



**GCE AS/A level**

1132/01

**ECONOMICS – EC2**

P.M. MONDAY, 28 January 2013

2 hours

### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a 12 page answer book.

### **INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

### **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, Section B has 20 marks and Section C has 20 marks.

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

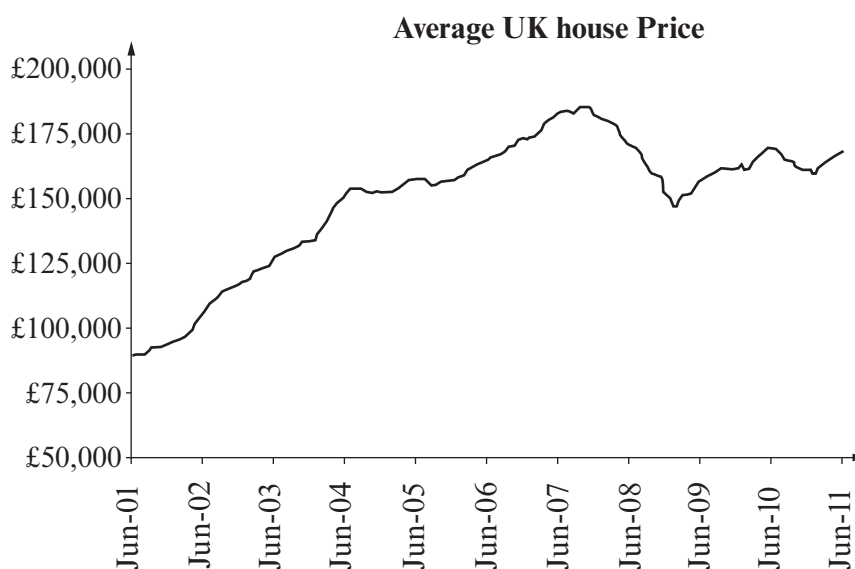
## SECTION A

Answer **all** the questions in this section.

1. Study the information below and then answer the questions that follow.

### HOUSE SALES HAVE FALLEN SO WHY ARE HOUSE PRICES STILL HIGH?

- Why are house prices apparently so resistant to the normal laws of supply and demand? It is one of life's great mysteries. Houses are still expensive, by anyone's reckoning. However, the number of potential house buyers has been restricted by banks and building societies, who continue to limit their mortgage lending to borrowers. If lenders do make loans to potential house buyers, they base the amount they are prepared to lend on the borrowers' average earnings. Put simply, whether you can afford to buy a house (as well as how big it is) largely depends on your income. In addition borrowers may be asked to put down a deposit of over 25% of the value of the house they intend to buy – it used to be less than 10%. The level of house sales is roughly half what it was before the credit crunch in 2008/09. According to the laws of supply and demand house prices should have collapsed.



- High unemployment and falling real incomes have also added to difficulties facing potential house buyers, particularly those trying to buy their first home. A new study by the National Housing Federation suggests that by 2021 home ownership (owner occupation) will be down to 63.8% from a peak of 72.5% of households. A whole generation could be locked out of the property market resulting in them having to rent property from private landlords. Rents could increase dramatically.

20 The Home Builders Federation says fewer homes are being built in England than at any time  
 since the 1920s. The government has responded to the housing crisis with a steady stream of  
 initiatives including a proposed simplification of the planning system to make the building  
 of new houses easier. Currently the planning system restricts where new houses can be built.  
 However, environmental organisations say that the proposed changes to planning regulations  
 will damage the countryside. Jack Neill-Hall, of the Campaign to protect Rural England, said:  
 25 ‘The proposals are overwhelmingly geared to delivering the needs of business and short-term  
 economic growth rather than the long term needs of communities and the environment’.

*Source: BBC Business News (adapted)/The Times 1/9/11 (adapted)*

- (a) Using demand and supply diagrams explain why
- (i) ‘house prices should have collapsed’. (line 11) [4]
  - (ii) ‘rents could increase dramatically’. (line 17) [4]
- (b) How far do you agree with the view that the relaxation of the planning laws will produce only external costs but no external benefits? [6]
- (c) Define income elasticity demand and, using the data, explain why house ownership is a normal good. [4]
- (d) Define price elasticity of supply and, with the aid of a diagram, explain why the proposed changes to planning laws might increase the price elasticity of supply of house building in the long run. [6]
- (e) To what extent is the level of consumption in the economy likely to be determined by the level of house prices? [6]
- (f) Using a diagram discuss whether the government should set a maximum rent on housing rented from private landlords. [10]

**SECTION B**

*Answer one question from this section.*

**2. SCOTTISH PARLIAMENT TO VOTE ON MINIMUM PRICE FOR ALCOHOL**

- (a) Define consumer surplus and producer surplus and with the aid of a diagram explain how each is affected by a rise in demand for a product. [8]
- (b) Evaluate the effects of a government fixing a minimum price per unit for alcoholic drinks. [12]

**3. CASTRO'S COMMUNIST CUBA TO EMBRACE FREE MARKETS**

- (a) Explain how resources are allocated in a free market economy. [8]
- (b) Discuss the view that the government rather than free markets should provide merit goods such as health and education. [12]

**4. AIR PASSENGER DUTY MAY RISE AGAIN**

- (a) Air Passenger Duty (APD) is a specific tax which is charged on airlines for carrying passengers flying from a United Kingdom airport. Explain what is meant by a specific tax and using a diagram describe how APD may increase the price of air fares and reduce the number of flights. [8]
- (b) To what extent is APD likely to be the most effective policy for correcting the market failure resulting from air travel? [12]

**SECTION C**

*Answer one question from this section.*

**5. UK NEEDS TO IMPROVE INTERNATIONAL COMPETITIVENESS**

- (a) Define productivity and explain why productivity varies between economies. [8]
- (b) Evaluate the policies available to governments wishing to raise the level of productivity in their economy. [12]

**6. UK ECONOMY STAGNATES WITH UNEMPLOYMENT RISING**

- (a) Explain the role of the Monetary Policy Committee of the Bank of England. [8]
- (b) Evaluate the effectiveness of monetary policy as a means of increasing employment and output in the UK economy. [12]

**7. JAPANESE GOVERNMENT INTERVENES TO DEPRECIATE ITS CURRENCY**

- (a) Using a diagram explain how exchange rates are determined. [8]
- (b) Comment on the view that a country is never justified in introducing protectionist measures against imports. [12]

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