



ADVANCED SUBSIDIARY GCE
ECONOMICS
 The Market System

2881

Candidates answer on the Answer Booklet

OCR Supplied Materials:

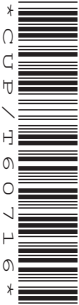
- Designated Answer Booklet [2881/AB]

Other Materials Required:

None

Friday 16 January 2009
Morning

Duration: 1 hour



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Write your answers in the separate Answer Booklet provided.
- Do **not** write in the bar codes.

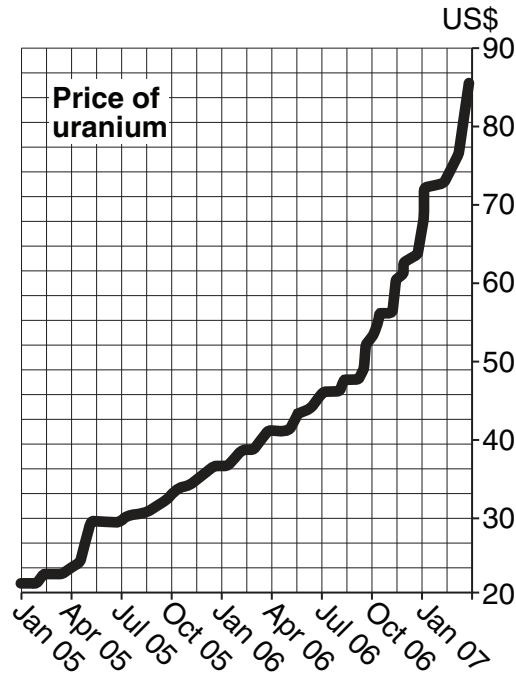
INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).
- This document consists of **4** pages. Any blank pages are indicated.

Answer **all** parts of this question in the accompanying answer booklet.

Global drive for nuclear power lifts uranium prices to record high

An increasing demand for nuclear power has resulted in uranium rocketing in price. Uranium is the main raw material used in the production of nuclear power. The price of uranium has quadrupled over the past two years and yesterday reached a new high of \$85 per unit (see Fig. 1).



Source: The Ux Consulting Company, LLC, www.uxc.com

Fig. 1

Demand for uranium, and the nuclear power it produces, is increasing across the world. Rising incomes are increasing the global demand for energy. Consumers and governments are increasingly concerned about the environmental damage caused by other energy sources and the price of one of these, oil, has been rising in recent years.

5

Although the demand for uranium is increasing rapidly, supply is changing more slowly. Uranium is mined in a number of countries. Most existing mines are working close to full capacity. New mines are being opened but it takes at least 10 years to develop a new mine and for it to become fully operational. One new large mine is being opened soon at Cigar Lake in Canada and this will boost world supply by a massive 17 per cent.

10

15

A major consideration when opening a new mine is the enormous capital investment which creates huge fixed costs. In comparison, variable costs tend to be relatively low once a mine is producing. These problems though have not prevented Uramin, a multinational company, raising \$200m to help finance the opening of a new mine in Namibia. Uramin is currently a highly profitable private sector firm with monopoly power.

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There is no doubt that the world needs more uranium. The concern that governments often have to face is that a vital resource, supplying an important industry, is controlled by a private monopoly.

Adapted from David Robertson, *Global drive for nuclear power lifts uranium to record high*, © The Times, London, 24 February 2007, www.timesonline.co.uk

- (a) (i) Define the term 'demand'. [2]
- (ii) Using the information provided, explain **two** reasons for the increasing demand for uranium. [4]
- (iii) Using a demand and supply diagram, show how an increase in demand has affected the market price of uranium. [4]
- (b) (i) Using the information provided, explain why the price elasticity of supply for uranium is inelastic. [3]
- (ii) Using a demand and supply diagram, explain how the opening of the Cigar Lake mine will affect the market price of uranium (lines 14–15). [4]
- (c) Comment on whether uranium producers are likely to earn high profits in the future. [6]
- (d) (i) Describe what is meant by the term 'barriers to entry'. [2]
- (ii) State and explain **two** barriers to entry which might apply to firms considering starting to mine uranium. [6]
- (e) (i) State **two** characteristics of a monopoly. [2]
- *(ii) Discuss the likely economic effects of private monopolies controlling the supply of a vital resource such as uranium. [12]

Copyright Acknowledgements:

Fig. 1
Q.1

Source: The Ux Consulting Company, LLC, www.uxc.com
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