

373/01

ECONOMICS – EC3

A.M. MONDAY, 14 June 2004

(1¼ hours)

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a twelve page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **any two** questions.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the necessity for good written communication and orderly presentation in your answers.

Answer **two** questions.

1.

RENT CONTROLS ON HOUSING ABOLISHED.

- (a) Define producer surplus and explain how it could be affected by the imposition of a maximum price on a product. [10]
- (b) Examine the case for imposing a maximum rent on **all** rented housing in the UK. [10]

2.

FREE NURSERY EDUCATION FOR UNDER-FIVES WOULD BOOST THE UK ECONOMY.

- (a) Explain, with the aid of examples, the difference between public goods, private goods and merit goods. [10]
- (b) Evaluate the view that the government should provide free nursery education to children under the age of five. [10]

3.

HOUSEHOLD INCOMES IN THE UK CONTINUE TO RISE IN 2004.

- (a) Explain the factors which affect the level of consumption in the UK economy. [10]
- (b) Discuss the view that a rise in the level of consumption will always benefit the UK economy. [10]

4.

DOUBLE BOOST FOR UK INDUSTRY AS POUND FALLS AFTER INTEREST RATE CUT.

- (a) Explain how a cut in interest rates might affect the exchange rate of the pound. [10]
- (b) Examine the view that a cut in interest rates will only affect aggregate demand and will have no impact on aggregate supply. [10]

5.

UK TAX BURDEN CONTINUES TO RISE.

- (a) Describe the main categories of taxation in the UK economy **and** show how falls in **each** may affect the economy. [10]
- (b) Discuss the view that high income tax rates are always bad for the UK economy. [10]

6.

CHINA SEEKS FREE TRADE AGREEMENT WITH AUSTRALIA.

- (a) With the aid of a diagram show how the introduction of a tariff affects domestic consumers, producers and the government. [10]
- (b) Examine the case for and against free trade between countries. [10]