

General Certificate of Education  
January 2009  
Advanced Subsidiary Examination



**ECONOMICS** **ECN1/2**  
**Unit 1 Part 2 Data Response: Markets and Market Failure**

Friday 16 January 2009 9.00 am to 10.00 am

**For this paper you must have:**

- an 8-page answer book
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: the total time for papers ECN1/1 and ECN1/2 together is 1 hour

**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 ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

**Information**

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend at least 45 minutes on paper ECN1/2.

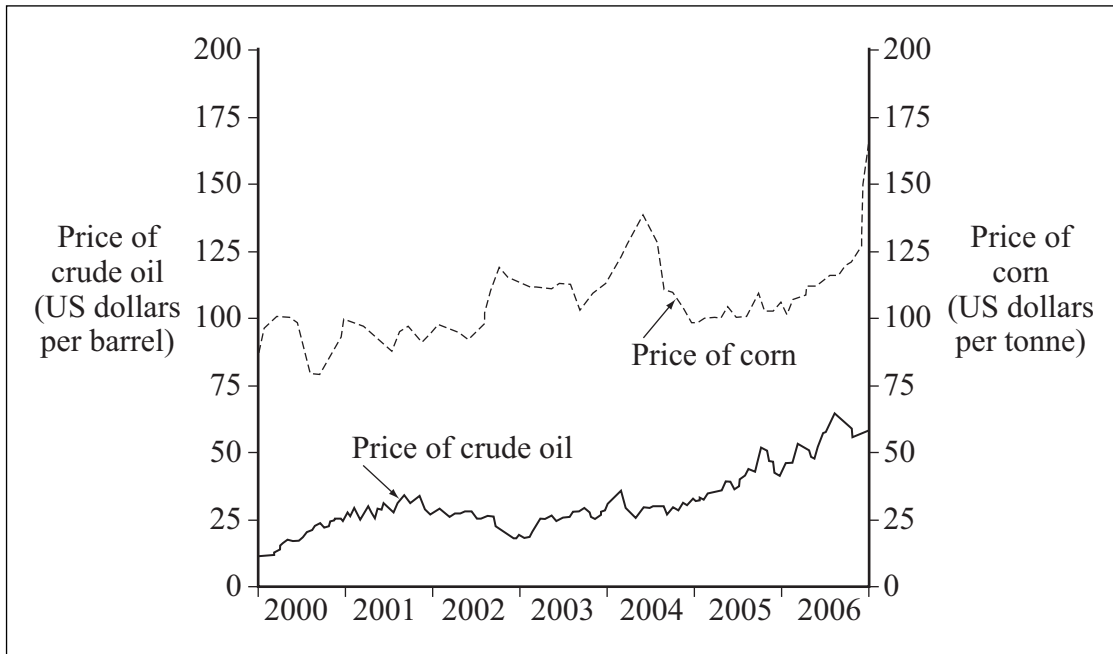
Answer **EITHER** Question 1 **OR** Question 2.

**EITHER**

**Total for this question: 25 marks**

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

**Extract A: Changes in the prices of crude oil and corn, 2000-2006**



**Extract B: Grain prices go the way of the oil price**

In 2007, the prices of grains and crude oil hit ten-year highs. The rising price of oil stems partly from the fact that world oil supplies are running out. But why should grain prices continue to increase? Farmers should be able to meet increased demand for grains such as corn (maize) and wheat simply by growing more. Indeed, more grains are being grown, but demand has grown even faster. 1 5

Grains are used as food, both for people and for livestock. In countries such as China incomes are rising. As incomes rise, people eat more meat. This in turn leads to an increase in demand for grains that are used for animal feed. It is also worth noting that the income elasticity of demand for grains is probably positive.

A second reason for rising grain prices lies in increased demand for bio-fuels such as ethanol. Bio-fuels made from corn, wheat, and from other crops are substitutes for petrol and diesel fuel. Since 2000, demand for corn used to make ethanol has risen by over 300 per cent in the USA. Over 20 per cent of US corn is now used as the raw material for ethanol. Governments in forty other countries are promoting the use of bio-fuels to reduce dependency on oil imported from countries such as Iran and Venezuela. 10 15

Source: news reports

**Extract C: Italians urged to go on pasta strike**

Pasta is made from wheat. An increase in the price of wheat in recent months has forced pasta manufacturers to increase the prices they charge for pasta products such as spaghetti. Italian supermarkets may increase the price of pasta by 20 per cent by the end of 2007.	1
Pasta is a national dish in Italy, with each Italian eating on average 28 kg of pasta every year. According to Furio Bragagnolo, vice president of the Italian Pasta Manufacturers' Association, a plate of pasta 'probably costs less than an apple'. However, the big Italian pasta manufacturers have been accused of using their monopoly power to force up the price of pasta.	5
Italian consumer associations have asked the Italian government to intervene in the pasta market to reduce the prices of goods such as spaghetti. The groups have also asked people to refrain from buying or eating pasta products for a day, in protest against the recent price increases.	10
Global warming and the growing use of wheat as a bio-fuel are blamed for the steep rise in pasta prices.	15

Source: news reports

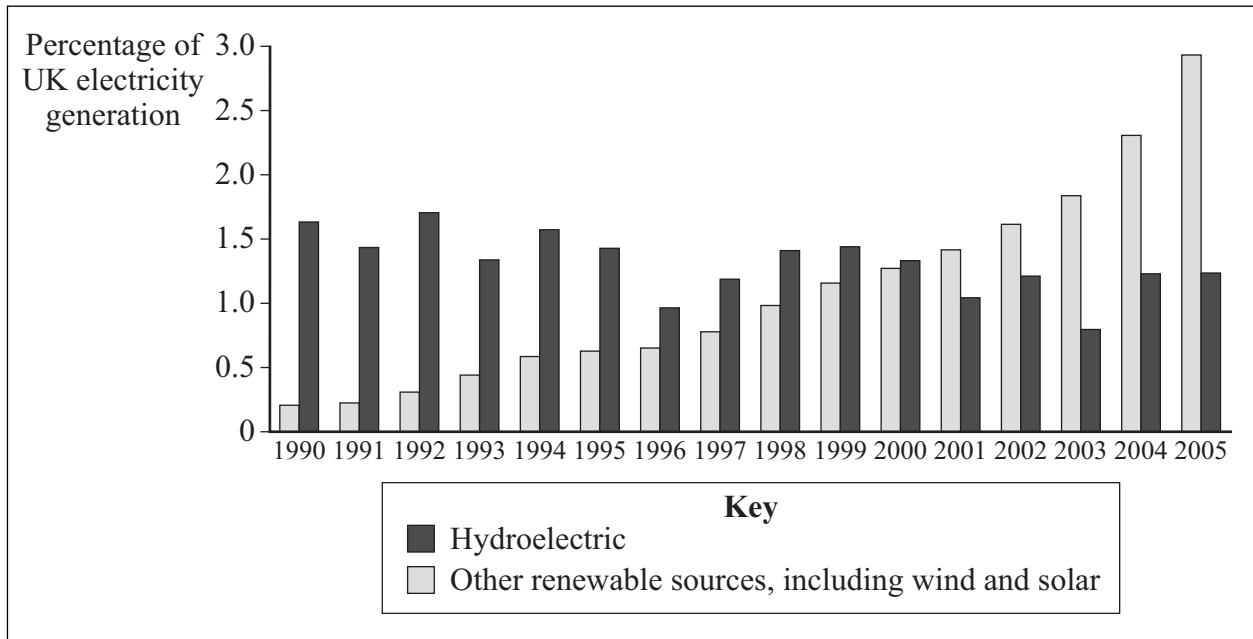
*Question 1*

- 1 (a) Using **Extract A**, compare the changes in the prices of crude oil and corn over the period shown. *(4 marks)*
- (b) With the help of a demand and supply diagram and using the information in **Extract B**, explain why the prices of grains such as corn and wheat were rising in 2007. *(6 marks)*
- (c) 'Italian consumer associations have asked the Italian government to intervene in the pasta market to reduce the prices of goods such as spaghetti' (**Extract C**, lines 10-11).

Using the data and your economic knowledge, evaluate the economic case **for** and **against** the Italian government intervening in the pasta market to try to reduce pasta prices. *(15 marks)*

**Turn over for the next question****Turn over ▶**

OR

**Total for this question: 25 marks**2 Study **Extracts D, E and F**, and then answer **all** parts of Question 2 which follows.**Extract D: Changes in electricity generation from renewable sources, as a percentage of total UK electricity generation, 1990-2005**Source: *Meeting the Energy Challenge*, Department for Business, Enterprise and Regulatory Reform, 2007**Extract E: Generating electricity from wind and solar power**

Wind farms cost more to build than power stations of similar capacity that burn fossil fuels. However, once wind turbines have been built, generating electricity from wind energy does not require the purchase of fuel. The lack of future fuel costs will probably significantly outweigh the extra initial investment cost. Generating electricity from wind energy has become commercially viable. There is no need for the government to grant a subsidy, provided that fossil-fuel prices continue to remain high, and provided also that the 'wind potential' of a prospective turbine site is adequate. 1 5

Nevertheless, four problems have had to be overcome to make wind power attractive as a commercial venture which markets, rather than the government, can provide. The first is wind variability. The second is turbine size. The third is the cost of transmitting electricity from Scotland, where the best sites are located, to the main market in England. Lastly, there is the negative externality of 'eyesore' or visual pollution. 10

Solar power is another source of renewable energy. At present, electricity produced from solar power is at least two to three times as expensive as electricity produced from conventional sources. This means that solar power is not as yet a practical source of energy for power station companies. 15

Source: news reports, 2007/8



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