



General Certificate of Education  
Advanced Level Examination  
June 2010

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use 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 maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- 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

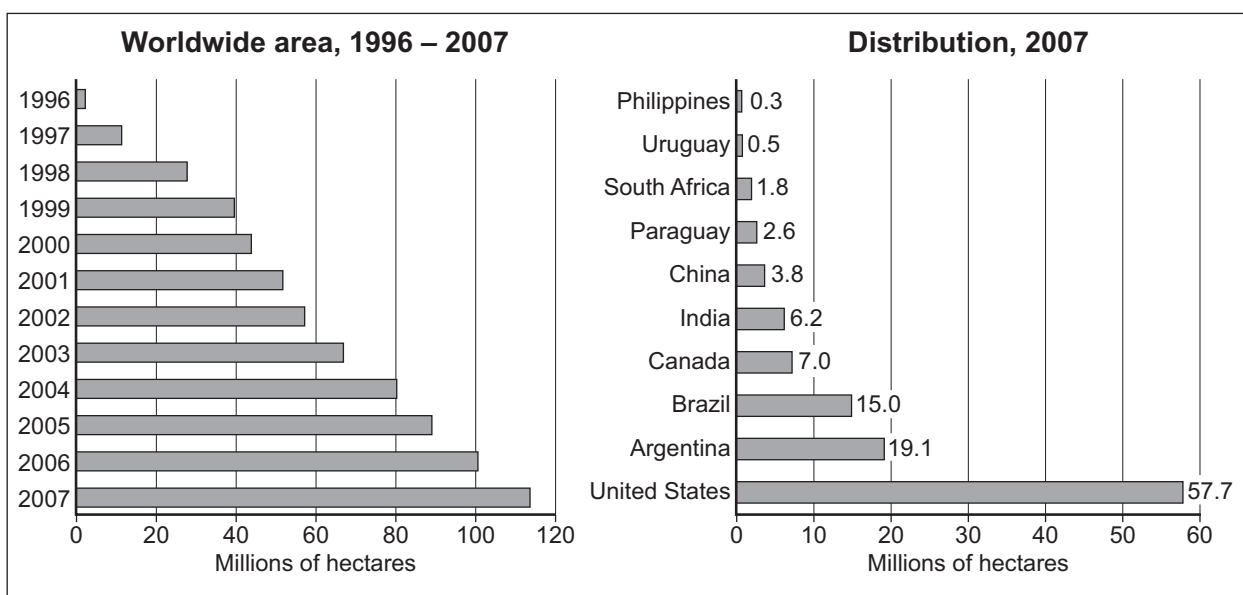
#### CONTEXT 1

##### THE GLOBAL CONTEXT

**Total for this Context: 40 marks**

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

##### Extract A: Cultivation of genetically modified crops



Source: official statistics

##### Extract B: Diminishing returns and food production

The British political economist Thomas Malthus (1766-1834) argued that because cultivatable land is in fixed supply, food production is subject to the law of diminishing returns and cannot keep pace with population growth. Technological improvements and international trade have meant that his gloomy predictions of famine and drought have largely been avoided, certainly for industrialised countries like the UK. Now that the world has more than 6 billion people, predicted to rise to 9 billion by 2050, there is a worry once again that diminishing returns will set in. Some estimates suggest that the world's undernourished could soon number over a billion people.	1
Genetically modified (GM) crops are seen by some experts as providing a way around the problem of diminishing returns. Supporters of GM technology claim that by developing crops that are resistant to disease, drought, salty soil and flooding, more land can be cultivated and existing farmland used more efficiently. The result is improved agricultural	5
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productivity. They also claim that private goods like rice and tomatoes can be turned into merit goods by being modified to contain vaccines or cures for diseases.

Anti-GM groups have mounted high profile campaigns against what the media have called 'Frankenstein foods'. In response, the British frozen food chain Iceland decided that there was a competitive advantage in announcing that all of its products would aim to be GM-free and the major British supermarkets quickly followed. Meanwhile, the UK Government's official position is that it has an open mind, and that its priority is to protect human health and the environment while being 'pro-consumer choice'. In the USA, the 'choice' argument has been undermined by the view that foods containing GM products need not be labelled as such. 15 20

Can GM crops really guarantee 'food security'? Critics claim that a lack of spending power, not food supply, is the real problem, with poor people in failing economies often starving in front of full stores and granaries. They also claim that GM crops cause negative externalities. For instance, their pollen can contaminate the crops of nearby organic businesses. Also, most GM crops are developed for resistance to weed-killers and pesticides, and this encourages farmers to use more chemicals, killing wildlife and reducing biodiversity. Furthermore, there are fears that eating GM foods might have long-term risks to human health which have yet to be fully investigated. 25 30

Regulations in Europe are so strict that it costs a seed manufacturer at least ten times as much to develop a new GM crop than a conventional crop. This means that only big companies can afford to develop them. Globally, the American company Monsanto controls the seeds on over 80 per cent of the world area of planted GM crops. Furthermore, Monsanto bans 'seed saving'. It uses patent laws to sue farmers if they save seeds for planting, rather than buying new seeds every year. 35

Almost every single piece of evidence on each side of the debate is contested, making it difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side-effects on human health. 40

Source: news reports, 2008/9

**0 1** Using **Extract A**, identify **two** significant features of the data. (5 marks)

**0 2** Explain what is meant by 'diminishing returns' (**Extract B**, line 2-3) **and** analyse why the introduction of GM crops could help farmers to increase their productivity in the long run. (10 marks)

**0 3** It is 'difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side effects on human health' (**Extract B**, line 38-40).

Using the data and your economic knowledge, evaluate the view that the UK Government should support the production and use of GM crops. (25 marks)

Turn over ►

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

OR

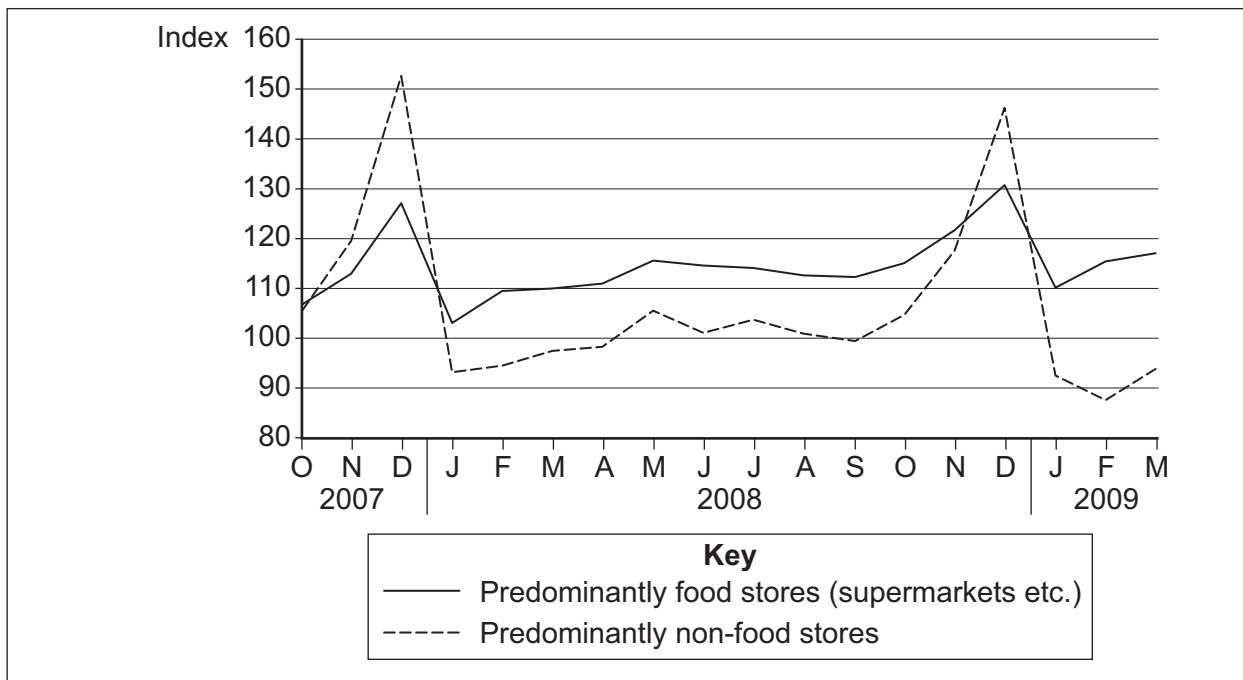
## CONTEXT 2

### THE EUROPEAN UNION CONTEXT

Total for this Context: 40 marks

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

#### Extract C: UK retail sales at current prices, index numbers, monthly, October (O) 2007 – March (M) 2009



Source: official statistics

#### Extract D: Trouble on the High Street

The retail industry in the UK receives two thirds of its annual total revenue during the three months leading up to Christmas. Economists therefore pay close attention to Christmas spending as an indicator of the health of the retail sector. In the wake of the credit crunch and the spread of recession in 2008, the UK Government acted in order to try to lift consumer spending by measures such as encouraging interest rates to fall and reducing the rate of VAT. The fall in the value of the pound against the euro hit some British retailers particularly hard, and assisted the process of sorting the retail trade into losers and winners.

Among the losers were Woolworths (household goods), Adams (children's clothing), Zavvi (music and films) and MFI (furniture), all of which went completely or partly out of business. In February 2009, the Confederation of British Industry (CBI) reported that job losses on the High Street, in the previous November and December, were the worst since they started tracking these labour market statistics in 1983.

Among the winners were the medium-sized European low-cost supermarket operators such as Lidl and Aldi. They sell a narrower range of products than the large UK

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companies, with less expensively advertised brands. They also operate on lower profit margins, at one to two per cent of turnover (total revenue) compared with the five to six per cent which large UK supermarkets expect. Such factors enable them to offer low prices in a very competitive market. It can be argued that, in practice, the actual behaviour or conduct of firms in a market might be very competitive and their performance efficient, even if the market structure is basically that of a monopoly or an oligopoly. 20

In December 2008, analysts reported that, unlike the situation in EU countries such as the UK, Germany and Spain, the retail sector in France had not suffered as quickly from the effects of recession. One reason for this is that as well as being fond of massive supermarkets, French consumers also strongly support a huge number of local markets. These provide outlets for items such as fresh meat and fruit and vegetables from a large number of small firms, which is one of the assumptions in the economist's model of a perfectly competitive market. There are also producers and consumers who are very knowledgeable about the nature and quality of the products being bought and sold, and who are sensitive to prices. However, even in France there were signs of a slow-down in retailing affecting both small and large firms as Christmas approached. 25 30

It is significant that some large UK retailers such as Tesco and Marks and Spencer have a presence on the Continent. The Single European Market (SEM) enables retailers to make full use of economies of scale in such fields as purchasing and marketing. It also reduces many costs, such as those created by differing national standards and regulations. The founders of the SEM were mainly focused on manufacturing, but the free movement of goods, services, capital and labour is also important to retailing. The Single European Market creates clear opportunities for the further expansion of large retailers. Although they might be less obvious, there are also some possible advantages of the SEM for smaller retailers, such as those supplying specialist markets or making use of on-line selling. In 2009, it became clear that the British giant Tesco was one of the winners of the retail industry. This company has been accused of having a monopoly in many British towns. In April, it announced record profits for the previous twelve months. 35 40 45

Source: news reports: 2008/9

**0 4** Using **Extract C**, identify **two** significant points of comparison between food stores and non-food stores over the period shown. (5 marks)

**0 5** Explain what is meant by a 'perfectly competitive market' (**Extract D**, line 29) **and**, using a diagram to help you, analyse how a fall in demand across the retail industry can be expected to affect the sales and profits of an individual retail firm operating in a perfectly competitive market. (10 marks)

**0 6** 'It is significant that some large UK retailers such as Tesco and Marks and Spencer have a presence on the Continent... there are also some possible advantages of the SEM for smaller retailers' (**Extract D**, lines 34-35 and 41-42).

Using the data and your economic knowledge, assess the **costs** and **benefits** to British retailers **and** consumers of being part of a single market across the EU. (25 marks)

Turn over ►

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**SECTION B**

Answer **one** essay from this section.

Each essay carries 40 marks.

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**EITHER****Essay 1**

Although there have been laws against wage discrimination in the UK for many years, women's average wages are still about 20% lower than those of men.

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 Explain the factors that might account for the continuing difference between male and female earnings. *(15 marks)*

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 Assess the view that increased female membership of trade unions would be the most effective way to raise women's earnings. *(25 marks)*

**OR****Essay 2**

Telephone services in the UK were once publicly owned, and there was only one supplier of these services to most British households. Today, consumers can choose their telephones and networks from a variety of privately-owned companies.

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 Explain how technological change has affected the structure **and** competitiveness of markets, such as those for telephone services, recorded music or cars. *(15 marks)*

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 Discuss whether utilities, such as gas, electricity and water, are better left in the private sector and open to competition or whether all, or some, should be taken back into public ownership. *(25 marks)*

**OR****Essay 3**

During 2009, the large bonuses and pensions of some banking executives were widely criticised, while many commentators claimed that the UK Government would not achieve its targets for reducing poverty.

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 What are the likely economic effects of poverty in the UK? *(15 marks)*

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 Is the use of the tax and benefits system the best method of reducing poverty or are alternative methods more effective? Justify your answer. *(25 marks)*

**END OF QUESTIONS**

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