

**GENERAL CERTIFICATE OF SECONDARY EDUCATION**  
**ECONOMICS**

Paper 1 (Foundation Tier)

**1985/01**

Candidates answer on the Question Paper

**OCR Supplied Materials:**

None

**Other Materials Required:**

- Calculators may be used

**Monday 7 June 2010**  
**Morning**

**Duration:** 1 hour 30 minutes



Candidate  
Forename

Candidate  
Surname

Centre Number

Candidate Number

**INSTRUCTIONS TO CANDIDATES**

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Show your workings for **all** calculations.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your Candidate Number, Centre Number and question number(s).

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (\*).
- This document consists of **16** pages. Any blank pages are indicated.



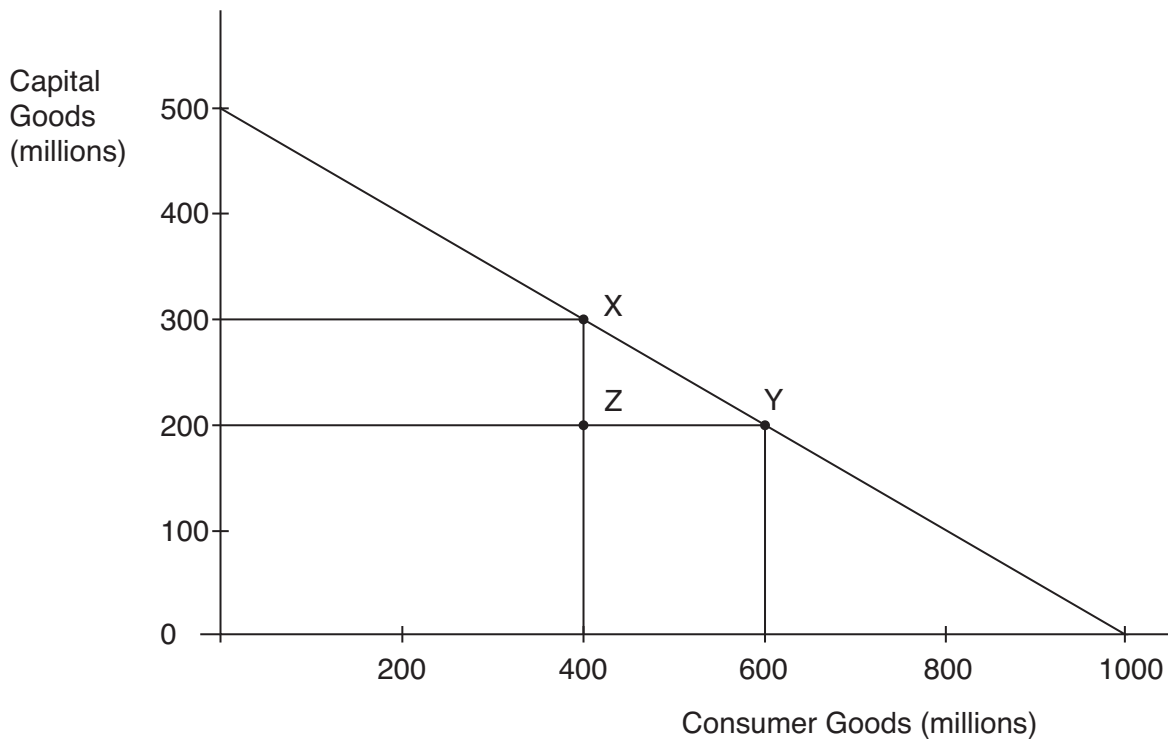
**A calculator may  
be used for this  
paper**

Examiner's Use Only:

1			
2			
3			
4			
<b>Total</b>			

### Question 1

Fig. 1 shows a production possibility curve for country A. This shows the combinations of consumer goods and capital goods which country A can produce in a year.



**Fig. 1**

- (a) Country A is able to produce goods using resources known as factors of production. Capital is one of these. Name **two** other factors of production.

1 .....

2 ..... [2]

- (b) There is scarcity of resources in Country A. Explain what is meant by scarcity.

.....

.....

.....

..... [2]

- (c) Using Fig. 1, how many capital goods can Country A produce when it also produces

- (i) 400 million consumer goods?

..... capital goods. [1]

- (ii) 1000 million consumer goods?

..... capital goods. [1]

- (d) (i) Explain what is meant by opportunity cost.

.....

.....

.....

..... [2]

- (ii) Using Fig. 1, if production changes from combination Y to combination X, what is the opportunity cost of producing the extra 100 million capital goods?

..... [2]

- (e) Using Fig. 1, explain why it is inefficient to produce combination Z.

.....

.....

.....

..... [2]

- (f) (i) Explain what is meant by productivity.

.....

.....

.....

..... [2]

- (ii) How will a rise in productivity in Country A affect its production possibility curve?

..... [1]

- (g) A rise in productivity is one way in which an economy can achieve economic growth. Identify and explain **two other** ways in which a country could achieve economic growth.

1 .....

.....

.....

.....

2 .....

.....

.....

.....

..... [4]

..... [6 + 2]

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## Question 2

Fig. 2 shows a newspaper report from April 2008.

Over the past year the world price of food has risen greatly. For example, the price of wheat has doubled and the price of rice has nearly trebled. Other foods such as beans, vegetable oils and dairy products have also soared in price.

In the UK this has meant that a typical family's food bill has risen by 15% in a year. In developing countries the effects are much worse, with poorer consumers not being able to afford enough food. There have been food riots in a number of developing countries recently.

Experts stated that there were both demand and supply reasons why food prices have greatly increased.

**Fig. 2**

- (a) (i) From Fig. 2, name **two** food goods which have risen greatly in price.

1 .....

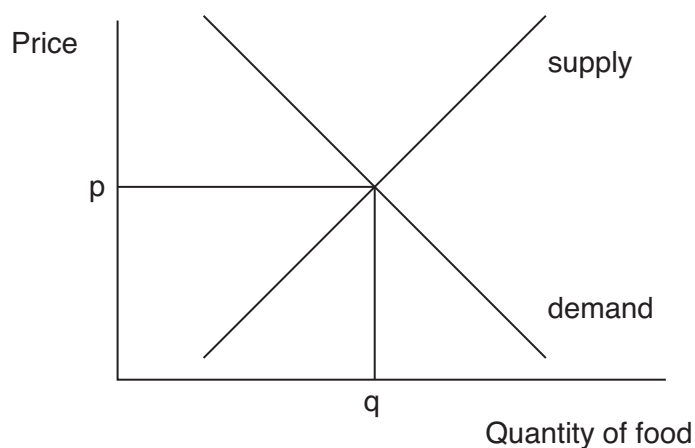
2 ..... [2]

- (ii) From Fig. 2, state **two** problems which rising food prices have brought to developing countries.

1 .....

2 ..... [2]

- (b) (i) On the diagram below, show the effect on the market for food of a drought in a major food producing country.



[2]

- (ii) State what happens to

the market price .....

the quantity of food sold ..... [2]

- (c) Food crops can be used for making into bio-fuels which are used instead of petrol to run cars. With the help of a demand and supply diagram, explain the effect on the price and quantity sold of food of an increase in demand for food crops in order to make bio-fuel.

.....

.....

.....

.....

.....

..... [6]

- \*(d) Discuss the factors which affect the world demand for particular types of food.

.....

.....

.....

.....

.....

.....

.....

.....

**. [10 + 2]**

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**Turn over**

### Question 3

Fig. 3 gives some information about two taxes in the UK for the tax year 2008/9.

<b>Income Tax</b>	
Personal allowance	£6 035
Tax rates:	
Basic rate: 20% of the first £34 800 of taxable income.	
Higher rate: 40% of all taxable income above £34 800.	
(NB Taxable income is total income minus the personal allowance)	
<b>Value-added tax (VAT)</b>	
0% on most food, bus and train fares, books and medicines.	
5% on gas and electricity in the home.	
17.5% on a wide range of goods and services (reduced to 15% in December 2008).	

**Fig. 3**

- (a) Calculate the taxable income of a person who earns £26 035. Show your working.

.....  
 .....  
 ..... [2]

- (b) From Fig. 3, name

a direct tax .....

an indirect tax ..... [2]

- (c) Name any **two** taxes **not** in Fig. 3 that are collected by the UK government.

1 .....

2 ..... [2]

- (d) Name **two** items on which the UK government spends money.

1 .....

2 ..... [2]



- (e)** There are large differences in the incomes of families in the UK.  
Explain how the government could reduce these differences by using taxes and government spending.

[6]

10

**(f)** Discuss the reasons why taxes are introduced.

[6]

**TOTAL MARKS 20**

**Question 4**

Fig. 4 shows UK trade in goods and services with the rest of the world in 2007.

	£ million
Exports of goods	207 856
Exports of services	138 424
Imports of goods	294 182
Imports of services	99 974

**Fig. 4**

(a) Name any **two** goods which the UK imports.

1 .....

2 .....

[2]

(b) Using information in Fig. 4, calculate each of the following. Show your working.

(i) The UK balance of trade in goods.

.....  
 .....  
 .....  
 ..... [3]

(ii) The UK balance of trade in services.

.....  
 .....  
 .....  
 ..... [3]

(iii) The UK current account balance.

.....  
 .....  
 .....  
 ..... [3]

- (c) Germany, Spain and France are three countries which use the euro as their currency. Name **two** other countries which use the euro as their currency.

1 .....

2 .....

[2]

- (d) The £ fell in value against the euro between 2007 and 2008 as shown in the table below.

April 2007	£1 = 1.41 euros
April 2008	£1 = 1.23 euros

Giving reasons for your answers, would this fall in the value of the £ benefit:

- (i) British firms which export to Germany?

.....  
 .....  
 .....  
 ..... [2]

- (ii) British families which holiday in Spain?

.....  
 .....  
 .....  
 ..... [2]

- (iii) The UK balance of trade in goods with France?

.....  
 .....  
 .....  
 ..... [4]

[6]

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