



**Answer ALL the questions.**

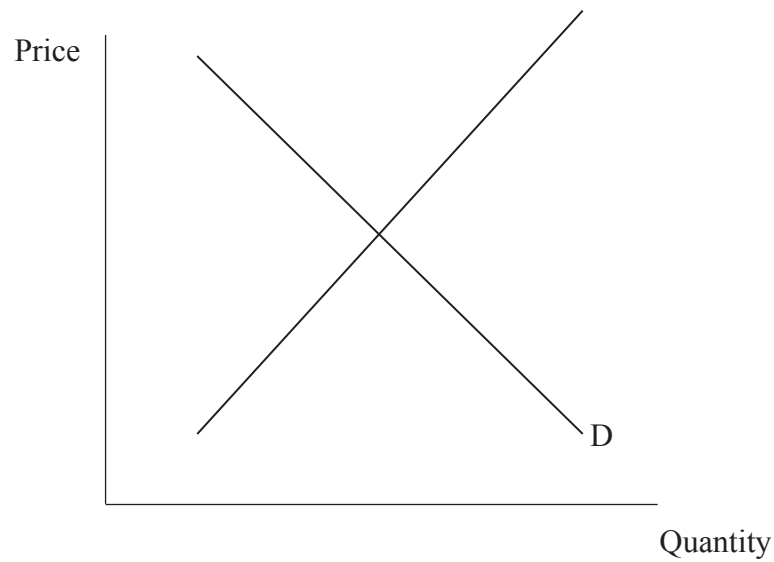
**Question 1**

China Bicycle, one of China's biggest manufacturers, closed in 2005. One of the reasons for its closure was fierce competition from foreign bicycle producers.

- (a) Figure 1a shows the demand and supply of bicycles in China before foreign competition.

**Figure 1a**

**The Market for Bicycles made in China**



- (i) Indicate on Figure 1a the original price,  $P_1$ , and original quantity,  $Q_1$ . **(2)**
- (ii) Draw a new demand curve,  $D_2$ , to show the effect of fierce competition from foreign bicycle producers. **(1)**
- (iii) Label the new equilibrium price  $P_2$  and the new equilibrium quantity  $Q_2$ . **(2)**



(b) Apart from foreign competition, one other reason for the closure of China Bicycle was the growth in car ownership in China.

(i) Cars and bicycles are substitute goods. Place a tick in the correct box to show the price elasticity of demand of a good which has a close substitute.

Inelastic

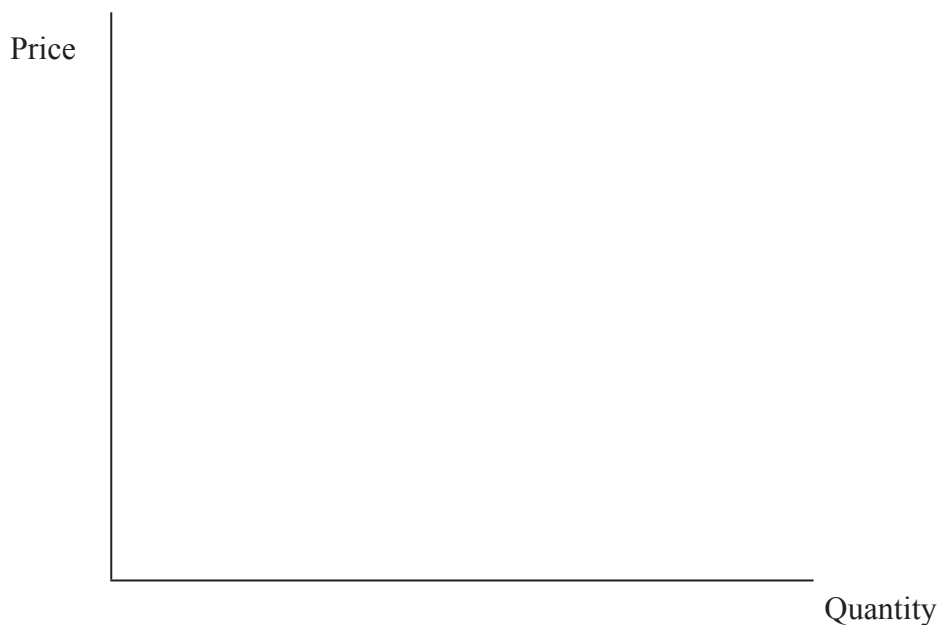
Unitary

Elastic

(1)

(ii) Using Figure 1b, with reference to your answer in (b)(i) draw a diagram to illustrate the impact of a fall in the price of bicycles on the total revenue received by producers. Briefly explain your diagram.

**Figure 1b**



(4)



(c) (i) Bicycles and cars are manufactured goods. Identify **two** factors which determine the price elasticity of supply of manufactured goods.

1 .....

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2 .....

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**(2)**

(ii) Consider the factors you have identified in (i). Which factor do you consider to be more important? Explain your answer.

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**(5)**



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(d) In China's capital city, Beijing, a thousand new cars are bought each day and this may lead to problems of pollution and congestion. In order to reduce these problems the government could encourage people to use public sector transport rather than cars.

(i) With the aid of an example explain what is meant by "public sector transport".

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**(2)**

(ii) What is the term used to describe an economy which consists of both public and private sector firms?

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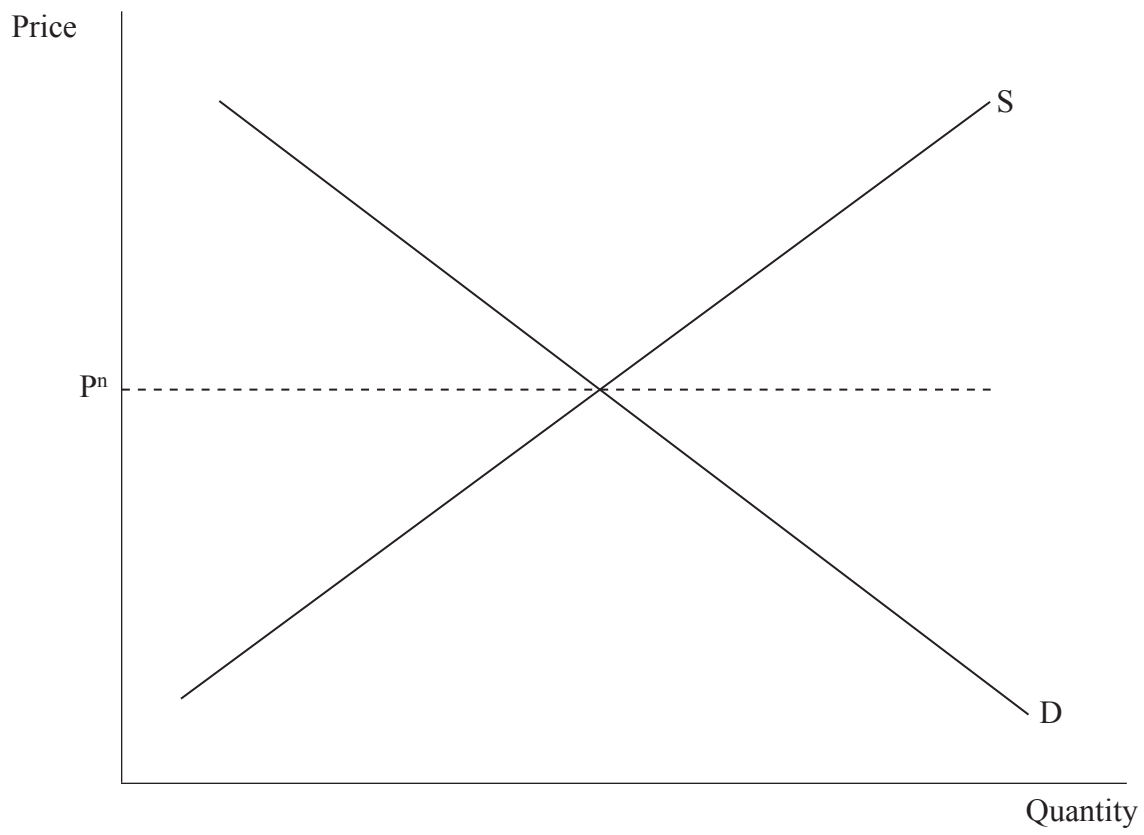
**(1)**



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(iii) With the aid of Figure 1c, explain how the use of government subsidies can increase the demand for public transport.

**Figure 1c**



Explanation: .....

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(5)

(Total 25 marks)

Q1

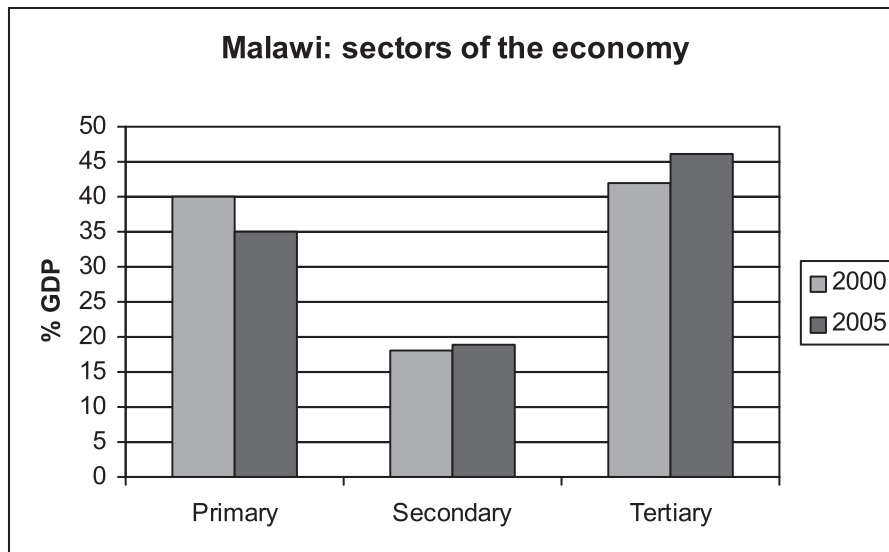
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### Question 2

Figure 2a shows the percentage contributed to GDP by the different sectors of the economy of Malawi in 2000 and 2005.

Figure 2a



- (a) (i) Which sector of the economy contributed a lower percentage of GDP in 2005 than in 2000?

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.....  
**(1)**

- (ii) Give an example of an occupation in the sector named in (a)(i).

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**(1)**

- (iii) What is meant by productivity of labour?

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.....  
.....  
**(2)**





(iv) Identify and explain **two** ways in which the government can increase productivity in the tertiary sector of an economy.

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**(4)**

(b) In 2003 a daily charge of £5 was introduced on cars and lorries travelling into London. The aim of the charge was to reduce externalities in London.

(i) Identify **two** externalities which result from cars and lorries in a city.

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**(2)**

(ii) Suggest **one** other method to reduce externalities caused by lorries.

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**(1)**

(iii) What method is likely to be most successful in reducing the external costs on London roads? Give reasons for your answer.

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**(5)**



(c) Figure 2b shows a table of the costs and revenues for two delivery firms, Giant and Dwarf.

**Figure 2b**

	<b>Giant Delivery</b>	<b>Dwarf Delivery</b>
Total Cost	£20,000	£2000
Units delivered	10,000	(i) ..... (1)
Average cost	(ii) ..... (1)	£4

Complete the table above.

(iii) Giant and Dwarf are firms in the private sector of the economy. Distinguish between the main aims of firms in the private sector and firms in the public sector of the economy.

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 .....  
 ..... (2)

(iv) Privatisation has taken place in many countries. Examine the relative costs and benefits of privatisation in improving the efficiency in an economy.

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**(Total 25 marks)**

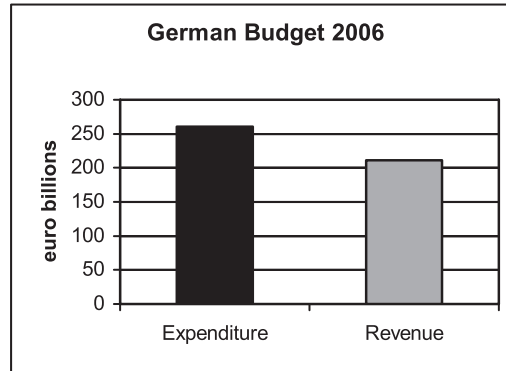
**Q2**



**Question 3**

Figure 3a shows the German government's budget in 2006.

**Figure 3a**



(a) (i) Place a tick in the correct box to show whether the German government has a

budget deficit

budget surplus

budget equilibrium.

**(1)**

(ii) Using the data in Figure 3a, explain your answer.

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.....  
.....

**(2)**

(iii) Complete the following sentence: "The use of government expenditure and government revenue to control the economy is called ..... policy."

**(1)**



(b) A government can raise revenue by increasing direct taxation and indirect taxation.

Direct taxes are often progressive and indirect taxes are often regressive. With the aid of numerical examples distinguish between progressive and regressive taxation.

(i) Progressive:

.....  
.....  
.....  
.....

(3)

(ii) Regressive:

.....  
.....  
.....  
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(3)

(iii) Explain **one** advantage and **one** disadvantage to the economy of a reduction in direct taxes.

Advantage:.....  
.....  
.....

Disadvantage: .....  
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(4)

(iv) Identify **one** other way, apart from taxation, that a government raises revenue.

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(1)



(c) (i) The control of unemployment in an economy is a government objective.

Identify **one** other economic objective of a government.

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**(1)**

(ii) With the aid of examples explain what is meant by

1. structural unemployment

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**(2)**

2. seasonal unemployment.

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**(2)**

(iii) Evaluate the effectiveness of supply side policies in reducing structural unemployment.

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**(5)**

**(Total 25 marks)**

**Q3**

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**Question 4**

The United States (US), Canada and Mexico are members of the North American Free Trade Area (NAFTA). Figure 4a shows a map of NAFTA and data for the trade in goods between Mexico and the other member countries.

**Figure 4a**



(a) (i) Briefly explain what is meant by the balance of trade.

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**(2)**



Study the information in Figure 4a. Calculate the overall balance of trade for Mexico with

(ii) United States

.....  
 .....  
 (1)

(iii) Canada.

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 .....  
 (1)

(b) The current account of the balance of payments consists of the visible and invisible exports and imports. Study the following items and indicate where in Figure 4b they should appear in the current account of the balance of payments of Mexico.

Example: Cars from the United States. Place **A** in the correct box.

(i) Hats sold to America. Place **B** in the correct box.

(ii) A Mexican businessman flying on a Canadian airline. Place **C** in the correct box.

(iii) Canadian tourists staying in a Mexican hotel. Place **D** in the correct box.

**Figure 4b**

Visible exports	Visible Imports	Invisible Exports	Invisible Imports
	Example=A		

(3)



(c) (i) Identify **two** reasons why governments protect domestic industries from foreign competition.

1 .....

2 .....

**(2)**

(ii) Identify **two** methods of protecting domestic industries from foreign competition.

1 .....

2 .....

**(2)**

(iii) Examine the extent to which one method identified in (c)(ii) is likely to be successful in reducing imports.

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**(4)**

(d) (i) What is meant by a trading bloc?

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**(2)**





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Discuss how the formation of a trading bloc such as NAFTA affects

(ii) countries outside the bloc

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(4)

(iii) countries inside the bloc.

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(4)

(Total 25 marks)

Q4

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