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

Paper Reference(s)

6351/01

Edexcel GCE

Economics

Advanced Subsidiary

Unit 1 – Markets: how they work

Wednesday 3 June 2009 – Afternoon

Time: 1 hour

Examiner's use only

Team Leader's use only

Question Number	Leave Blank
Section A	
Section B	
Total	

Materials required for examination	**Items included with question papers**
Nil	Nil

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.
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.

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 mark on Section A divided by two.
The total mark for this paper is 40.
There are 20 pages in this question paper. Any blank pages are indicated.
You may use a calculator.

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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SECTION A

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. *Statement One*

"Increases in income tax will slow down the growth of the economy."

Statement Two

"Increases in income tax should be used to fund increased spending on the health service."

A. Statement One is positive and statement Two is normative.

B. Statements One and Two are both positive.

C. Statement One is normative and statement Two is positive.

D. Statements One and Two are both normative.

Please write your answer and explanation on the next page.

Leave blank

(a) **Answer** $\boxed{}$

(1)

(b) **Explanation**

(4)

Q1

(Total 5 marks)

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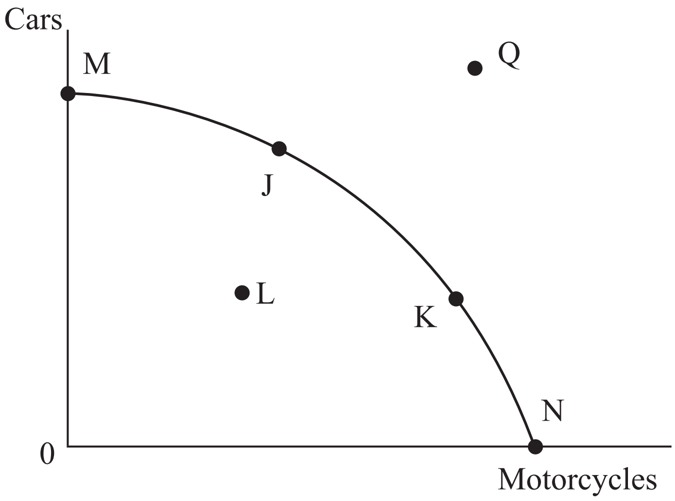
2.



The diagram shows a production possibility frontier for a country. Which point is unobtainable given currently available resources?

A. J

B. K

C. Q

D. L

(a) **Answer**

(1)

(b) **Explanation**

(4)

Q2

(Total 5 marks)

Leave blank

3. In France and Belgium, the output of bread and chocolates resulting from a given input of factors of production is as follows

France: 96 loaves of bread or 32 packets of chocolate.
Belgium: 24 loaves of bread or 8 packets of chocolate.

From this information, assuming constant costs, it can be deduced that:

A. Belgium is more efficient at producing both bread and chocolate than France.

B. Neither country can benefit from trade.

C. Belgium is able to produce bread and chocolate at a lower average cost than France.

D. Both countries can benefit from trade.

(a) **Answer** ☐

(1)

(b) **Explanation**

(4)

Q3

(Total 5 marks)

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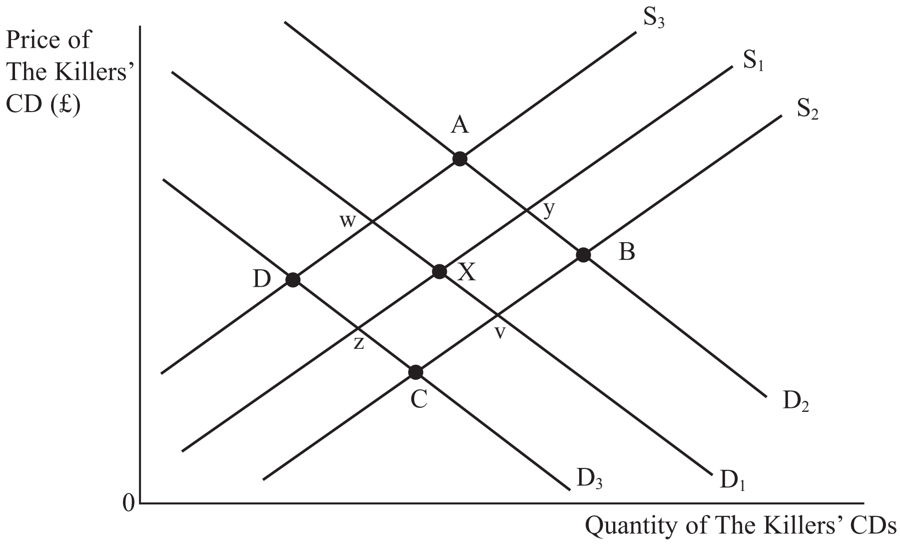
4. Market for The Killers' CDs



The diagram shows the demand for and supply of The Killers' latest CD. The band embark on a successful concert tour of Europe and at the same time there is an increase in the cost of producing CDs.

If the initial equilibrium point is X, which of the following points, **A**, **B**, **C**, **D** shows the likely new equilibrium point for the album?

(a) **Answer**

(1)

(b) **Explanation**

(4)

Q4

(Total 5 marks)

H 3 4 3 0 4 A 0 6 2 0

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5. Hannah, a soup supplier, discovers she can raise the price of her Roast Turkey soup from £1.30 to £1.50 a carton and can increase total revenue from this product. This suggests that demand for this soup is

A. income elastic.

B. price inelastic.

C. income inelastic.

D. price elastic.

(a) **Answer** ☐

(1)

(b) **Explanation**

(4)

Q5

(Total 5 marks)

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6.

The diagram shows the demand for holidays to New Zealand. The diagram suggests that holidays to New Zealand are

A. a normal good.

B. an inferior good.

C. a free good.

D. a complementary good.

(a) **Answer**

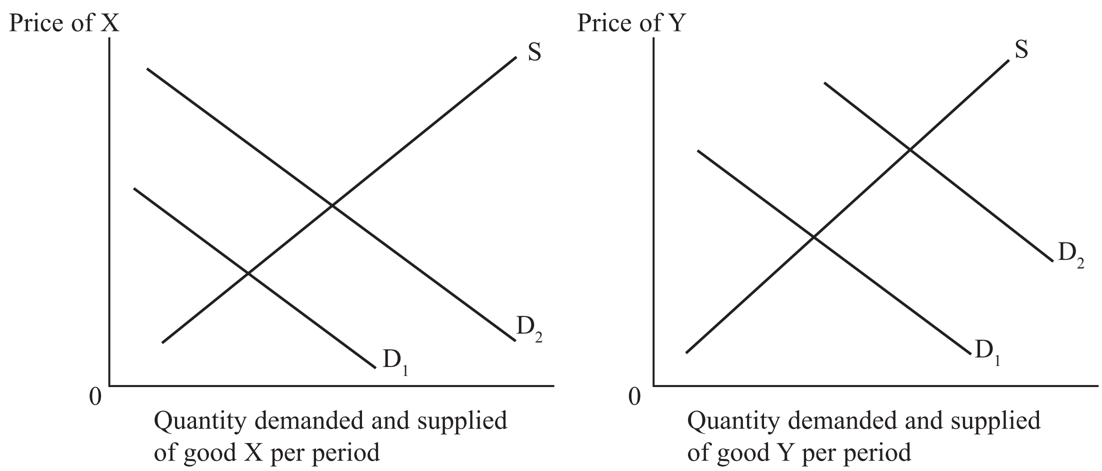
(1)

(b) **Explanation**

(4)

Q6

(Total 5 marks)

7. 

The diagrams show how a shift in demand for good X results in a shift in the demand for good Y. Which of the following pairs of goods is most likely to be represented by good X and good Y?

A. Coca-Cola and Pepsi-Cola.

B. *The Times* and *The Daily Telegraph* newspapers.

C. Rail travel and air travel.

D. Games software and games consoles.

(a) **Answer** ☐

(1)

(b) **Explanation**

(4)

Leave blank

Q7

(Total 5 marks)

Leave blank

8. US cotton farmers receive a government subsidy. Which of the following effects on the output and price of cotton is likely to result from a reduction of the government subsidy?

A. A fall in output and fall in price.

B. A fall in output and rise in price.

C. A rise in output and a fall in price.

D. A rise in output and a rise in price.

(a) **Answer**

(1)

(b) **Explanation**

(4)

Q8

(Total 5 marks)

TOTAL FOR SECTION A: 40 MARKS

H 3 4 3 0 4 A 0 1 0 2 0

Leave blank

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, 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 ☐ .

Question 9 Price of Gold

Extract 1: Gold price 'will rocket to more than $1,000 an ounce'

The investment bank Credit Suisse has forecast that the gold price will soar to more than $1,000 per ounce over the next five years as dwindling supply of the precious metal combines with increased demand from Central Banks. The investment bank believes that the price of gold, which earlier this week rose to a 28-year high of $795 an ounce, will reach $1,050 an ounce by 2012.

"Upward pressure on the price of gold is being driven by falls in global gold production in the coming years, as the diminishing number of new reserves fails to compensate for dying mines" said Credit Suisse analyst David Davis.

Source: Adapted from *The Daily Telegraph*, Gold price 'will rocket to more than $1,000 an ounce' by David Litterick 31 October 2007

Extract 2: Signet fails to sparkle in the US as it warns of profit slide

In the US, home to 75% of the business of Signet, the jeweller, sales are down 7% on a year ago. The economic slowdown in the US has also been made worse by higher costs for diamonds and precious metals such as gold.

The company has so far absorbed the rising raw material costs, but said it planned to raise prices during February 2008.

Source: Adapted from *The Scotsman,* 'Signet fails to sparkle in the US as it warns of profit slide', by Alistair McArthur November 28 2007

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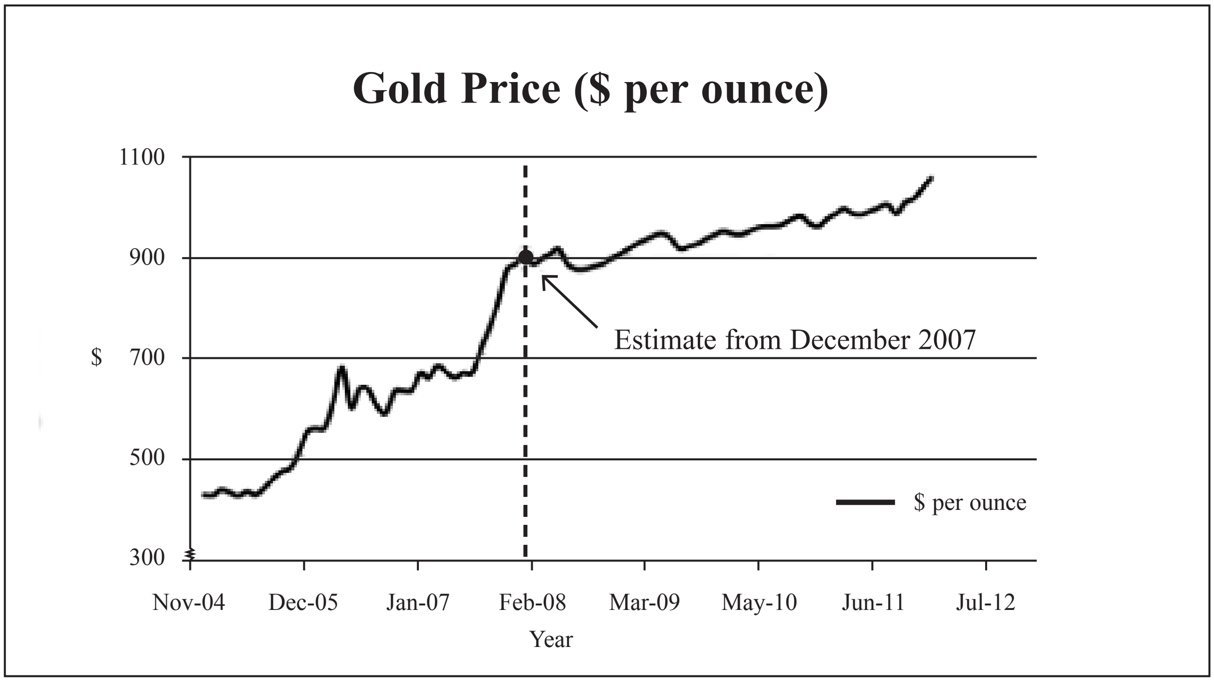
Figure 1



Source: Adapted from www.gold.org

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(a) Using a demand and supply diagram explain why Credit Suisse forecast "the gold price will soar to more than $1000 per ounce" (*Extract 1, lines 1–2*).

(6)

Leave blank

(b) Discuss the impact on the demand for Signet jewellery of the rise in the price of gold.

(4)

(c) Evaluate the impact of jewellery retailers leaving the industry on supply and the price of jewellery.

(4)

Leave blank

(d) Using the concept of cross price elasticity of demand, discuss the likely impact of rising gold prices on substitute and complementary goods.

(6)

Q9

(Total 20 marks)

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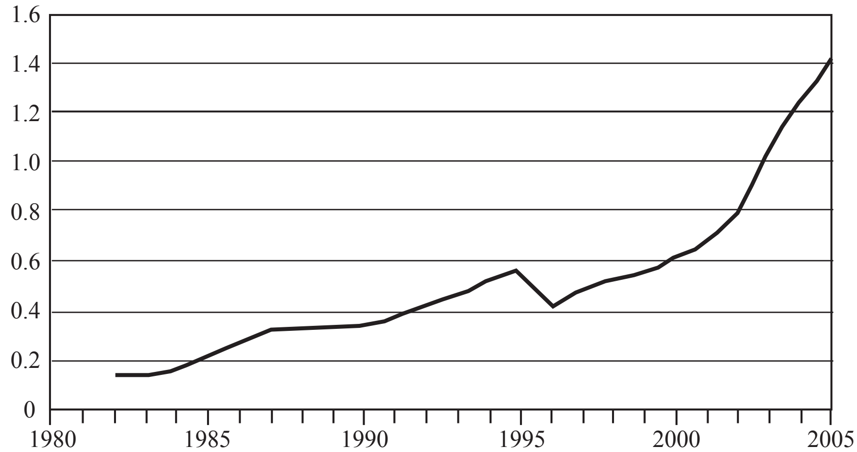
If you answer Question 10 put a cross in this box ☒ .

Question 10 **Corn Prices**

Figure 1: Corn used in ethanol production (Billions of Bushels)



Source: http://www.artdiamondblog.com/archives/energyenvironment/ September 3rd 2006

Extract 1: Dash for green fuel

The price of meat is set to rise as the United States' desire to convert corn (maize) into ethanol for use to produce motor vehicle fuel take its toll on the supply of food. Large US government subsidies for the production of ethanol, have encouraged the expansion of ethanol distilleries.

The US Department of Agriculture (USDA) has said that meat supply will fall this year because of the high cost of corn feed. Output of beef, pork and chicken is expected to decline by 450 million kilograms as farmers react to the soaring cost of feeding their livestock.

Typically, meat production in the United States rises by about 2 per cent a year, but the pressure from American ethanol producers manufacturing road fuel from corn has sent the price of corn soaring to 16 cents a kilo. Faced with extortionate feed costs, cattle and poultry farmers are rearing fewer animals and slaughtering them early.

"There is a new demand component," Shayle Shagam, a livestock analyst at USDA, said. "Livestock producers have to bid against the ethanol industry to get supplies of corn."

Source: Adapted from "Dash for green fuel pushes up price of meat in US" by Carl Mortishead, *The Times*, 12 April 2007

Leave blank

(a) Using a diagram, analyse how “large US government subsidies” (*Extract 1, lines 2–3*) will encourage the expansion of ethanol production.

(4)

Turn over for part (b)

Leave blank

(b) Discuss what is likely to happen to producer surplus for farmers as a result of the rise in prices of meat described in Extract 1, line 1.

(5)

Leave blank

(c) Using the concept of price elasticity of supply discuss how a corn farmer might react to the rising price of corn.

(5)

Turn over for part (d)

H 3 4 3 0 4 A 0 1 9 2 0

Leave blank

(d) Using a demand and supply diagram discuss why the price of meat is set to rise (*Extract 1, line 1*).

(6)

Q10

(Total 20 marks)

TOTAL FOR SECTION B: 20 MARKS

TOTAL FOR PAPER: 40 MARKS

END