Centre No.				Paper Reference			Surname	Initial(s)			
Candidate No.			6	3	5	1	/	0	1	Signature	

Paper Reference(s)

6351/01 Edexcel GCE

Economics Advanced Subsidiary

Unit 1 – Markets: how they work Thursday 18 January 2007 – Morning

Time: 1 hour

Materials required for examination	Items included with question papers
Nil	Nil

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In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.

Check that you have the correct question paper.

Answer ALL the questions in Section A in the spaces provided in this question paper.

- For each question there are four suggested answers: A, B, C or D.
- When you have selected your answer to the question, write the chosen letter in the box provided.
- You can only offer one answer to each question.
- After making your selection you should offer an explanation of why you have made that choice. Your explanation may include a diagram.

Answer ONE question from Section B in the spaces provided in this question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). The paper is divided into two sections, A and B; both sections are equally weighted, with the total mark on Section A divided by two.

The total mark for this paper is 40.

There are 20 pages in this question paper. Any blank pages are indicated.

Advice to Candidates

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, including your use of grammar, punctuation and spelling. You are advised to divide your time equally between Section A and Section B.

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Question Leave Blank
Section A

A
Section
B

_

Total Turn over



SECTION A

Answer ALL questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You are advised to spend 30 minutes on this section.

You are encouraged to use a diagram in your explanation where appropriate.

1.	One	e of the main functions of the price mechanism in a free market economy is to	
	A	provide free goods.	
	В	ration scarce goods.	
	C	ensure that incomes are evenly distributed.	
	D	keep prices stable.	
	(a)	Answer	
			(1)
	(b)	Explanation	

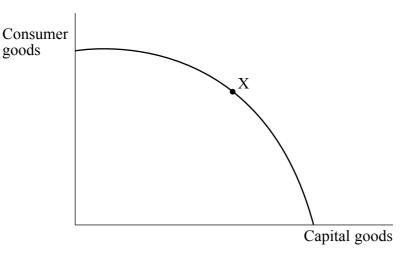
Q1

(4)

(Total 5 marks)

2.

goods



An economy is operating at point X on its production possibility frontier. If the output of capital goods is increased then the output of consumer goods will

- increase in the short run but decrease in the long run.
- decrease in the short run and increase in the long run.
- increase in the short run and increase in the long run.
- D decrease in the short run and decrease in the long run.

(a)	Answer	
-----	--------	--

(1)

/1	\ T	1 , •
(b)) Exp	lanatior

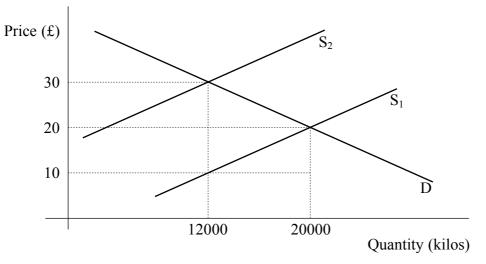
(4)
(4)
\ · · /

Q2

(Total 5 marks)

Leave blank 3. The USA subsidises rice exports to Senegal, where rice is also grown. Which of the following will be the likely effect on the market for rice in Senegal? A rise in the price of rice No change in the price of rice A fall in the price of rice An increase in demand for Senegalese rice (a) Answer **(1)** (b) Explanation **Q3 (4)** (Total 5 marks)

4.



The diagram illustrates the effect of the imposition of an indirect tax on a good. The tax revenue received by the government will be:

- **A** £360,000
- **B** £400,000
- **C** £120,000
- **D** £240,000

(a)	Answer

(1)

(b) Explanation

Q4

(4)

(Total 5 marks)



....

5.

Commodity Prices (\$ per tonne)

	2002	2003	2004	May 2005
Cocoa Beans	1779	1753	1551	1509
Copper	1560	1779	2863	3242
Olive Oil	2901	3797	4631	5487

Source: www.imf.org 7 June 2005

From the data it can be deduced that between 2002 and May 2005

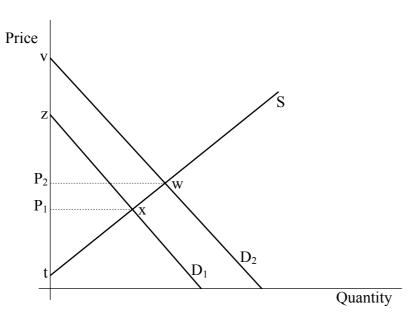
- **A** export earnings of countries producing olive oil will have decreased if demand is price inelastic.
- **B** the value of UK cocoa bean imports will have fallen if demand is price inelastic.
- C the trend in olive oil prices will encourage farmers to switch production to other products.
- **D** the supply curve for electric cables, which use copper as a raw material in their production, will have shifted to the right by 2005.

(a)	Answer				(1)
(b)	Explanat	tion			

(4) Q5

(Total 5 marks)

6.



The diagram shows the effect of an increase in demand for cherry tomatoes. This will cause

- A producer surplus and consumer surplus to increase.
- **B** consumer surplus and producer surplus to decrease.
- C producer surplus to decrease and consumer surplus to remain unchanged.
- **D** no change in either consumer or producer surplus.

(a)	Answer	
-----	--------	--

(1)

(b) Explanation

Q6

(4)

(Total 5 marks)

/

7.	rate	les of organic food increased by more than 10% in Britain over the last year, twice the of the ordinary grocery market but it is estimated that two-thirds of all the crops wn by UK organic farmers are sold at or below the cost of production.' Source: The Independent, 15 November 2004	biank							
	The	e most likely explanation is:								
	A	A There must have been a fall in the number of organic farmers before 2004.								
	В	Prices of organic food must have increased relative to food produced using intensive methods.								
	C	The supply of organic food was growing faster than demand for it.								
	D	The demand for organic food is perfectly inelastic.								
	(a)	Answer								
		(1)								
		Explanation								
		(4)	Q7							
		(Total 5 marks)								

Leave blank The income elasticity of demand for fresh potatoes has been estimated to be -0.32. This means that the demand for fresh potatoes will fall by 3.2% if incomes rise by 10%. rise by 3.2% if incomes rise by 10%. fall by 3.2% if the price rises by 10%. rise by 3.2% if the price rises by 10%. (a) Answer **(1)** (b) Explanation **(4) Q8** (Total 5 marks)

9

SECTION B

Answer EITHER Question 9 OR Question 10.

Write your answers in the spaces provided.

Indicate which question you are answering by marking the box (\boxtimes). If you change your mind about an answer, put a line through the box (\boxtimes) and then indicate your new question with a cross (\boxtimes).

You are advised to spend 30 minutes on this question.

If you answer Question 9 put a cross in this box \square .

Question 9

Bees don't just make honey

About 60% of all the food consumed in America has a bee connection. Without bees, the country would lose about \$20 billion in crops – almonds, citrus fruits, pears, cucumbers and apples – that are not self pollinating. However, bee numbers are declining fast – by about 50% in six months. The varroa mite, a bee parasite first found in Java a century ago, spread to America in 1987. It sucks the blood of bees and has now become immune to pesticides. The steady loss of bees has especially hurt the Californian almond industry, which accounts for 88% of the world's almond crop. Farmers think that yields may fall by as much as 16%. As a result almond prices are soaring to over \$3 per pound, an unprecedented level. That may be good news for almond growers but it is causing confectionery producers to switch to hazelnuts.

In recent years there has been a decline in the number of beekeepers not only because of mites but also because of cheaper imported honey. Bee experts admit that, if the business is to survive, state subsidies will be required. The shortage of Californian hives has led some beekeepers from as far away as Arkansas and Florida to lease their hives, sometimes at double the cost. Californian farmers are certainly willing to pay to save the remainder of their crops.

Source: adapted from The Economist 4 June 2005

10



Leave blank (a) (i) What is meant by cross elasticity of demand? **(2)** (ii) Using the concept of cross elasticity of demand, analyse the likely effect of the rise in the price of almonds on the demand for hazelnuts. **(3)**



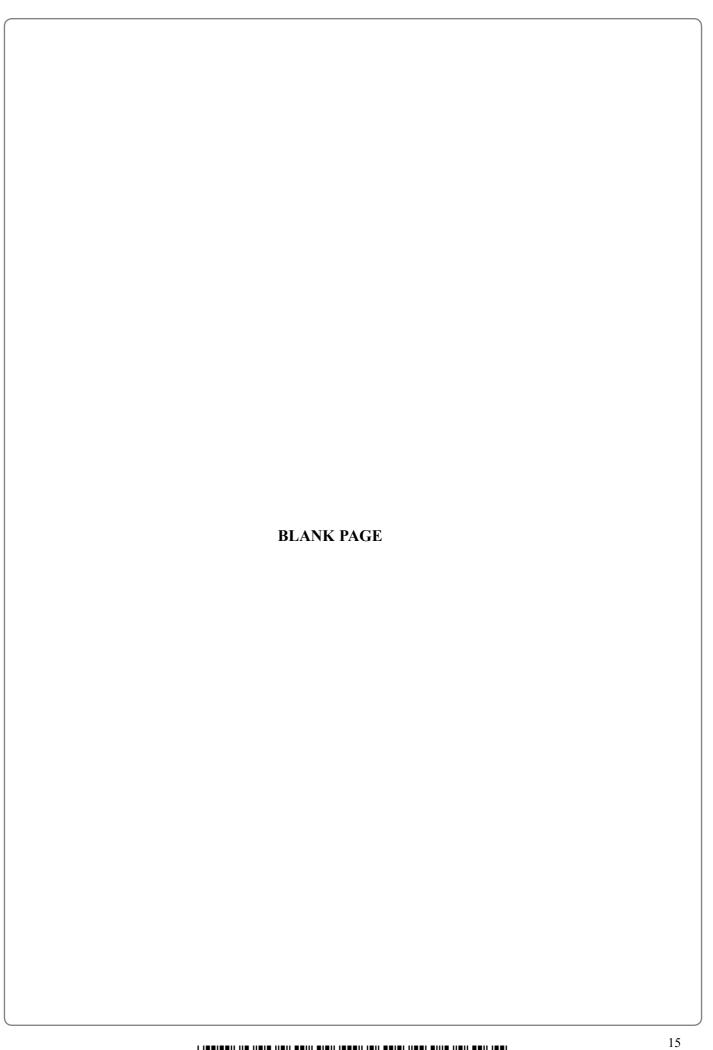
11

Leave blank (b) (i) With the aid of a supply and demand diagram, explain the effect of the spread of the varroa mite on the price of almonds. **(3)**

'cheap	er importe	d honey'	<i>line 13)</i> o	n the marl	ket for Calif	fornian hone	y.

13

									(2)
(ii)	Assess two beekeepers.	o implications	of state	subsidies	being	given	to	Califor	rnian





un ova

If you answer Question 10 put a cross in this box \square .

Question 10

Wood (Timber) Prices

Timber prices fell from £22 a tonne in 1996 to £11 in 2004. However, the market is improving and there are signs that this will continue. Recently timber prices rose to £13 a tonne: given the growing demand for wood products, there is the potential for prices to rise further. For many years, Britain's tree growers have been unable to compete with overseas producers. Timber is the fourth-largest import into Britain and the price is determined by global markets. A significant proportion of these imports is used in house construction.

The cost of higher-quality imported timber from the Baltic countries of Latvia, Lithuania and Estonia has been a key influence on prices in Britain. The other main competitors are Ireland, Finland and Sweden. After the Baltic countries joined the European Union in May 2004, restrictive timber conservation measures have helped to push up prices. Growing demand from Asia – particularly China, which is now the largest net importer of timber products – is helping to consume much of the wood produced in the Far East.

Demand for British timber has also been growing after a period in which an increase in recycling resulted in lower prices. The development of wood-burning power stations in the UK has been particularly welcome for the timber industry; 21 projects are in the planning stage and three are operational. However, forestry is a long-term investment: it takes at least 40 years before spruce trees can be chopped down for timber and other species grow even more slowly.

Source: adapted from The Sunday Times, 17 April 2005

20



Leave blank (a) Outline one advantage and one disadvantage for the Baltic countries of specialisation in the production of timber. **(4)**



17

(b) With the aid of a supply and demand diagram, assess the significance of the factors which have caused the rise in the price of timber since 2004. **(6)** Leave blank

blank (c) Evaluate the likely impact of rising timber prices on the price of houses. **(4)** (d) (i) How is elasticity of supply measured? **(2)**



19

Leave

(d) (ii) What might be deduced about the price elasticity of supply of timber in both the short run and long run? Justify your answer.	Leave blank	
(4)	Q10	
(Total 20 marks)		
TOTAL FOR SECTION B: 20 MARKS		
TOTAL FOR PAPER: 40 MARKS		
END		
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