

Centre No.						Paper Reference				Surname	Initial(s)	
Candidate No.						6	3	5	1	/	0	1

Paper Reference(s)

6351/01

Edexcel GCE

Economics

Advanced Subsidiary

Unit 1 – Markets: how they work

Wednesday 4 June 2008 – Afternoon

Time: 1 hour

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.

Check that you have the correct question paper

Check that you have the correct question paper.
Answer ALL the questions in Section A in the spaces provided in this question paper.

- Answer ALL the questions in Section A in the spaces provided in this question paper.

 - For each question there are four suggested answers: A, B, C or D.
 - When you have selected your answer to the question, write the chosen letter in the box provided.
 - You can only offer one answer to each question.
 - After making your selection you should offer an explanation of why you have made that choice. Your explanation may include a diagram.

Your explanation may include a diagram.
Answer ONE question from Section B in the spaces provided in this question paper

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). The paper is divided into two sections, A and B; both sections are equally weighted, with the total

The paper is divided into two sections, A and B, both sections are equally weighted, with the total mark on Section A divided by two.

The total mark for this paper is 40.

Advice to Candidates

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, including your use of grammar, punctuation and spelling.

You are advised to divide your time equally between Section A and Section B.

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Turn over

SECTION A

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Answer ALL questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You are advised to spend 30 minutes on this section.

You are encouraged to use a diagram in your explanation where appropriate.

1. The new £20 note from the Bank of England quotes Adam Smith on the division of labour in pin manufacturing. Which of the following best illustrates an advantage to be gained from specialisation?
A Decreased output per worker.
B Increased boredom.
C Increased productivity.
D Decrease in the market size.

(a) **Answer**

(1)

(b) **Explanation**

(4)

Q1

(Total 5 marks)



2. In April 2007 the price of tuna fish rose to £2000 a tonne. What might have caused this rise in price?

- A New restrictions on the amount of tuna fish that can be caught.
- B A reduction in the tax on tuna fish.
- C Decreased price of salmon.
- D A fall in demand caused by a health-related scare.

(a) **Answer**

(1)

(b) **Explanation**

(4)

Leave
blank

Q2

(Total 5 marks)

3

Turn over



3. The speculation surrounding the purchase of Alliance-Boots chemists by KKR, a private equity firm, is most likely to cause the
- A demand for Alliance-Boots products to fall.
 - B Alliance-Boots share price to decrease.
 - C Alliance-Boots share price to increase.
 - D income elasticity of demand for Alliance-Boots products to fall.

(a) **Answer**

(1)

(b) **Explanation**

(4)

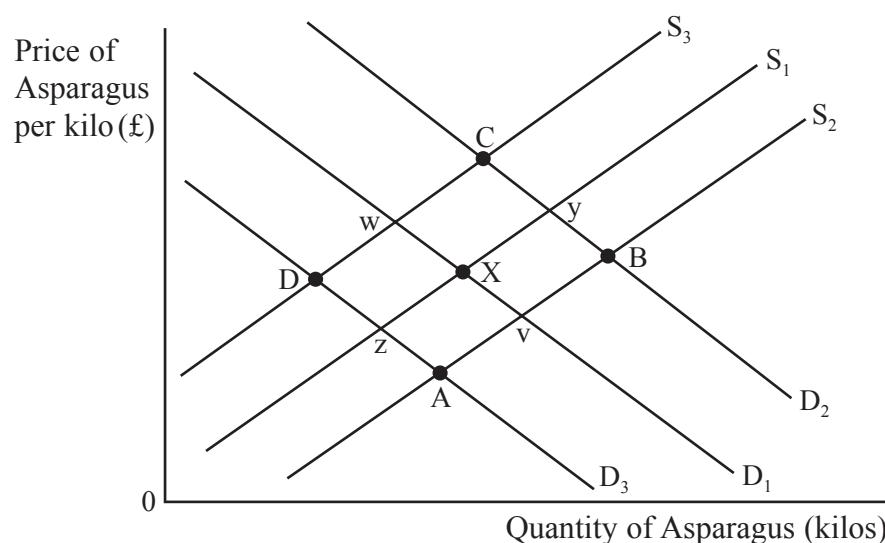
Q3

(Total 5 marks)



4.

Market for Asparagus



The diagram shows the market for asparagus. The initial equilibrium position is indicated by point X.

Following a successful advertising campaign for asparagus by the celebrity chef Jamie Oliver and a sustained period of rain which damaged the asparagus crop, what would be the new equilibrium point (A, B, C or D)?

(a) Answer

(1)

(b) Explanation

(4)

Q4

(Total 5 marks)

5

Turn over



Leave
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5. Rixy's income rises from £1000 to £1500 per month. As a result, his monthly demand for petrol increases from 50 litres to 75 litres and his demand for takeaway food decreases from four to three meals a month.

From this information it can be deduced that

- A petrol is an inferior good.
- B the increase in income has led to a more than proportional demand for petrol.
- C the cross price elasticity of demand between petrol and takeaway food is positive.
- D takeaway food is an inferior good.

(a) Answer

(1)

(b) Explanation

(4)

Q5

(Total 5 marks)



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6. A clothing retailer reduces the price of shirts from £50 to £40. As a result, quantity demanded rises from 20,000 to 24,000 per month. What is the best estimate for price elasticity of demand?

A -1.

B -2.5.

C +2.5.

D -2.

(a) Answer

(1)

(b) Explanation

(4)

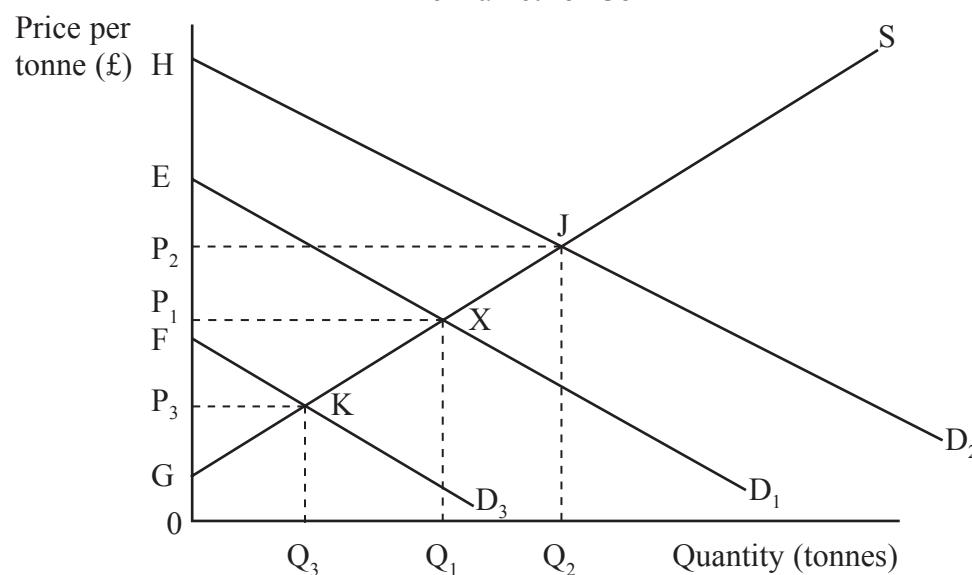
Q6

(Total 5 marks)



7.

The market for Corn



The market for corn is shown in initial equilibrium at P_1 , Q_1 . Which area represents the consumer surplus **after** an increase in the demand for corn?

- A $P_2 H J$
- B $P_2 J X P_1$
- C $P_3 K F$
- D $P_2 J G$

(a) Answer

(1)

(b) Explanation

(4)

Q7

(Total 5 marks)



N 3 0 7 2 5 A 0 8 2 0

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8. The following data represent the daily demand and supply schedules for a kilogram of tobacco. (You may use the blank column in your explanation).

Price per unit (£)	Quantity demanded (kg)	Quantity supplied (kg)	Quantity supplied after tax (units)
70	400	480	
65	420	460	
60	440	440	
55	460	420	
50	480	400	

If the government imposes a tax of £10 per kilogram, the new equilibrium price will be

- A £55.
- B £60.
- C £65.
- D £70.

(a) Answer

(1)

(b) Explanation

(4)

Q8

(Total 5 marks)

TOTAL FOR SECTION A: 40 MARKS



SECTION B

Answer EITHER Question 9 OR Question 10.

Write your answers in the spaces provided.

Indicate which question you are answering by marking the box (☒). If you change your mind about an answer, put a line through the box (☒) and then indicate your new question with a cross (☒).

You are advised to spend 30 minutes on this question.

If you answer Question 9 put a cross in this box ☒.

Leave
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Question 9

Extract 1

Uranium price soars

The price of uranium has soared on the global market by nearly a quarter since September 2006, but a report predicts it will rise a further 75% within the next two years. The demand is being fed by a reactor building programme across the world which will add 250 new nuclear power plants to the 440 in operation.

The surge in demand for uranium to fuel new power stations has led to a major rise in the commodity's value and encouraged a large number of new mining and production firms to be established.

5

"The uranium price is forecast to reach \$198 per kilogram by mid-2007, an increase of 37% over the current price, and \$253 per kilogram by late 2008, an increase of 75% over the current price," said Resource Capital Research. The price was less than \$25 per kilogram in 2003.

10

The research comes amid reports that the newly-enlarged European Union's plan for a common energy policy will favour the increased use of nuclear energy as a means of reducing carbon emissions and combating volatility of energy prices.

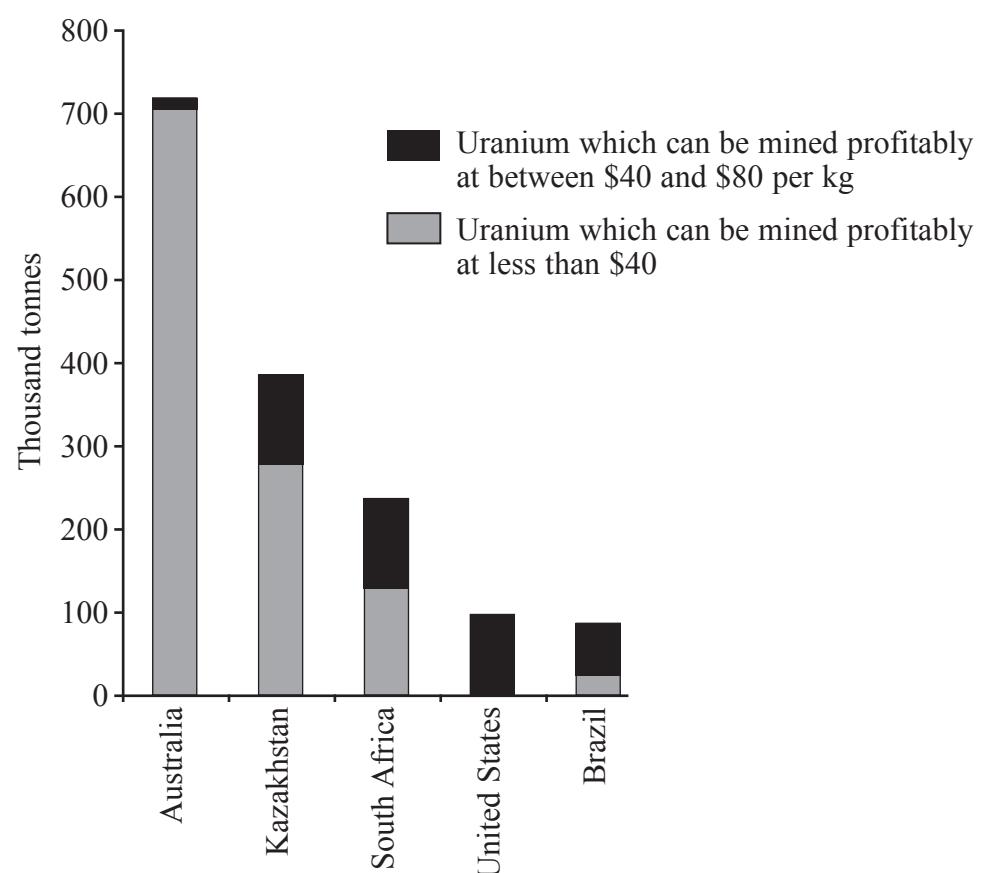
Source: Adapted from "Uranium price soars as countries give nuclear power the go-ahead" by Terry Macalister,
The Guardian, 27 December 2006



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Figure 1:

Known reserves of Uranium in selected countries



Source: Adapted from Uranium Information Centre <http://www.uic.com.au/nip75.htm>



- (a) Using a demand and supply diagram, explain why uranium prices have been increasing in recent years.

Leave
blank

(4)



- (b) Discuss why increasing uranium prices have “encouraged a large number of new mining and production firms to be established” (Extract 1, lines 6–7).

Leave
blank

(4)



N 3 0 7 2 5 A 0 1 3 2 0

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Turn over

- (c) With reference to Figure 1, discuss the likely implications for uranium mining companies of an increase in the price of uranium. Refer to price elasticity of supply in your answer.

Leave
blank

(6)



- (d) Discuss, using a diagram, how government subsidies could be used to encourage the building of more nuclear power stations.

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Q9

(6)

(Total 20 marks)



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If you answer Question 10 put a cross in this box .

Question 10

Extract 1

Rents

Rising demand for rental accommodation has placed an upward pressure on rental prices, which have risen at a significant rate. Average rents in London rose by 7.4% during the first five months of 2007. Rental demand has been driven up by an increasing influx of people moving into London from overseas, and extra single households. Many potential first-time buyers are also continuing to rent, simply because they cannot afford to get on to the property ladder and become owner occupiers. Some critics are calling for government intervention as rents are becoming unfairly high.

5

Although some landlords have been taking advantage of the current strong sales by cashing-in on their properties, Foxtons Estate Agent's supply of rental stock in London increased by 17 per cent during the first five months of 2007, compared to the same period in 2006. Yet the supply of rental properties on the market failed to keep pace with demand.

10

Figure 1

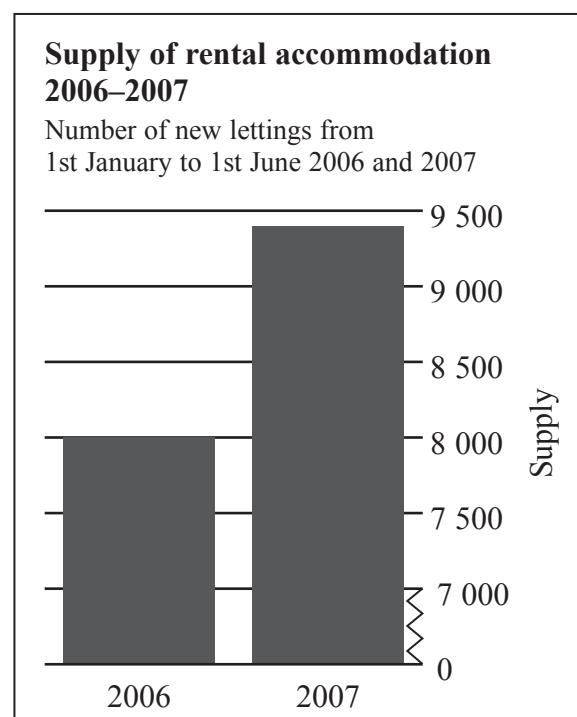
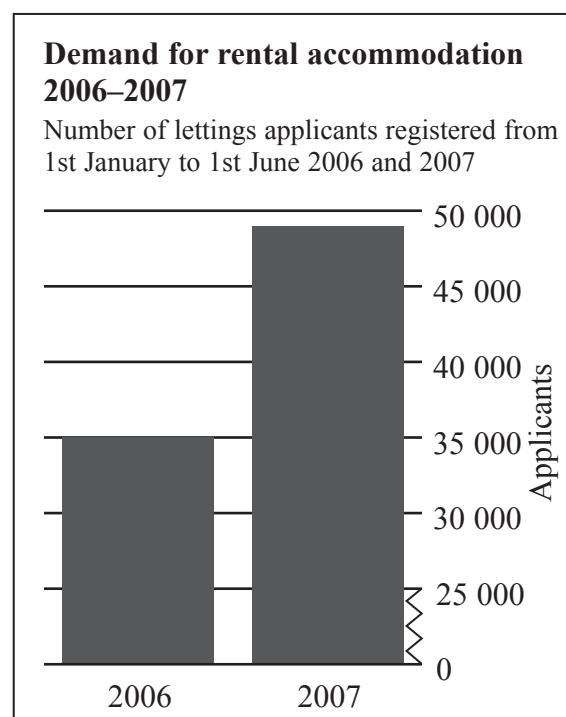


Figure 2



Source: Adapted from "The Area" published by Foxtons Estate Agent July 2007



- (a) Giving examples from the first paragraph, distinguish between positive and normative statements.

(4)

Leave
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N 3 0 7 2 5 A 0 1 7 2 0

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Turn over

- (b) Using a demand and supply diagram, explain why average rents have continued to rise.

Leave
blank

(6)



- (c) Using the concept of cross price elasticity of demand, discuss the nature of the relationship between rental prices and the demand for owner-occupied housing.

Leave
blank

(5)



N 3 0 7 2 5 A 0 1 9 2 0

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Turn over

- (d) With reference to Figures 1 and 2, assess the view that “the supply of rental properties has failed to keep pace with demand.” (Extract 1, lines 11–12).

Leave
blank

(5)

Q10

(Total 20 marks)

TOTAL FOR SECTION B: 20 MARKS

TOTAL FOR PAPER: 40 MARKS

END

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