



General Certificate of Education
Advanced Level Examination
June 2013

Economics

ECON3

Unit 3 Business Economics and the Distribution of Income

Tuesday 4 June 2013 1.30 pm to 3.30 pm

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Time allowed

- 2 hours

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

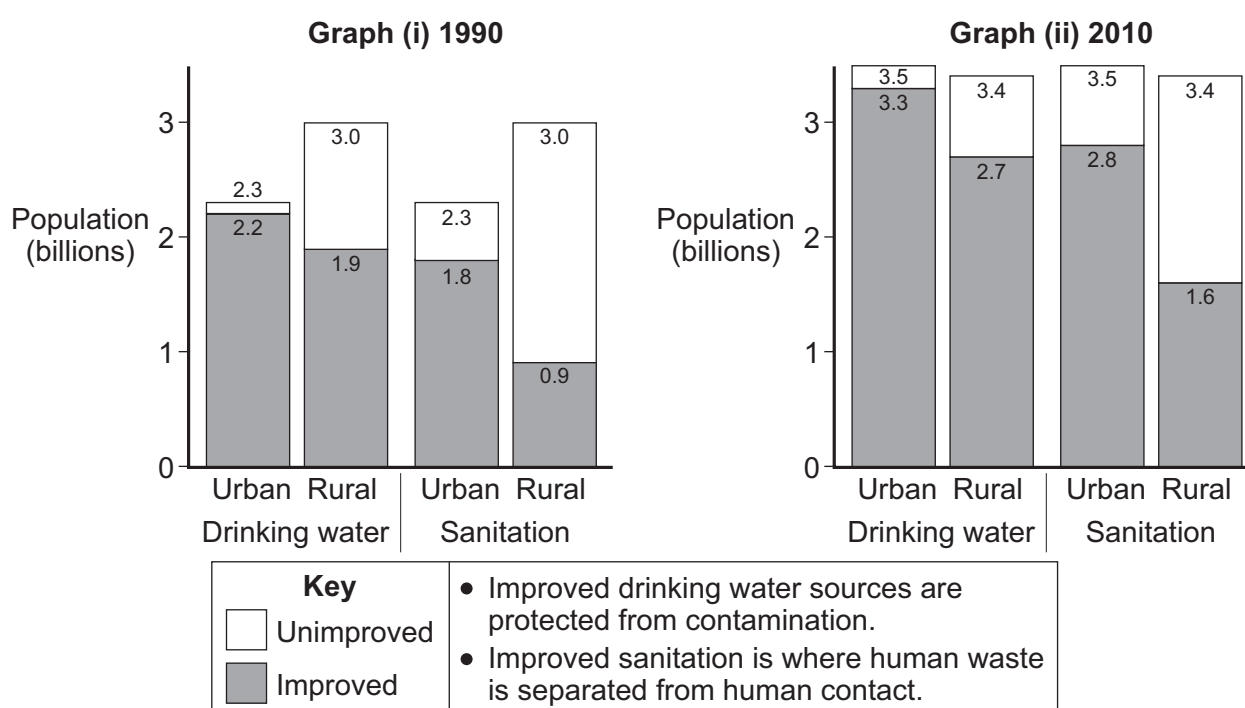
Total for this Context: 40 marks

Context 1

THE GLOBAL CONTEXT

Study **Extracts A, B and C**, and then answer **all** parts of Context 1 which follow.

Extract A: World population access to drinking water and sanitation



Source: Unicef and World Health Organisation, www.unicef.org/media/files/JMPReport2012.pdf accessed 25 November 2012.

Extract B: Water, water everywhere

Access to clean water is closely linked to production, income and wealth, both within and between countries. This planet is mainly covered in water, and water might appear to be a free good. However, only a small proportion can be used to support human life and even this is not freely available to all.

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As underground water levels drop in industrialised countries, and as waterways become polluted, some places, like southern Spain, are desperately short of water. Meanwhile, poorer countries, such as Bangladesh, sometimes suffer from too much water, with sudden disastrous floods. Unlike developed countries, such as the Netherlands, they cannot afford flood defence infrastructure. In Kenya, people living in villages without drinkable water can see irrigation systems in nearby fields spraying water over vegetables and flowers being grown for export to Europe.

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There are problems with property rights to water. Indeed, some experts have predicted that, during the twenty-first century, countries controlling the world's fresh water supplies will be in a similarly powerful position to that of the twentieth century's oil producers, and that wars might even take place because of disputes over water.

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The supply and use of water result in many externalities, both positive and negative. One-third of the water used by UK households is flushed down the toilet. The water used to carry human waste through sewers has to be kept separate from drinking water. When the water industry was privatised by the UK Government, shares were sold in 'water and sewerage businesses', and these companies were regulated by OFWAT (The Water Services Regulation Authority) for their commercial activities as regional monopolies, and by the Environment Agency for their wider impact such as the extraction of water from rivers.

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In recent years, several regions of the UK have repeatedly been declared to be suffering from 'drought', and there has been some debate over which policy responses are appropriate. These include hosepipe bans, metering of water supplies, a national 'grid' for transporting water around rivers and canals, and more reservoirs. The privatised companies have made massive investment in infrastructure which has transformed polluted rivers such as the Wandle, near London, from open sewers into trout streams, but further measures are necessary to prevent annual droughts.

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Extract C: A lot of bottle

The global market for bottled water is dominated by a small number of large firms, and demonstrates another of the curiosities of globalisation. A plastic bottle of water contains two of the world's most precious commodities: oil and water. Many millions of people, living in absolute poverty, are in need of clean water, and yet the water bottling industry in the more developed countries transports water from people who have water to other people who already have water. Critics say that, in terms of productive resources, it takes three litres of water and one-fifth of a litre of oil to manufacture one litre of bottled water and transport it to a shop shelf.

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In the UK, drinking water is cheap, and if unmetered it is even 'free' in terms of marginal cost to the user. Safe drinking water is available on tap through water mains almost anywhere. Thames Water estimates that a litre of mains water creates 600 times less carbon dioxide than a litre of bottled water. Yet the British public spends over £2 billion each year on bottled water, relying mainly on local councils to dispose of the resulting 3 billion plastic bottles.

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Using **Extract A**, identify **two** significant points of comparison between 1990 and 2010 for the data shown in **Graphs (i) and (ii)**. (5 marks)

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Explain what is meant by 'absolute poverty' (**Extract C**, line 4) and analyse how access to clean water is 'closely linked to production, income and wealth, both within and between countries' (**Extract B**, lines 1 and 2). (10 marks)

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'The supply and use of water result in many externalities, both positive and negative' (**Extract B**, line 16).

Using the data and your economic knowledge, evaluate UK government policies that could be used to deal with problems associated with the supply and use of water.

(25 marks)

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

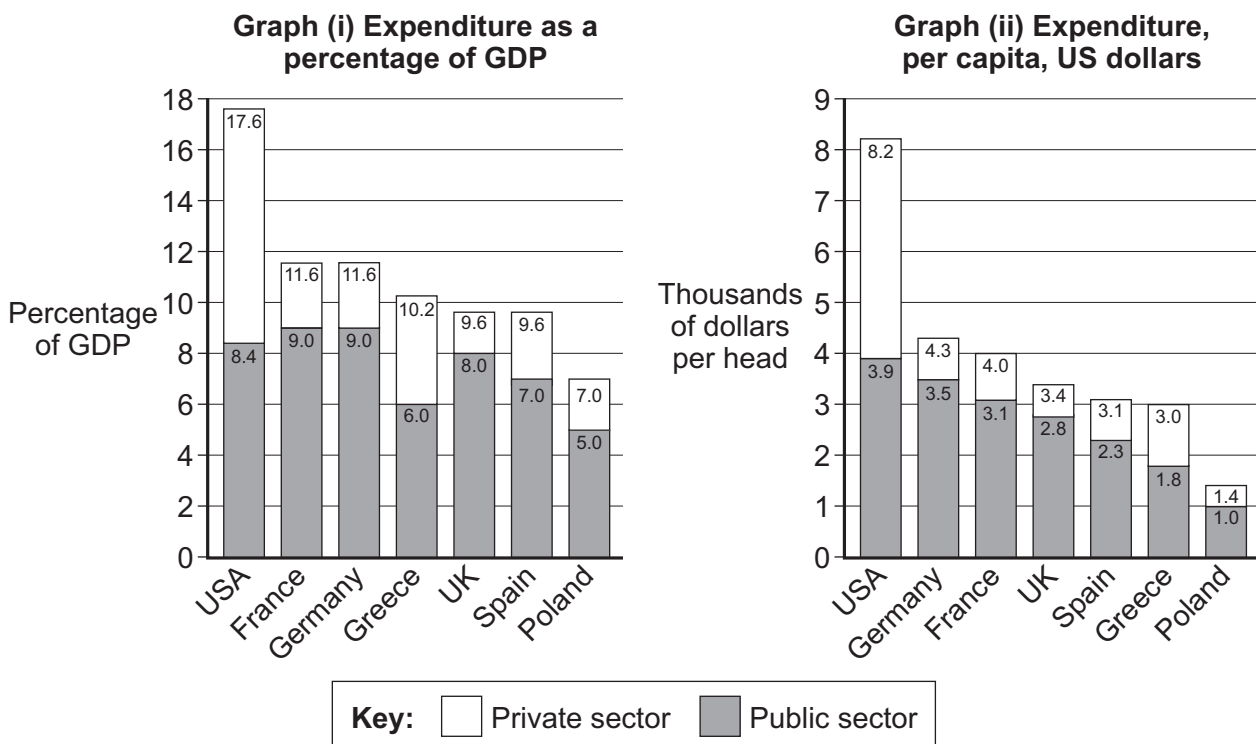
Total for this Context: 40 marks

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts D, E and F**, and then answer **all** parts of Context 2 which follow.

Extract D: Health expenditure in the USA and selected EU countries, 2010



Source: OECD, [www.oecd.org/united states/BriefingNoteUSA2012.pdf](http://www.oecd.org/united%20states/BriefingNoteUSA2012.pdf) accessed 7 January 2012.

Extract E: The price of health

The European Health Insurance Card (EHIC) is issued free to EU citizens via national governments. It allows anyone entitled to state health care in their home country to receive basic medical treatment in another member state for free or at a reduced cost. While there is no charge for the EHIC, insurance-based health care systems generally involve the purchase of a policy from a company which then pays for treatment for people whose medical conditions are covered.

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The UK's National Health Service (NHS) is predominantly in the public sector and is mostly paid for out of taxation. Treatment is 'universal', available to all UK citizens, and usually to visitors as well. While there are some treatments for which charges might be made, for example, for some dental work and spectacles, a guiding principle of the founders of the NHS was that treatment should be based on 'need' rather than 'ability to pay', and provided 'free at the point of use'. In the UK there is also a private sector consisting of hospitals and other facilities. They mostly work with commercial health insurance companies, but they can undertake some work on contract for the NHS.

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In Germany, private health care is used approximately twice as much by patients as it is in the UK, but this does not necessarily mean that patients pay directly for their treatment. Roughly one-third of German hospitals are owned by the state, another third are not-for-profit organisations and the remaining third are in the private sector. German citizens can use any hospital in the system. 15

The founders of the NHS thought that its costs would fall as living standards rose and the population became healthier. However, when the state or an insurance company acts between the patient and the health provider, the patient's price elasticity of demand for medical treatment is likely to be very low, while income elasticity of demand is likely to be high. Costs have increased due to these unusual elasticities, together with new drugs, more sophisticated medical technology, a wider range of treatments, more complex procedures and increased life expectancy. 20 25

Extract F: UK health reforms

Many ideas in the UK for coping with rising health care costs are imported from other EU countries. For example, in 2002, the Labour Government introduced the idea of 'Foundation Trust Hospitals', which had been tried in Spain. These not-for-profit organisations are able to set their own clinical and financial priorities and have greater freedom to borrow money, invest their surpluses, and form public-private partnerships. Meanwhile, in Spain, some doctors were complaining that their newly formed Foundation Hospitals had fewer beds, fewer staff and more complaints from patients than before. Some hospitals were returned to their former status because they were said to be bureaucratic, inefficient and 'cherry-picking', that is choosing the easiest patients to treat. 1 5

During 2011 and 2012, the UK Coalition Government legislated for NHS reforms, promoting the idea of an 'internal market' in health provision, with local doctors working in groups to buy hospital services on behalf of their patients. In February 2012, a hospital in East Anglia was the first in the NHS to be taken over by a private company, which hoped to clear the hospital's £45m debts and make it 'profitable' by 'competing' for patients with neighbouring hospitals. 10 15

0 4 Using **Extract D**, calculate to one decimal place the percentage of total per capita health expenditure that takes place in the public sector in the UK, **and** identify **one** significant point of comparison between countries for the data shown. (5 marks)

0 5 Distinguish between price elasticity of demand and income elasticity of demand, **and** analyse why, when people have medical insurance, the price elasticity of demand for medical treatment might be 'very low' while the income elasticity of demand is 'likely to be high' (**Extract E**, lines 22 to 24). (10 marks)

0 6 'Many ideas in the UK for coping with rising health care costs are imported from other EU countries' (**Extract F**, lines 1 and 2).

Using the data and your economic knowledge, assess whether the UK Government should encourage greater use of market forces in the provision of health care.

(25 marks)

Turn over for the next section

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

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Explain why the average and marginal revenue curves of a perfectly competitive firm are horizontal, while those of a monopoly slope downwards. *(15 marks)*

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'Most people would say that the ending of the BT telephone monopoly, and competition in the telecommunications market, have been beneficial. However, Britain's railways show why some monopolies should not be replaced by a number of competing firms.'

Evaluate the view that consumers are always better off and producers are always worse off if monopolies are broken up to encourage as much competition as possible. *(25 marks)*

OR**Essay 2**

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In January 2012, a BBC consumer programme reported that British nationals living in Florida were paying £3000 for a return flight to London, while the same airline was charging British tourists flying from London £300 for a return flight to Florida.

Explain the market conditions that enable firms to charge different customers different prices for a product. *(15 marks)*

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Assess whether price discrimination is always undesirable. *(25 marks)*

OR**Essay 3**

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'Although the wage differential has increased between top executives and other employees, the government cannot tell people what they should be paid. However, it should act where there has been market failure, because labour markets are not perfect.'

Explain **three** reasons why labour markets may be imperfectly competitive. *(15 marks)*

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Assess the view that wide wage differentials are good for the economy and that governments should therefore play no part in deciding wage rates. *(25 marks)*

END OF QUESTIONS

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