

Surname	Centre Number	Candidate Number
Other Names		2



GCE AS/A level

1131/01 – **LEGACY**



ECONOMICS – EC1

A.M. MONDAY, 16 May 2016

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	4	
2.	10	
3.	4	
4.	8	
5.	8	
6.	8	
7.	8	
Total	50	

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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.

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 14 and 15 if necessary, taking care to number the continuation correctly.

INFORMATION FOR CANDIDATES

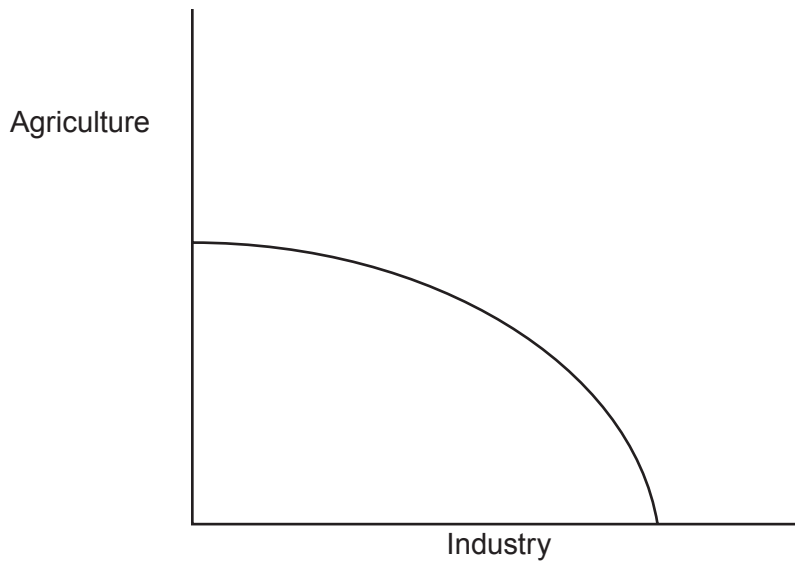
Mark allocations are shown in brackets. This paper has a total of 50 marks.

Answer **all** the questions in the spaces provided.

- 1. In 2011 the Tohoku region of Japan was hit by a massive tsunami which then resulted in significant damage to the Fukushima nuclear power station, land and businesses in the surrounding area. Parts of the Tohoku region are still uninhabitable today.

Tohoku is a region where agriculture is the main economic activity contributing 25% of Japan's rice production. There is relatively little industrial activity; the region accounts for less than 3% of Japan's industrial production.

Production Possibility Frontier for Japan as a whole



Adapting the PPF above, explain the impact of the tsunami on the production potential of the Japanese economy. [4]

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2. The table below shows the price elasticities and cross-price elasticities between several products. For example, the price elasticity of demand for product B is -1.3 and the cross-price elasticity between the price of good A and the demand for good C is -1.4 .

		Effect on the:		
		Demand for A	Demand for B	Demand for C
Change in the:	Price of A	-0.6	$+0.7$	-1.4
	Price of B	$+0.5$	-1.3	0
	Price of C	-1.2	0	-0.2

- (a) Calculate the effect of a 10% fall in the price of good A on:

- (i) The demand for good A

[1]

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- (ii) The demand for good B

[1]

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- (b) Explain what is meant by cross elasticity of demand.

[2]

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(c) Using an example in each case, explain the likely cross-price elasticity relationship between:

(i) Good A and good C [3]

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(ii) Good B and good C [3]

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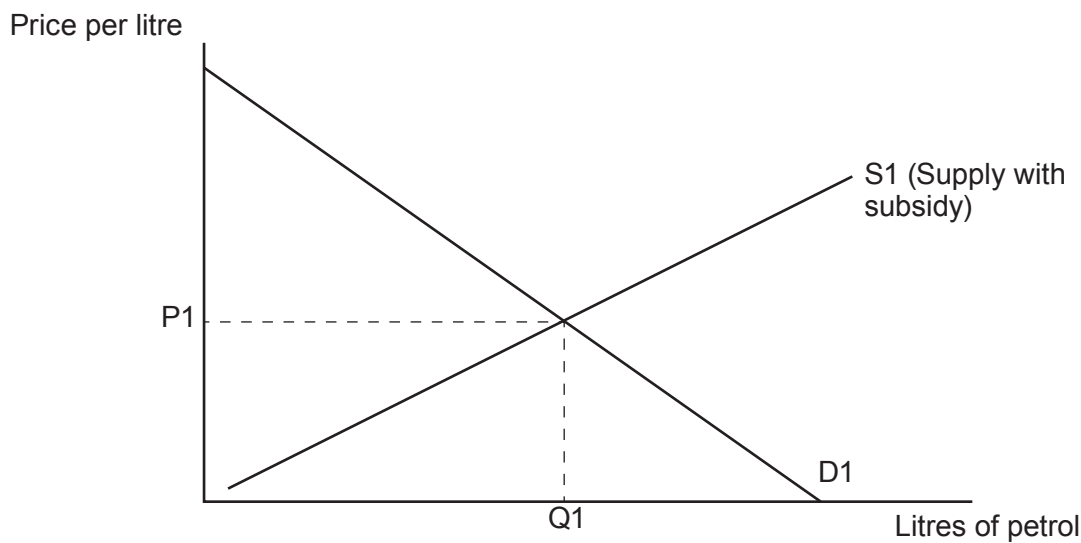
3. Ghana cuts fuel subsidy in policy U-turn to reduce spending

In 2014, the Ghanaian government removed petrol subsidies just three months after introducing them, to reduce government spending. The subsidies, paid per litre of petrol to producers, had cost the government an estimated \$US85 m.

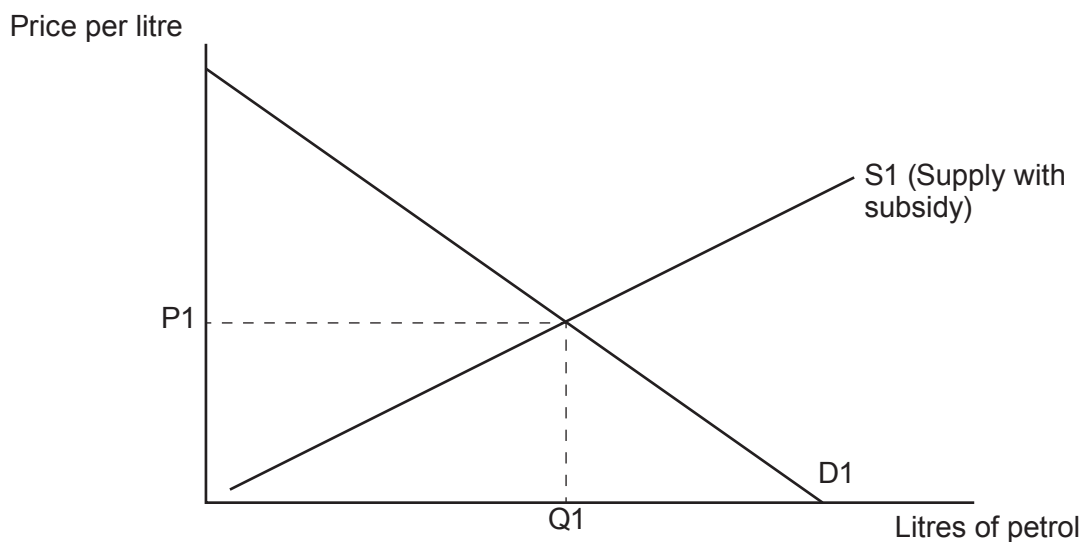
The end of the subsidies will cause petrol prices to rise by about \$US1 per litre increasing living costs and reducing consumer surplus.

Adapt the supply and demand diagrams below to illustrate:

- (a) The reduction in consumer surplus to Ghanaian consumers of petrol following the removal of the subsidy. [2]

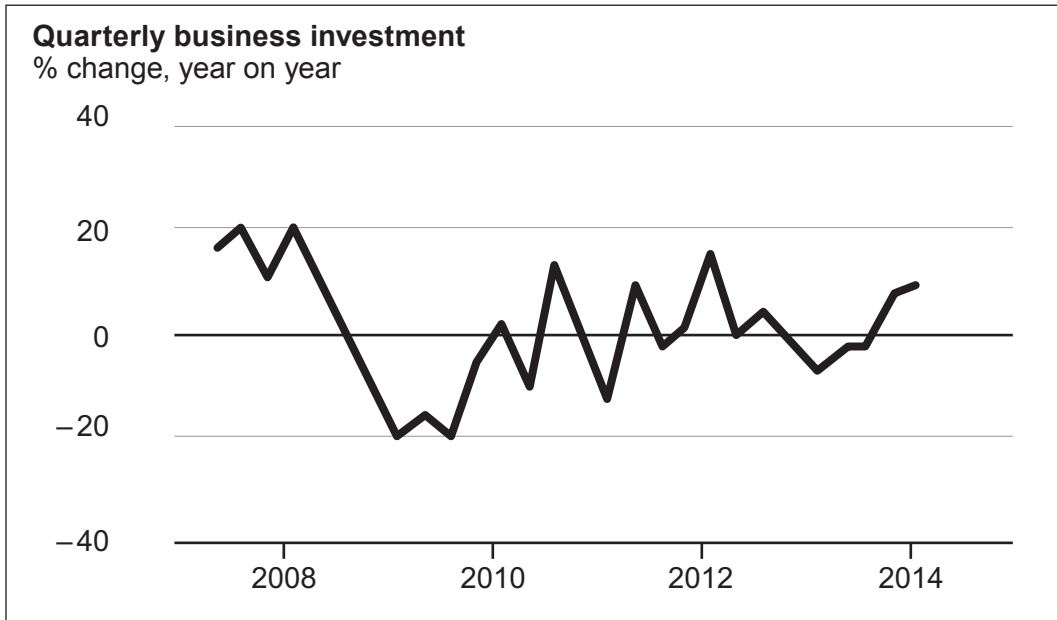


- (b) The cost to the Ghanaian government of operating the subsidy before it was removed. [2]



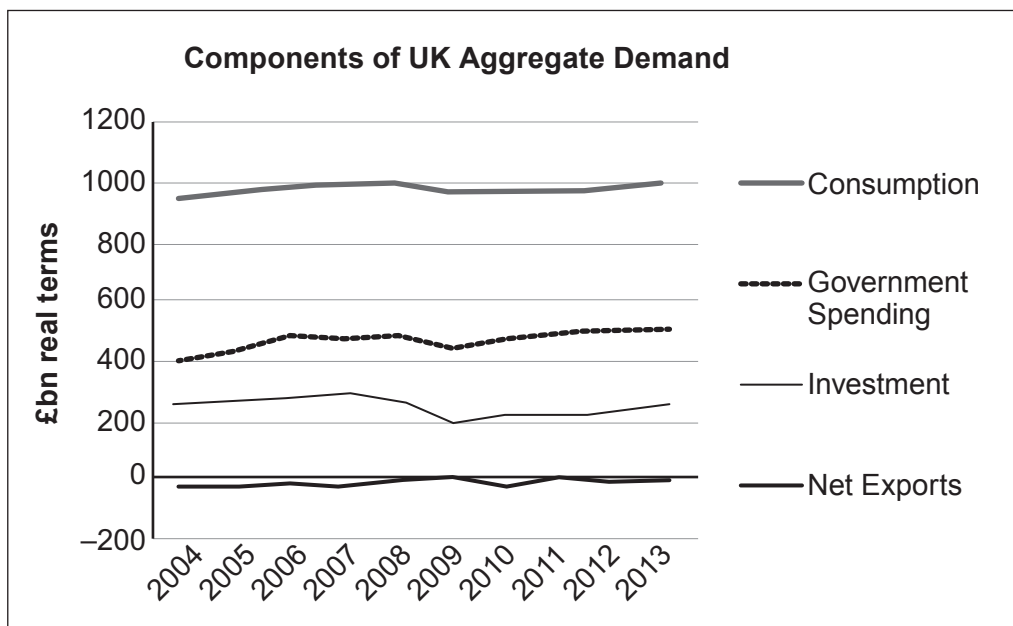
- 5. UK private business investment has risen to its highest level since the 2008 recession, in a further sign the economic recovery is becoming more balanced.

Diagram 1



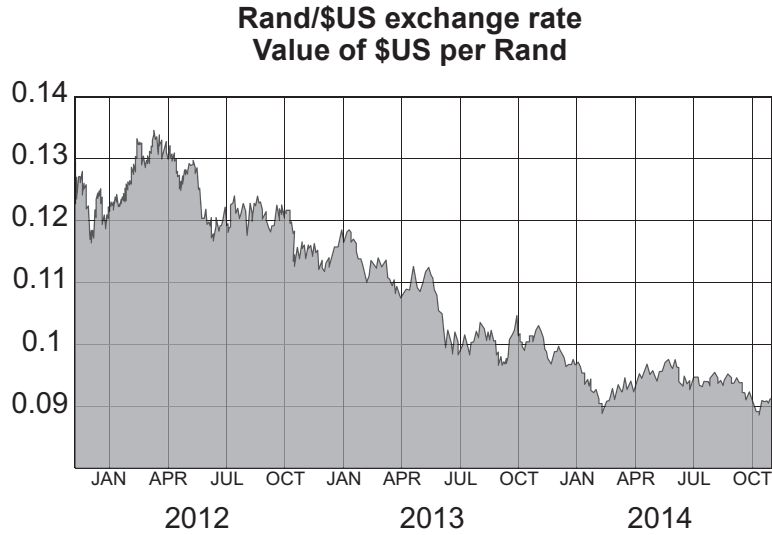
In the first three months of 2014, business investment was 10.6 per cent higher than the same period in 2013. It has now grown for five consecutive quarters, raising hopes of a sustained recovery in investment.

Diagram 2



6. Rand depreciation leads to fears of inflation in South Africa

The South African currency, the Rand, depreciated by 5% against the US dollar between May and October 2014, having fallen by 22% in 2013. Analysts fear that the depreciation may lead to a rise in South Africa's inflation.



Using an aggregate demand and aggregate supply diagram, analyse why the trend described in the data might lead to inflation in South Africa. [8]

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7. US imposes tariffs on steel from nine countries accused of dumping

The US Government has announced substantial tariffs on steel imports worth hundreds of millions of dollars imported from South Korea and eight other countries.

Steel from some of the nine countries will be hit with tariffs of up to 118% but steel from South Korea will have smaller tariffs of approximately 13%. Of the nine countries, South Korea is the largest supplier of steel to the US.

In the short term, the decision is expected to cut steel imports and raise prices of certain steel goods, which could help save a few hundred steel-workers' jobs that were threatened because of competition from imports.

But any benefit to US steel manufacturers is likely to be short-lived, in a global economy that is adjusting to a worldwide excess supply of steel and China's slowing demand.

Evaluate how beneficial the steel tariffs described in the text are likely to be to the US economy.
[8]

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