

Surname	Centre Number	Candidate Number
Other Names		2



GCE AS/A level

1131/01

ECONOMICS – EC1

P.M. WEDNESDAY, 15 January 2014

1 hour

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

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

ADDITIONAL MATERIALS

In addition to this paper, you will require a calculator and a ruler.

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.

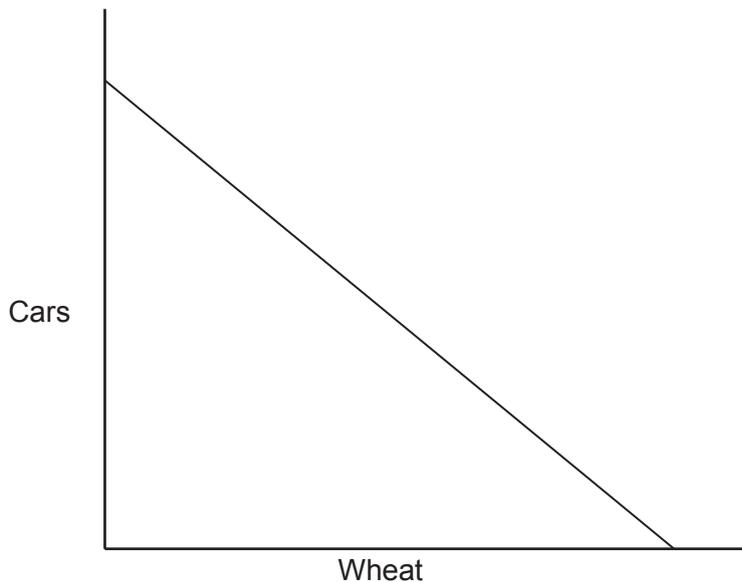
Answer **all** the questions in the spaces provided. You may use continuation paper on page 12 if necessary, taking care to number the continuation correctly.

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. Study the production possibility frontier below which shows an economy that only produces cars and wheat.



- (a) Explain what is shown by a production possibility frontier. [2]

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- (b) Using the diagram explain why a production possibility frontier is normally drawn as a curve concave to the origin rather than as a straight line. [3]

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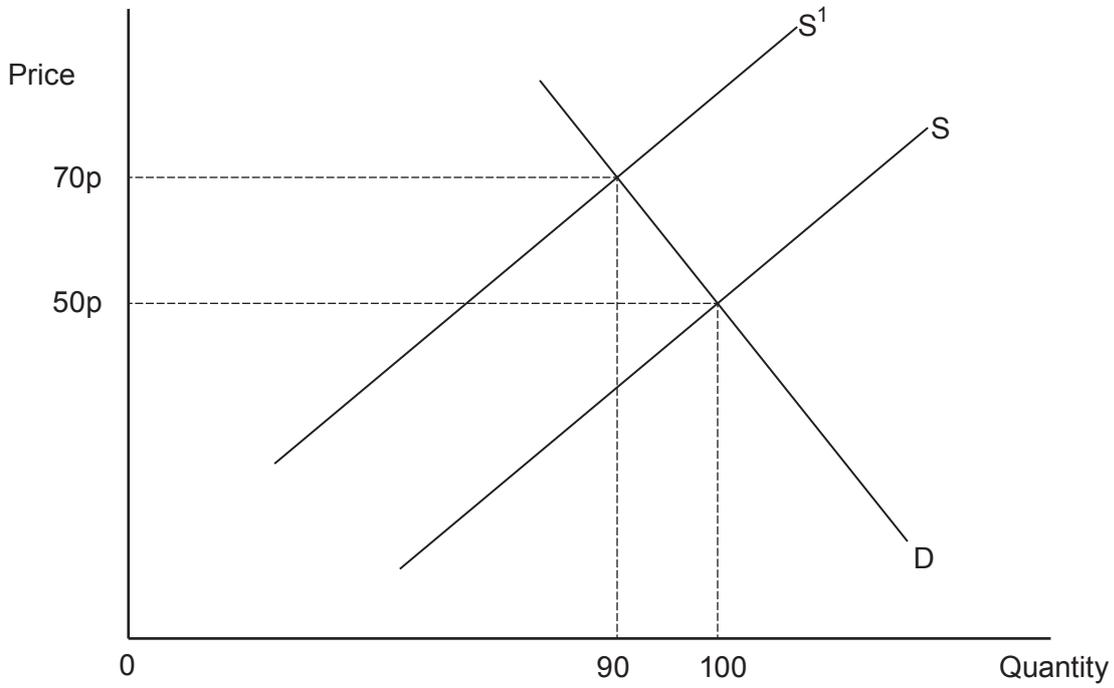
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2. The diagram below shows the market for a commodity in which supply has shifted to the left.



(a) Identify one factor which could have caused the supply curve to shift to the left. [1]

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(b) Calculate the price elasticity of demand following the resultant price rise and comment on its value. [4]

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3. WATER COMPANIES ‘PUSHING POINTLESS INSURANCE COVER FOR BURST PIPES’

Source: Daily Mail 18 April 2012.

Water companies are pushing customers into buying insurance against burst pipes that could be completely unnecessary. The policies cost £35 per year, but many of these same water companies already offer free repairs for pipes running outside the house, and pipes inside the house will already be covered by ordinary home insurance.

Use the above data to explain the concept of asymmetry of information. [4]

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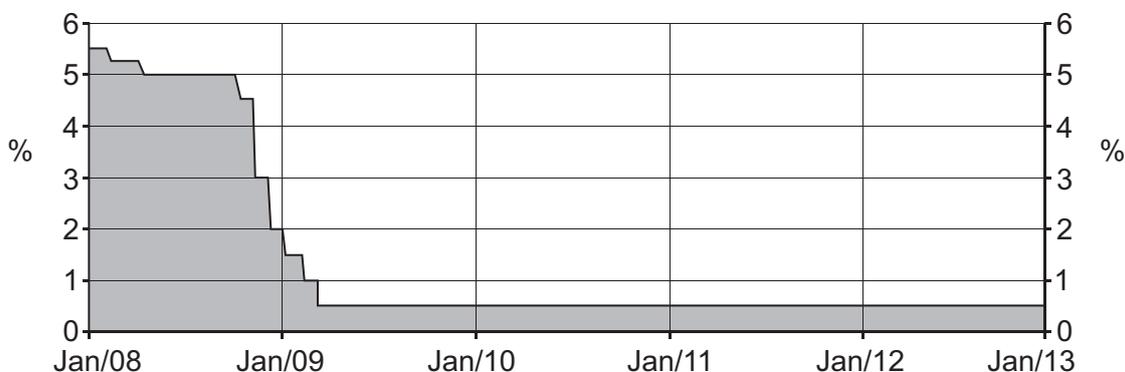
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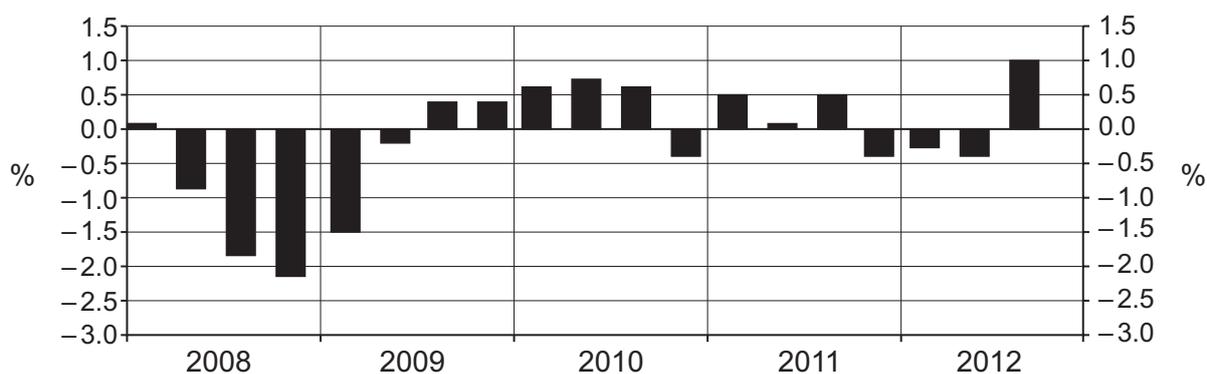
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5.

Bank of England Base Interest Rate



UK GDP growth, quarter on previous quarter



The Bank of England’s Monetary Policy Committee (MPC) announced in August 2012 that it would maintain its base interest rate at 0.5%. The base rate was cut to this level early in 2009. There was no increase in the total size of the bank’s quantitative easing programme, although several members of the committee did want to increase it from the current level of £375bn.

Using the data, evaluate the extent to which a low interest rate can be relied upon to raise aggregate demand and increase GDP. [8]

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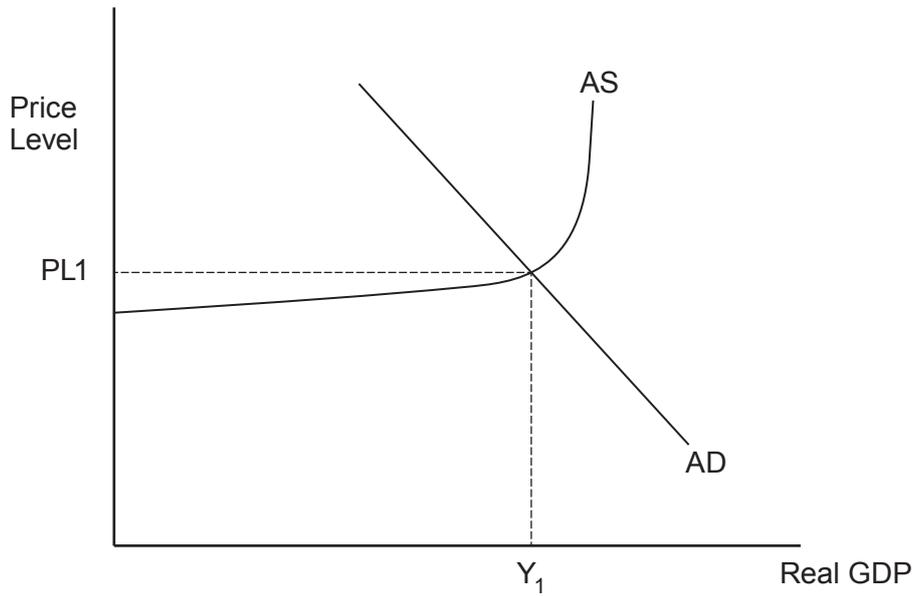
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6. By adapting the aggregate demand and supply diagrams below and opposite, explain using examples how inflation can arise from:

(a) an increase in aggregate demand;

[4]



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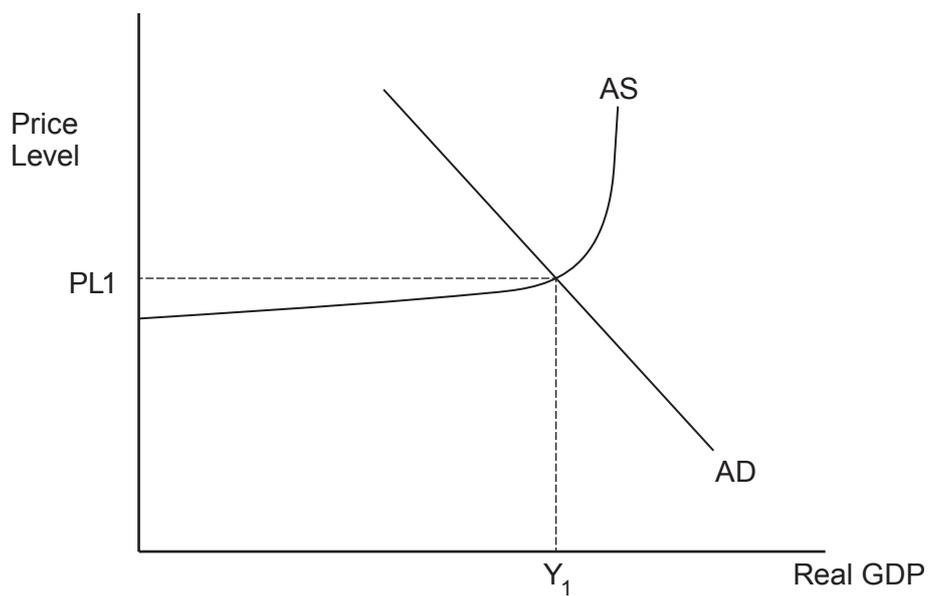
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(b) a significant increase in costs in the economy.

[4] Examiners only



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