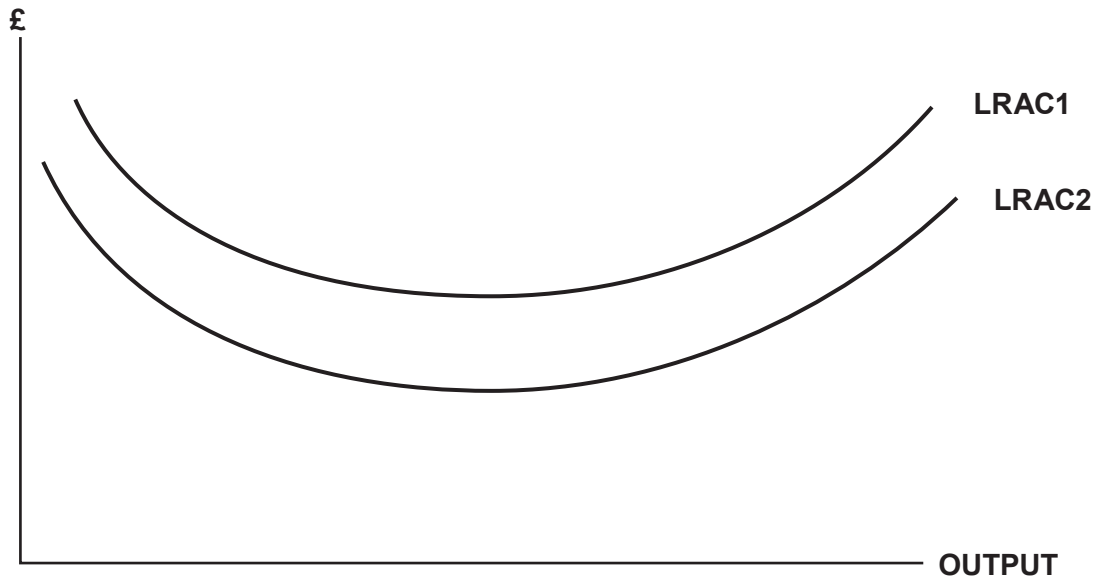
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3. The diagram below shows a change in the long run average costs for firms in a particular industry. The long run average cost curve has shifted from LRAC1 to LRAC2.



Using the above diagram and an appropriate example, explain what is meant by **external economies of scale**. [3]

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4. Plastic bag tax extended from Wales to Scotland.

Scotland is to impose a 5p plastic bag tax on retailers to try to reduce the external costs arising from the disposal of these bags by shoppers.

Using an appropriate diagram evaluate the possible effectiveness of this tax in correcting market failure caused by shoppers. [6]

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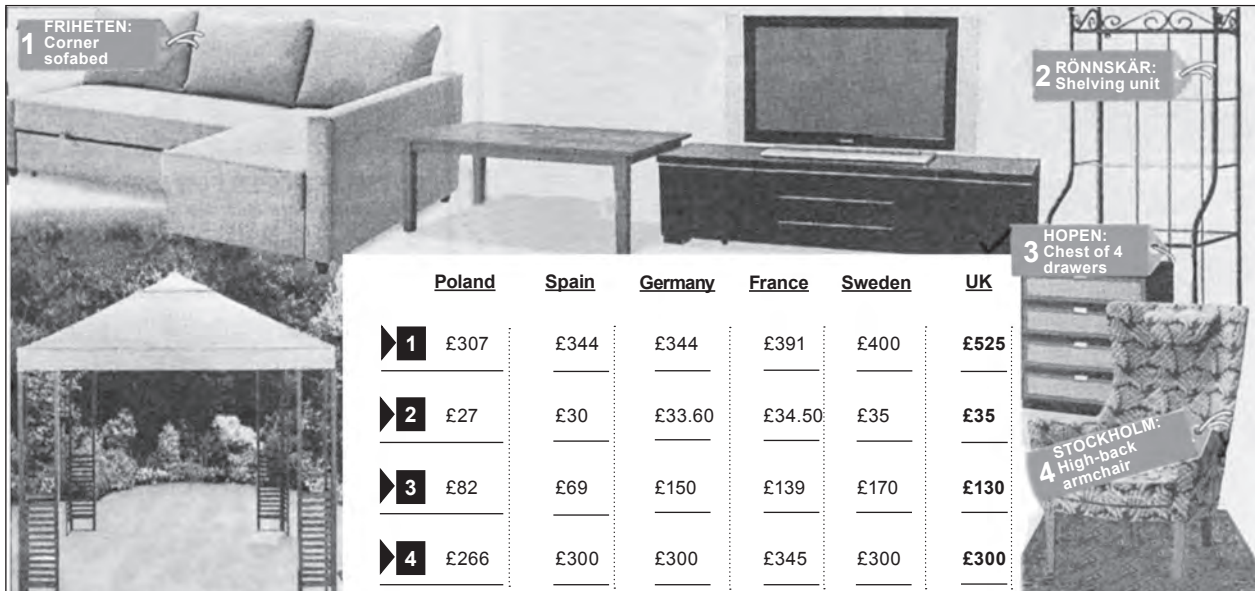
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5. UK shoppers overcharged?

It appears that across Europe consumers are paying vastly different amounts for the same furniture – even though it is coming from the same source. The table below shows the prices of IKEA furniture in different European countries with UK consumers apparently coming off the worst.



	<u>Poland</u>	<u>Spain</u>	<u>Germany</u>	<u>France</u>	<u>Sweden</u>	<u>UK</u>
▶ 1	£307	£344	£344	£391	£400	£525
▶ 2	£27	£30	£33.60	£34.50	£35	£35
▶ 3	£82	£69	£150	£139	£170	£130
▶ 4	£266	£300	£300	£345	£300	£300

To what extent can IKEA's pricing policy be seen to be an example of price discrimination? [6]

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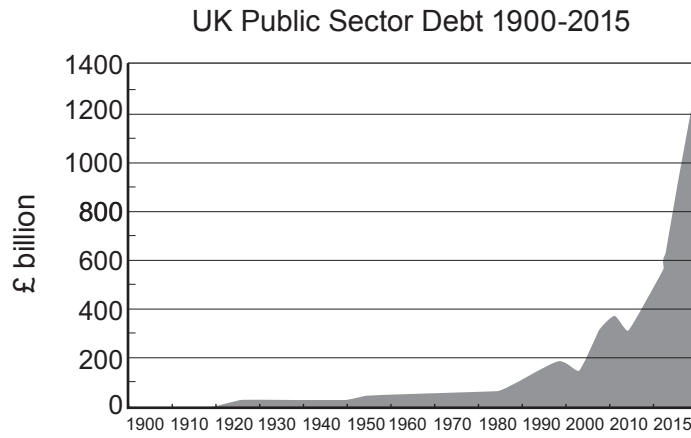
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6. The data below shows the level of the UK's public sector debt from 1900 to 2015.



(a) Distinguish between the public sector debt and the fiscal (budget) deficit. [2]

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(b) Explain **two** possible reasons for the changes in the size of the public sector debt from 2000 to 2015. [4]

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7. How far do you agree with the view that demand side policies to reduce the level of unemployment below its natural rate/NAIRU only work in the short term? [6]

Use an appropriate diagram in your answer.

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8. VENEZUELA DEVALUES CURRENCY BY 32% AGAINST THE US DOLLAR.

Venezuela has cut the value of its currency (the Bolivar) against the US Dollar by 32%, in an effort to boost its economy. The widely expected measure changes the official exchange rate of the Bolivar from 4.3 to 6.3 per US Dollar. This is the fifth devaluation of the Bolivar since Hugo Chavez' government started controlling the exchange rate in 2003. The previous devaluation was in 2010. Experts have long considered the Bolivar overvalued and the move came as no surprise in the oil-based economy. Oil is by far Venezuela's main export and the oil price is calculated in US dollars. In a country that largely depends on food imports, the scarcity of Dollars also led to shortages of products such as sugar and flour. The new exchange rate is expected to address this situation. However, the measure is also expected to have an impact on inflation, which has been climbing.

"Experts have long considered the Bolivar overvalued."

Discuss the view that governments should attempt to keep their national currency at an overvalued level against other currencies. [6]

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SECTION B

Answer one question from this section.

9. To what extent can it be said that a perfectly competitive market is always efficient? [20]
10. With the aid of examples discuss the view that the private sector has no role to play in the provision of public goods and merit goods. [20]
11. “The behaviour of firms in oligopolistic markets will always be dominated by the use of non-price competition.” Using examples discuss the extent to which you agree with this statement. [20]

Answer the question from Section B using the following pages.

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END OF PAPER

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