

General Certificate of Education
January 2005
Advanced Subsidiary Examination



ECONOMICS
Unit 3 Markets at Work

ECN3

Tuesday 18 January 2005 Morning Session

In addition to this paper you will require:

an 8-page answer book.
You may use a calculator.

Time allowed: 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 ECN3.
- Choose **one** of the Options and answer **all** parts of the question on that Option.

Information

- The maximum mark for this paper is 40.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Choose **one** of the Options and answer **all** parts of the question on that Option.

OPTION 1: THE HOUSING MARKET

1

Total for this question: 40 marks

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

Extract A:

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Extract B:

Extract B was a graph.

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Question 1

- (a) Define the term “negative equity” (**Extract A**, line 9). (3 marks)
- (b) Using **Extract B**, explain **one** reason why the balance between variable and fixed-rate mortgages creates a particular problem for the UK economy. (4 marks)
- (c) Explain the economic conditions that might cause mortgage interest rates to rise along with unemployment (as predicted in **Extract A**, lines 11–12). (8 marks)
- (d) With the help of a supply and demand diagram, analyse how a decision to lend borrowers six times their incomes (**Extract A**, line 22) could affect the market for houses. (10 marks)
- (e) Identify and evaluate the costs and benefits of a prolonged fall in house prices. (15 marks)

OPTION 2: THE ENVIRONMENT**2****Total for this question: 40 marks**

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

Extract C:

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Extract D:

Extract D was a table.
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Question 2

- (a) Define the term “market forces” (**Extract C**, line 28). (3 marks)
- (b) State and explain **one** reason why (contrary to the claim in **Extract C**, lines 19–20) the tax on electricity use might actually increase “competitiveness”. (4 marks)
- (c) Explain why it could be argued that the Climate Change Levy is good for the environment but bad for employment. (8 marks)
- (d) With the help of a supply and demand diagram, analyse how the price of permits for CO₂ emissions is likely to change under a carbon trading scheme (**Extract C**, lines 23–31). (10 marks)
- (e) Explain why governments concern themselves with greenhouse gas emissions, and discuss whether it is better to introduce schemes such as the Climate Change Levy and carbon trading, rather than simply to ban emissions. (15 marks)

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE

3

Total for this question: 40 marks

Study **Extracts E, F and G**, and then answer **all** parts of Question 3 which follows.

Extract E: We must go for gold with London's Olympic bid

Those who argue that London couldn't possibly host the 2012 Olympic Games because our city suffers from too much traffic, crime, overcrowding and pollution are missing the point. Hosting the Olympic Games is not the crowning glory of a city's success, it's an opportunity for change. Barcelona is a testament to that: a depressed industrial city took a scrap of land on the edge of town and, with a £5 billion investment in infrastructure, including new transport systems, turned their city into a major tourist centre. 1 5

In 2012, the East End could be home to a state of the art stadium and an Olympic village of 4000 new homes. The area will be easily accessed by the new Stratford Channel Tunnel rail link, and the planned Crossrail link will have the capacity to transport 150 000 people from the west of the city during the weekday morning peak time. 10

Once the Games are over, these new amenities will not gather dust but will provide a legacy. Premiership football sides have already expressed an interest in the main stadium, and the other facilities and new housing will quickly be absorbed in a city that is expected to have gained 700 000 new residents by 2012, equivalent to the population of Leeds. The other great legacy of the Games will be the benefits of tourism, an industry that has been seriously shaken by the double blows of foot-and-mouth and 11 September. The Games will be good for the whole country, not just London. The year before the 1992 Olympics, Barcelona's airport handled 2.9 million passengers. In 2002, the figure was 21 million. Tourism was less than 2 per cent of the city's pre-Olympic GDP, and is now 12.5 per cent, with a further 12 500 new jobs in hotels alone. Yet 70% of the funding for the bid came from the national government in Madrid. 15 20

Source: adapted from KEN LIVINGSTONE (Mayor of London), *Guardian Unlimited* www.observer.co.uk/olympics2012, accessed 19 May 2003

Extract F: London Olympic bid: summary of projected costs and benefits

Item	Expenditure (£m)	Income (£m)	Defecit (–) or surplus (+) (£m)
Main costs and benefits: bidding; elite sport development; infrastructure; land values; risk	1796	1302	–494
Additional costs and benefits: tourism; economic growth; job creation	103	349 to 679	+246 to +576
Total cost / benefit	1899	1651 to 1981	–248 to +82

Source: adapted from *London Olympics 2012*, a report by the construction company Arup, commissioned by the UK government, Mayor of London and British Olympic Association, 21 May 2002

Extract G: Who pays for the Games?

The projected costs and benefits of an Olympic bid are difficult to assess. Can we believe the often remarkable claims about the economic benefits of mega-events like the Olympics? Maybe, maybe not. Games promoters talk about ‘legacies’ as if they were gifts from the International Olympic Committee. In fact, they are paid for by taxpayers. It’s like, “Give me \$100, I want to buy you a present”, except it’s, “Give me a couple of billion, I want to buy you a legacy”. 1 5

In Sydney, more than half the total budget of \$2 billion came from the taxpayer. When the Games are over, taxpayers are legally responsible for any debt left from the Games. Taxpayers in Atlanta and Barcelona are still paying a surcharge to work off the debt from their Games.

Source: adapted from Olympic Sound Bites, www.whistlerolympicinfo.com, accessed 3 June 2003

Question 3

- (a) Define the term “investment” (**Extract E**, line 5). (3 marks)
- (b) Explain **one** reason why infrastructure investment (**Extract E**, line 5 and **Extract F**) can be important to an economy. (4 marks)
- (c) Using examples from the extracts, explain why some claims made for the economic effects of the Olympics are based on positive statements, while others are based on value judgements. (8 marks)
- (d) With the help of a supply and demand diagram, analyse how a successful Olympic bid might affect the price of hotel rooms in London. (10 marks)
- (e) Explain why mega-events like the Olympics cannot be provided entirely by the private sector without involving the government and taxpayers, and assess the economic advantages and disadvantages of staging the Olympics in London. (15 marks)

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE

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Extract E: *The Observer*, 12 January 2003

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