

**ADVANCED SUBSIDIARY GCE UNIT
ECONOMICS**

The Market System

FRIDAY 8 JUNE 2007

2881/AB

Afternoon

Time: 1 hour

Additional materials: Separate question paper.
Candidates answer in this designated
Answer Booklet.



Candidate
Name

Centre
Number

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Candidate
Number

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INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the boxes above.
- Answer **all** the questions.
- Write all your answers in the spaces provided in this answer booklet.
- The spaces should be sufficient for your answers but if you require more space use the lined page at the end of this booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

For Examiner's Use

Total Mark

This document consists of **7** printed pages and **1** lined page.

(a) Companies such as Nanjing Auto have to decide how to allocate their productive capacity between basic saloon cars and higher performance vehicles (lines 12 to 13).

(i) Explain what is meant by opportunity cost.

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..... [2]

(ii) Draw a production possibility curve to show the choices a company such as Nanjing Auto might face when deciding which type of vehicle to produce.

[4]

(iii) Explain how opportunity cost can be used to show the effects of Nanjing Auto increasing the production of higher performance vehicles.

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..... [2]

(b) (i) Using the information provided, explain **two** possible determinants of the increased demand for private cars in China.

- 1.
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- 2.
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..... [4]

(ii) Using the information provided, and with the aid of a diagram, analyse how the changes in demand and supply might affect the market equilibrium for private cars in China.

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..... [6]

(c) A recent report contained the following estimates for income elasticity of demand in China:

Private car purchases + 1.8
Domestic air travel + 3.0

(i) Define income elasticity of demand.

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..... [2]

(ii) Explain what each of the above estimates means.

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..... [4]

(iii) Comment on their business significance for private car manufacturers and for domestic airlines in China.

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..... [5]

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