



ADVANCED SUBSIDIARY GCE
ECONOMICS
 Markets in Action

F581

Candidates answer on the question paper

OCR supplied materials:
 None

Other materials required:

- Calculators may be used.

Wednesday 12 January 2011
Afternoon

Duration: 1 hour 30 minutes



Candidate forename		Candidate surname	
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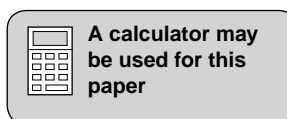
Centre number							Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- 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.
- Answer **all** the questions.
- 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**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.



2

The Maldives targets mass tourism... before it sinks

The Maldives is a group of over 1000 islands in the Indian Ocean. It has the resources which many tourists find difficult to resist, such as uncluttered sandy beaches, coral reefs, a warm climate and the opportunity for a couple of weeks peace and quiet. Having said this, the Maldives has a major problem – much of the land mass is no more than four or five feet above sea level. As the newly elected President, Mohamed Nasheed, knows all too well, the islands could well be submerged by the end of the century, if predictions about climate change and projected rising sea levels materialise.

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The Maldives though has a more immediate problem, a decline in tourists visiting the islands. British visitors, for example, were down by 25 per cent in early 2009. This has prompted tour operators and hoteliers to slash the prices of luxury beach breaks. Whilst this is an obvious market response, the President, rather controversially, said that he is prepared to allow the construction of dozens of mid-range hotels and guest houses in an attempt to stem the downturn in tourism. He firmly believes that an increase in tourist numbers can only be achieved if the Maldives is price competitive compared with other similar placed resorts such as Goa, a state of India, which also attracts British visitors.

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Fig. 1 shows some estimates of how reductions in the price of holidays to the Maldives might affect the number of holidays taken in Goa.

Fig. 1: Estimated changes in the price of holidays in the Maldives and the demand for holidays to Goa

% change in price of holidays in the Maldives	% change in quantity demanded of holidays to Goa
-10%	-5%
-20%	-22%
-30%	-40%

20

By attracting more tourists to the Maldives, the President hopes to build up sufficient funds for what many observers believe to be a wild idea... to move his 300,000 people to safer territory. At a recent reception for foreign journalists he named India, Sri Lanka and even Australia as possible destinations. Revenue from tourism would be used to buy a new country, or at least part of one, in the future.

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Al Gore, the former US Vice-President and now fervent environmental campaigner has urged the US government to pass new regulations to reduce carbon emissions. He cited the case of the sinking Maldives as just one example of what could happen if America and other leading countries failed to respond to what many consider is the most important challenge of the 21st century.

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Answer **all** questions.

- 1 Define the 'economic problem' and explain how it can be applied to a family deciding whether to take a holiday in the Maldives.

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- 2 (a) What is meant by a market?

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- (b) How is the market price of holidays in the Maldives determined?

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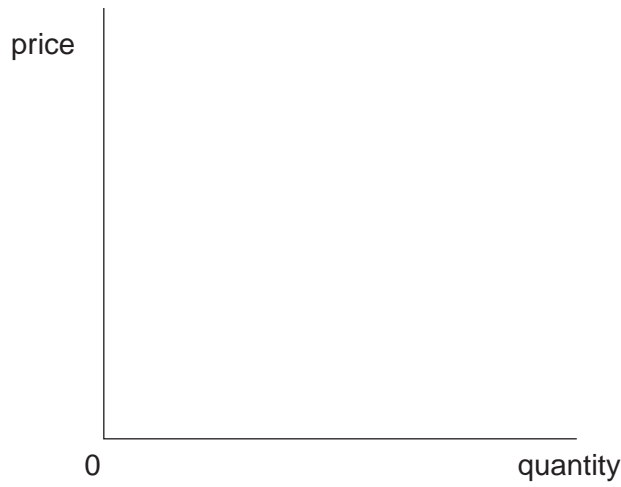
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- 3 (a) Using a demand and supply diagram, show the effects on the market for holidays in the Maldives of a fall in British visitors in early 2009.



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- (b) Explain **two** likely determinants of this fall in demand for holidays in the Maldives taken by British tourists.

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5 (a) Define the term 'cross elasticity of demand'.

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(b) Using the information in Fig. 1, comment on whether the Maldives is likely to attract tourists who are considering taking holidays in Goa. (Your answer must include calculations of cross elasticity of demand.)

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6 (a) Give **two** characteristics of a public good.

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(b) Explain whether sandy beaches such as those in the Maldives are a public good.

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