

**GCE AS/A level**

1132/01

ECONOMICS – EC2

P.M. FRIDAY, 17 May 2013

2 hours

1132
010001**ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part *(b)* and Section C part *(b)*.

SECTION A

Answer **all** the questions in this section.

1. Study the information and then answer the questions that follow.

Minimum wage harming job opportunities for young

New National Minimum Wage rates took effect in October 2011, but may be pricing younger workers out of jobs, because their lack of skills and experience makes it too expensive to give them a first job.

	Old hourly rate	Hourly rate from Oct 2011
Adult rate	£5.93	£6.08
18-20 year olds	£4.92	£4.98
16-17 year olds	£3.64	£3.68

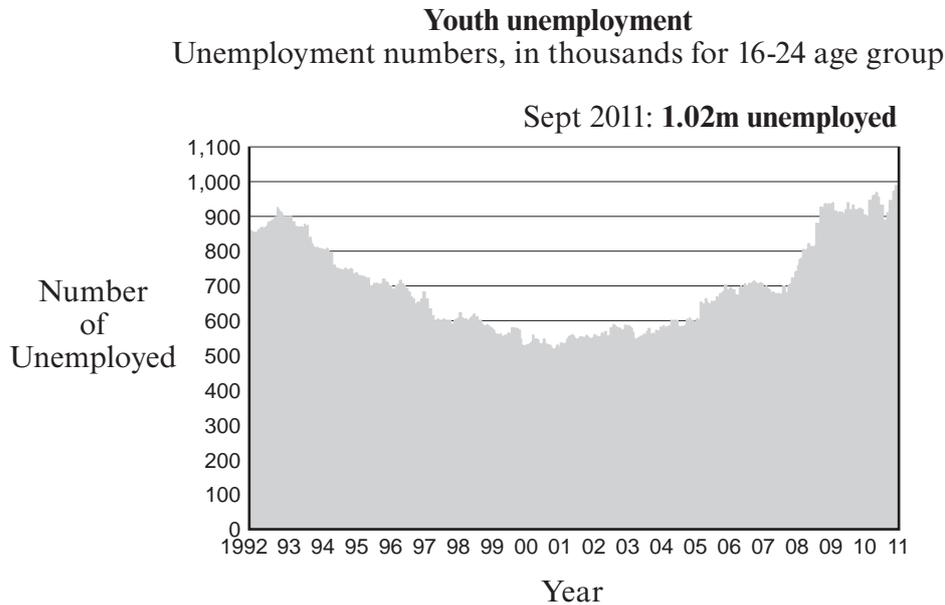
Minimum wage rates 2010-2011

- 5 Official figures show that around 1 million of the 2.5 million people unemployed in Britain are aged 16 to 24, with numbers up by a third since 2008. Analysts think that there are two main factors contributing to this rise. One factor was the economic slowdown (a so-called ‘recession effect’), while another was specifically due to a “minimum wage effect” increasing firms’ costs.

- 10 The Prime Minister, David Cameron, has argued that creating economic growth is the key to job creation, but that there is more to this than simply boosting aggregate demand. According to Cameron: “This Government is not just sitting back; we want to make it easier for businesses to start up, for businesses to grow, for business to employ people, to expand and to invest.”

- 15 Meanwhile, The British Chambers of Commerce (a group representing businesses) said that freezing and then gradually reducing the minimum wage was important; “The concern is that the current minimum wage rate is discouraging some employers from taking on young people and giving them a chance to get into the workplace.” Increases in the National Minimum Wage increase costs for firms who then pass this on to customers in the form of higher prices.

Figure 1



Source: ONS

Others have argued that cuts in the National Minimum Wage might be counter-productive and that the ‘recession effect’ is still the biggest problem. Some economists argue that the government should be looking for ways to increase aggregate demand with cuts in taxes or increases in government spending, but with soaring government debt, this may be easier said than done. Even if economic growth was to rise rapidly it might not help because in 2010-11 87% of the newly created jobs in the UK went to immigrants.

- (a) Using figure 1 explain possible reasons for the changes in youth unemployment over the period shown. [6]
- (b) Explain **two** reasons why the government
 - (i) might have introduced a National Minimum Wage; [4]
 - (ii) has set a lower minimum wage rate for younger workers than for adults. [4]
- (c) With the aid of diagrams explain what is meant by the;
 - (i) ‘minimum wage effect’ (line 7); [4]
 - (ii) ‘recession effect’ (lines 6-7 and 18). [4]
- (d) Using an appropriate diagram, evaluate the extent to which increases in the minimum wage will “increase costs for firms who then pass this on to customers in the form of higher prices” (line 16). [8]
- (e) Discuss whether supply side policies are likely to be the best way to reduce the level of unemployment in the UK. [10]

SECTION B

*Answer **one** question from this section.*

2. COCOA PRICES DOUBLE OVER THE LAST FIVE YEARS

- (a) With the aid of diagrams explain why the prices of agricultural goods fluctuate more than the prices of manufactured goods. [8]
- (b) Evaluate the view that governments should try to stabilise prices in agricultural markets. [12]

3. HIGH PRICES FOR HARRY POTTER EXHIBITION FAILS TO PUT OFF FANS

- (a) What factors determine the price elasticity of demand of a product? [8]
- (b) With the aid of diagrams and examples, discuss the view that a rise in demand for a product will always raise both the price and quantity sold. [12]

4. FLOOD DEFENCES NEEDED AS SEA LEVELS RISE DUE TO GLOBAL WARMING

- (a) With the aid of examples distinguish public goods from private goods. [8]
- (b) Evaluate the policies that a government could introduce to reduce greenhouse gas emissions which contribute to global warming. [12]

SECTION C

*Answer **one** question from this section.*

5. BASE INTEREST RATES REMAIN AT A HISTORIC LOW OF 0.5%

- (a) Explain the main factors taken into account when setting the base interest rate in the UK. [8]
- (b) To what extent can monetary policy be relied upon to get an economy out of recession? [12]

6. GOVERNMENT SEEKS TO ENCOURAGE INVESTMENT

- (a) Explain the factors that determine the level of investment in an economy. [8]
- (b) To what extent is investment always good for an economy? [12]

7. EXCHANGE RATE REMAINS WEAK AGAINST OTHER CURRENCIES

- (a) Explain why a country's foreign exchange rate might fall against other currencies. [8]
- (b) Evaluate the view that a fall in the value of the pound will enable the UK government to achieve its macroeconomic objectives. [12]

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