

General Certificate of Education
January 2008
Advanced Subsidiary Examination



ECONOMICS **ECN1/2**
Unit 1 Part 2 Data Response: Markets and Market Failure

Thursday 17 January 2008 9.00 am to 10.00 am

For this paper you must have:

- an 8-page answer book
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: the total time for papers ECN1/1 and ECN1/2 together is 1 hour

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend at least 45 minutes on paper ECN1/2.

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

Total for this question: 25 marks

- 1** Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

**Extract A: Changes in the world price of copper and changes in world stocks of copper,
May 2001–April 2006**

Extract A is two graphs taken from newspaper extracts.
It has not been reproduced here due to third-party copyright restraints.

Extract B: Why copper is rising in value

Extract B is a passage of text adapted from The Times newspaper on 12 May 2006.
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Extract C: Are rising commodity prices good or bad for Africa?

Extract C is a passage of text adapted from Namibian World News on 3 October 2006. It has not been reproduced here due to third-party copyright restraints.

Question 1

- (a) Using **Extract A**, compare the changes in the world price of copper with the changes in world stocks of copper over the period shown. *(4 marks)*
- (b) ‘... the price of copper has surged by 80 per cent so far in 2006 as speculators buy into commodities, having seen the disruptions to supply, strikes at mines and low stock levels’ (**Extract B**, lines 4–6).

Using a supply and demand diagram, explain this statement. *(6 marks)*

- (c) Using the data and your economic knowledge, evaluate the case **for** and **against** governments intervening to try to stabilise the price of copper, for example through setting up a buffer stock scheme. *(15 marks)*

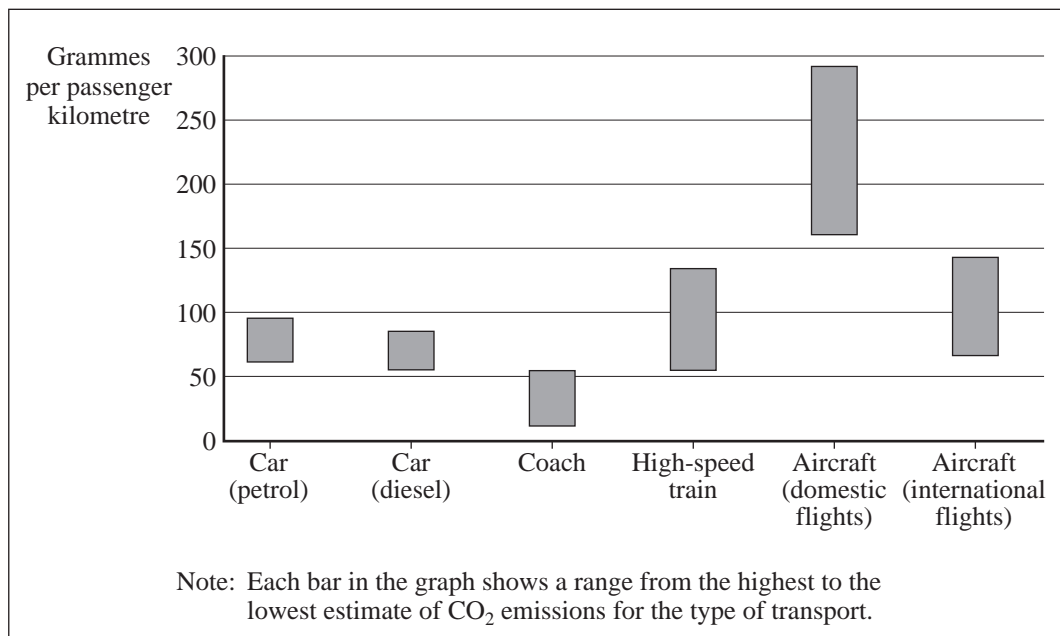
Turn over for the next question

OR

Total for this question: 25 marks

2 Study **Extracts D, E and F**, and then answer **all** parts of Question 2 which follows.

Extract D: Estimates of carbon dioxide (CO₂) emissions generated by long-distance passenger transport



Source: adapted from *The Economist*, 8 June 2006

Extract E: Carbon tax on airlines would never fly

Extract E is a passage of text adapted from The Times newspaper on 21 June 2006. It has not been reproduced here due to third-party copyright restraints.

Extract F: How to stop polluting the sky

One way to cut aircraft emissions would be to improve air traffic control. A cut of 12% could be made from changes such as putting European air traffic control under one organisation instead of the 35 different national bodies that now operate the network.	1
Crowded airports compound the problem. Busy runways at places such as Heathrow mean aeroplanes have to circle wastefully. Other small changes could further save fuel and avoid carbon emissions: aircraft could be towed everywhere on the ground by electric vehicles. Consumers, too, can take a stand by voluntarily offsetting the carbon emissions associated with flying by paying, for instance, to have trees planted.	5
Taxes and permit trading can also be used to curb emissions. Airlines protest that taxes are a blunt instrument with only marginal environmental benefits. The European Union's main proposal is to include airlines in the EU's 'permits to pollute' (or 'cap and trade') system that is supposed to reward industries that can reduce their CO ₂ output. Enforcement might be difficult, especially with airlines from America, which does not recognise the Kyoto Treaty. The Treaty committed industrialised nations to reducing emissions of greenhouse gases by around 5.2% below their 1990 levels by 2008 to 2012.	10
If American carriers are excluded from the EU's 'permits to pollute' system, they will enjoy an unfair advantage over European competitors.	15

Source: adapted from an article in *The Economist*, 8 June 2006

Question 2

- (a) Using **Extract D**, compare the estimates of carbon dioxide emissions from aircraft with those from the other forms of long-distance transport. (4 marks)
- (b) **Extract E** (lines 2–3) states that ‘the best way to reduce aircraft carbon emissions is to impose a tax on aviation fuel, so that the cost of the emissions has a monetary impact on air travel’.
- Using a supply and demand diagram, explain why a tax on aviation fuel may **not** have much effect on the demand for air travel. (6 marks)
- (c) Using the data and your economic knowledge, evaluate the **advantages** and **disadvantages** of various methods of government intervention to correct market failure arising from aircraft emissions. (15 marks)

END OF QUESTIONS

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