



Rewarding Learning

General Certificate of Secondary Education

2009

StudentBounty.com

Economics

Paper 2
Higher Tier

[G2704]



FRIDAY 15 MAY, AFTERNOON

TIME

2 hours 15 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.

Answer **four** questions.

Answer **both** questions in Section A and **two** questions from Section B.

INFORMATION FOR CANDIDATES

The total mark for this paper is 120.

Quality of written communication will be assessed in questions **1(c)(ii)**, **1(d)**, **2(b)**, **2(c)**, **2(d)**, **2(e)**, **3**, **4**, **5** and **6**.

Electronic calculators may be used in this examination but all working of answers involving calculations must be shown.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

Graph paper is provided for use with question **1**.

ADVICE TO CANDIDATES

You are recommended to study the mark allocation for each question and part question and to allocate your time accordingly.

Section A

Answer **both** questions in this section.

1 The table below shows the weekly costs and revenue for Betty's Burger Bar.

Number of burgers	Fixed cost (£s)	Total cost (£s)	Total Revenue (£s)
0	600	600	0
200	600	700	300
400	600	800	600
600	600	900	900
800	600	1000	1200

- (a) (i) With the aid of examples, explain the difference between fixed and variable costs. [4]
- (ii) Calculate the variable cost of producing 800 burgers per week. [2]
- (b) (i) Using the graph paper provided, plot the weekly break-even chart and indicate clearly the break-even position for the business. [5]
- (ii) Explain why it is important for a firm to at least break-even. [2]
- (c) (i) What price does Betty's charge for a burger? [2]
- (ii) Betty's Burger Bar needs to compete with other take-away businesses. If price is reduced by 10% they can sell 20% more burgers. Discuss how this price change may affect the business. [6]
- (d) Betty's is expanding the business by opening several new outlets. Discuss the possible advantages and disadvantages for a business like this of operating on a larger scale. [9]

2 Study the information below and answer the questions that follow:

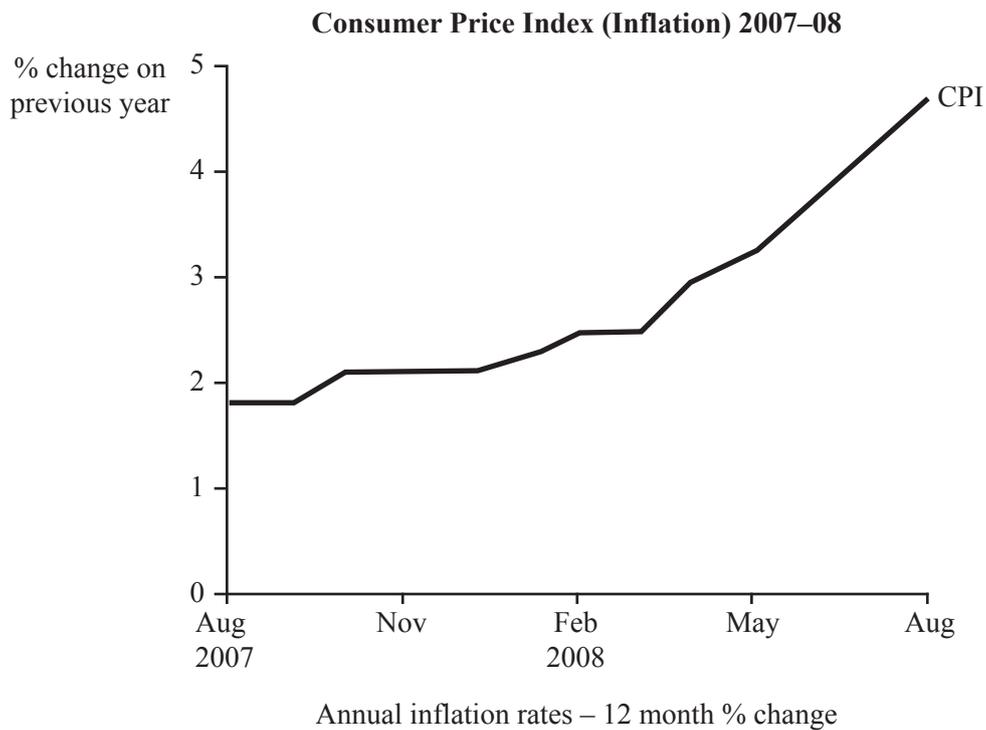


Fig. 1

Inflation hits consumers, savers and businesses.

Fig. 2

The Bank of England has the difficult task every month of deciding what to do about interest rates. The economy is suffering from the credit crunch. The cost of living is rising and economic growth has slowed down.

Fig. 3

- (a) Using **Fig. 1**, describe the changes in the rate of inflation since August 2007. [3]
- (b) Explain possible causes of the change in the rate of inflation shown in **Fig. 1**. [6]
- (c) Using **Fig 2**, explain **two** ways in which rising inflation may affect the economy. [6]
- (d) Discuss how a change in the rate of interest might affect the rate of inflation. [6]
- (e) Using **Fig. 3**, consider the possible problems for the economy of an increase in the rate of interest. [9]

Section B

Answer **two** questions from this section.

- 3** The rising price of a loaf of bread is affecting family budgets. The price has been affected by many factors including the rising demand for wheat, one of the main resources for making bread. The area of land used for growing wheat has also decreased.
- (a) Using a demand and supply diagram, explain what is meant by equilibrium (market clearing) price. [6]
- (b) Explain the factors that may have caused the price of a loaf of bread to increase. [9]
- (c) Discuss the advantages and disadvantages of using market forces to allocate scarce resources. [15]
- 4** The exchange rate for the pound has fallen to a new low against the euro. The continuing weakness of the pound has major implications for consumers, firms and the economy as a whole.
- (a) Using a numerical example, explain what is meant by a fall in the exchange rate. [6]
- (b) Explain **two** possible causes of the fall in the value of the pound against the euro. [9]
- (c) Discuss how the fall in the value of the pound may affect the government's economic objectives. [15]

- 5 Detroit has been named as the ‘fattest’ city in the USA. ‘Junk food’ is one of the key factors blamed for rising obesity. To reduce the social costs of ‘junk food’ the city’s mayor wants to discourage people from buying it.
- (a) Explain what is meant by a social cost. [6]
- (b) Explain how the government might discourage the consumption of demerit goods. [9]
- (c) Discuss the possible impact on consumers, firms and the economy of a fall in the consumption of demerit goods such as ‘junk food’. [15]
- 6 Share prices on the London Stock Exchange fell sharply in recent trading. This followed news that profits in a number of leading companies would be the lowest for many years. This fall was expected to affect investors, businesses and the economy.
- (a) Explain the main purpose of the Stock Exchange. [6]
- (b) Explain the reasons why investors may buy shares rather than putting their money into a savings account. [9]
- (c) Discuss the possible economic effects of falling share prices. [15]

Permission to reproduce all copyright material has been applied for.
In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA
will be happy to rectify any omissions of acknowledgement in future if notified.

T79856/3