General Certificate of Education
June 2007
Advanced Subsidiary Examination

ECONOMICS **ECN3**
Unit 3 Markets at Work

Friday 8 June 2007 1.30 pm to 2.30 pm

For this paper you must have: • 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.
- 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.

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

OPTION 1: THE HOUSING MARKET

Total for this question: 40 marks

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

Extract A: Too few homes for next generation

Extract A is an extract of text.

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Extract B: Rise of the IKEA flat-pack village

Extract B is a map and a text extract.

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Proposed IKEA villages

Extract C: Struggling onto the ladder

Extract C is an extract of text.

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Question 1

(a) Define the term 'economic growth' (**Extract A**, line 7). *(3 marks)*

(b) Explain how the decision to purchase a first home may be influenced by **both** price **and** income. *(4 marks)*

(c) Use the concept of cross elasticity of demand to explain the likely relationship between the demand for houses and the demand for furniture. *(8 marks)*

(d) Assume that the short run supply curve for houses is vertical. Explain why this assumption might be made **and**, using a supply and demand diagram to help you, analyse the likely effects of an expansion of prefabricated house-building (as described in **Extract B**) on the housing market in the UK. *(10 marks)*

(e) Should the government build houses itself, encourage the private sector to build more houses, or play no part in the housing market at all? Justify your answer. *(15 marks)*

OPTION 2: THE ENVIRONMENT

Total for this question: 40 marks

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

Extract D: Transport trends

Extract D is a graphic from a newspaper.

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Extract E: Road pricing

Reducing road congestion can be seen as a supply-side policy. Road space is a product, just like roofing tiles and roller-skates. For economic efficiency, and to avoid wasteful queues, products need prices. Road pricing works by making drivers pay a toll. This toll is high at peak times when demand is high; when the roads are quiet, the toll is low. Road space is then sold in a rational way. People buy what they need.

Source: adapted from a paper by ANNA NAVIDSKI and ANDREW OSWALD, March 2002, *www2.warwick.ac.uk*, accessed on 19 February 2006

Extract F: Road tolls: a solution always ten years away

Extract F is an extract of text.

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Question 2

(a) Define the term 'supply-side policy' (**Extract E**, line 1). *(3 marks)*

(b) Explain how any **two** of the trends shown in **Extract D** may create negative externalities. *(4 marks)*

(c) Use the concept of cross elasticity of demand to explain the likely relationship between the demand for car journeys to school and the demand for bus journeys to school (**Extract D**). *(8 marks)*

(d) Assume that the short run supply curve for road space is vertical. Explain why this assumption might be made **and**, using a supply and demand diagram to help you, analyse the likely effects on road pricing (as described in **Extract E**) of a large increase in new road building. *(10 marks)*

(e) Over the next 10 years, should the government make greater or lesser use of measures such as road pricing or taxes on fuel to reduce road use? Justify your answer. *(15 marks)*

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE

Total for this question: 40 marks

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

Extract G: Touts to make millions in sell-out summer

Extract G is an extract of text.

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Extract H: Tour de France's London leg

In July 2007, London will host the start of the Tour de France cycle race. The Tour organisers have accepted a £1.5 million bid from the Mayor of London. Transport for London has budgeted £4 million for security and road closures. In return, it is estimated that London businesses will receive extra spending of £60 million from spectators to this free event, including visitors from France, Spain and Italy. In 1994, when the Tour last came to the south of England, about three million spectators watched the two stages, with an obvious boost to aggregate demand.

Question 3

(a) Define the term 'aggregate demand' (**Extract H**, line 7). *(3 marks)*

(b) Explain how 'genuine fans' may be 'missing out' due to the activities of ticket touts (**Extract G**, line 18). *(4 marks)*

(c) Use the concept of cross elasticity of demand to explain the likely relationship between the demand for 'suncream and binoculars' on the one hand and the demand for 'entertainment events' on the other (**Extract G**, lines 1-2). *(8 marks)*

(d) A promoter has hired a stadium for a rock concert. Explain why the short run supply curve for seats in the concert stadium is vertical **and**, using a supply and demand diagram to help you, analyse the likely effects on this concert if the local council were to stage a similar event in a nearby park with no entry charge. *(10 marks)*

(e) Should national and local governments intervene in the markets for sporting and entertainment events, for example by making bids for big events or passing laws about ticket sales, or should they play no part in these markets at all? Justify your answer. *(15 marks)*

END OF QUESTIONS

There are no questions printed on this page

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