

Tuesday 15 January 2013 – Afternoon

AS GCE ECONOMICS

F581/01 Markets in Action

Candidates answer on the Question Paper.

OCR supplied materials:

None

Other materials required:

- Calculators may be used

Duration: 1 hour 30 minutes

MODIFIED LANGUAGE



Candidate forename		Candidate surname	
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Centre number						Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- 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 **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

The UK housing problem in numbers

The UK does not have enough houses. There is a growing population and the number of households is rising (because more people are living alone and some also have a second home). This means that the UK cannot build houses at the rate which they are needed. The government has estimated that the UK needs 240 000 houses to be built each year to meet growing demand. The current rate is only 125 000 per year. As a result the average price of new houses may rise and people on low incomes may be unable to afford to buy (see Fig. 1).

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	% change in price of new houses	% change in quantity of new houses supplied
2006	4.8%	3.6%
2007	1.2%	2.4%
2008	−1.4%	−1.1%
2009	−9.9%	−21.6%
2010	7.4%	−14.5%

Fig. 1 – Annual changes in the price and supply of new houses

In response to this problem, the government has tried to increase the supply of new houses by:

- relaxing planning regulations to allow more houses to be built
- subsidising the building of 'affordable' houses.

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In 2007, the government promised that three million houses would be built by 2020. Where and how these new houses should be provided is causing further problems.

One idea is that new houses should be built in major developments on the edge of towns or villages. These Sustainable Urban Extensions (SUEs) would have their own schools, shops, and health and community facilities. This would put less pressure on existing services than building lots of smaller housing estates. These SUEs would also generate employment and improve infrastructure in the area. Residents close to many of the proposed sites disagree. They say that such substantial developments would destroy the countryside and reduce the value of existing houses.

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Another idea is to give government grants to encourage the renovation and use of existing empty houses. In September 2010, the Homes and Communities Agency published data which estimated that there were 734 000 empty houses in the UK. Houses left empty are often the target for vandalism and litter. On average, empty houses need only £10 000 of investment to make them ready for people to live in, compared with £90 000 to build a new affordable house.

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With limited government finance available, there is a difficult choice between funding the building of new houses and the renovation of old houses.

Answer **all** questions.

- 1 Explain how the economic problem can be applied to the market for new houses in the UK. Use the information in the case study.

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- 2 (a) Define the term 'opportunity cost'.

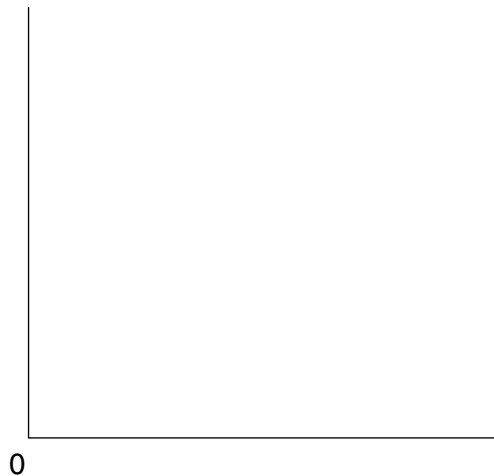
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- (b) Illustrate and explain the opportunity cost described in the case study (lines 26–27). Use a production possibility curve diagram to support your answer.



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3 (a) What is meant by a market?

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(b) State and explain **two** likely determinants of an increase in the demand for houses in the UK.

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4 (a) Define the term ‘price elasticity of supply’.

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(b) Comment on the significance of price elasticity of supply between 2006–10 on the market for new houses. Use the information in Fig. 1 and include calculations of price elasticity of supply in your answer.

[8]

- 5 (a) Identify **one** negative externality arising from the building of Sustainable Urban Extensions (SUEs). Explain why it is a negative externality. Use information in the case study.

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- (b) Identify **one** positive externality arising from the building of Sustainable Urban Extensions (SUEs). Explain why it is a positive externality. Use information in the case study.

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- 6*** Discuss whether subsidising the building of affordable new houses is the most effective solution to a housing shortage. **[18]**

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