

General Certificate of Education
January 2005
Advanced Level Examination



ECONOMICS **ECN5**
Unit 5 Business Economics and the Distribution of Income

Monday 31 January 2005 Afternoon Session

In addition to this paper you will require:
an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or 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 ECN5.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- Mark allocations are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

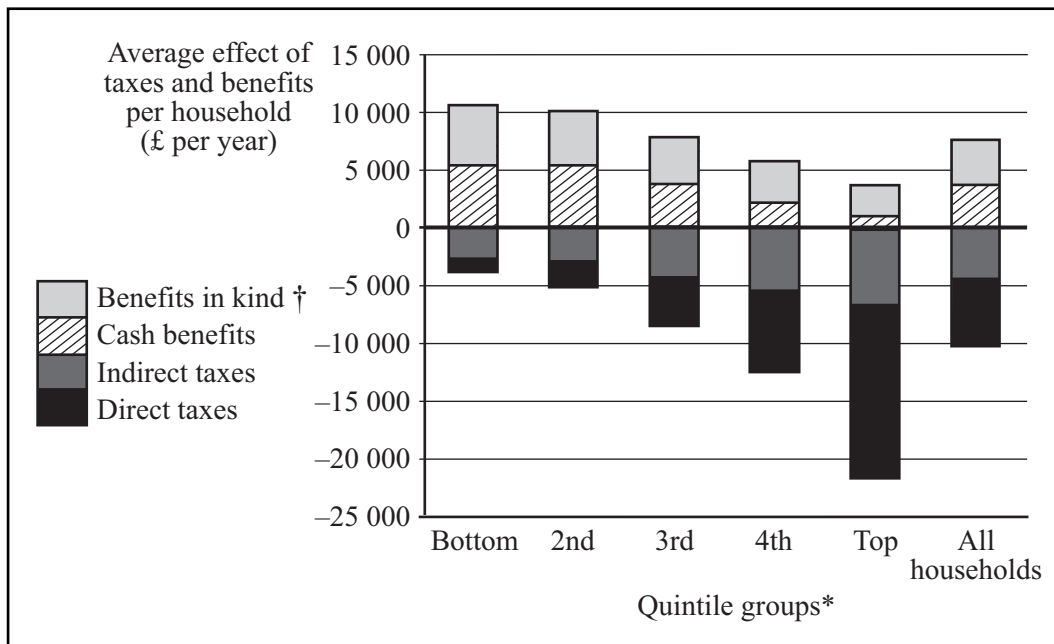
Answer **all** parts of this question.

1

Total for this question: 50 marks

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

Extract A: The effects of taxes and benefits on gross household income in the UK, by quintile group*, 2001–02



* Extracts A and B divide households into five equal size groups known as quintile groups; for example the bottom quintile group consists of the 20% of households with the lowest gross incomes.

† Benefits in kind include free state education and healthcare.

Source: Office for National Statistics, October 2003

Extract B: Selected taxes in the UK: percentage of gross household income paid in taxation, 2001–02

Tax	Quintile groups*					All households
	Bottom	2nd	3rd	4th	Top	
Income tax	3.2	6.3	10.3	13.5	18.3	13.7
National insurance contributions (NICs) paid by workers	1.2	2.4	4.0	4.8	3.8	3.8
Council tax (& local tax in N Ireland)	7.1	4.8	3.7	2.9	1.8	3.0
Value added tax	11.3	7.5	7.0	6.2	4.6	6.1
Duty on alcohol	1.6	1.0	1.0	0.9	0.6	0.8
Duty on tobacco	3.1	1.8	1.5	0.9	0.3	1.0

Source: Office for National Statistics, October 2003

Extract C:

Extract C was an extract of text.
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Question 1

- (a) Using **Extract A**, briefly compare how taxes and benefits affected the income of the different quintile groups of households in 2001–02. *(4 marks)*
- (b) **Extract B** shows that as household income increases in the UK, the percentage of income paid in tax increases for some taxes, but falls for others. Using **two** examples of taxes shown in **Extract B**, explain why this is so. *(6 marks)*
- (c) With the help of the data, use diagrams to analyse how changes in income tax may affect incentives in UK labour markets. *(10 marks)*
- (d) Evaluate the case for **and** against the government changing the structure of the UK tax and benefit systems in order to make the distributions of income and wealth more equal. *(30 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

SECTION B

Answer **one** question from this Section.

Each question carries 50 marks.

- 2 “When markets are contestable and efficient, there is no need for competition policy.”
- (a) Explain why contestable markets generally function more efficiently than non-contestable markets. *(20 marks)*
 - (b) Do you agree that there is no need for competition policy? Justify your answer. *(30 marks)*
- 3
- (a) Explain how the law of diminishing returns and returns to scale affect a firm’s costs of production. *(20 marks)*
 - (b) Evaluate the view that the separation of ownership from control in large firms inevitably causes diseconomies of scale. *(30 marks)*
- 4
- (a) Explain how, by adversely affecting the environment, economic activity can lead to market failure. *(20 marks)*
 - (b) Evaluate the view that government intervention can correct all the market failures caused by the effects of economic activity on the environment. *(30 marks)*

END OF QUESTIONS

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