



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2012**

Economics

Assessment Unit AS 1

Markets and Prices

[AE111]

TUESDAY 12 JUNE, AFTERNOON



TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in **all** questions.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following passage was written in November 2010. Study it carefully and answer the questions which follow.

University funding and the case for higher fees

Country	Government expenditure on universities % of GDP	Private expenditure on universities % of GDP	Total expenditure on universities % of GDP
US	1.0	1.9	2.9
Canada	1.5	1.3	2.8
Korea	0.6	1.9	2.5
Denmark	1.6	0.1	1.7
Japan	0.5	1.0	1.5
Netherlands	1.1	0.4	1.5
UK	1.0	0.3	1.3
Germany	0.9	0.2	1.1
Italy	0.7	0.2	0.9
OECD average	1.0	0.5	1.5

Source: Based on data from Table B2.4 Expenditure on educational institutions as a percentage of GDP, by source of fund and level of education (2006) from OECD (2009), *Education at a Glance 2009: OECD Indicators*, OECD Publishing. <http://dx.doi.org/10.1787/eag-2009-en>

* OECD:

Fig. 1: Spending on university education as a percentage of GDP in selected OECD* countries

The UK higher education system is one of the largest and most successful in the world and includes a number of world class universities such as Oxford and Cambridge. However, as a proportion of Gross Domestic Product (GDP), total expenditure on UK universities is lower than in many other wealthy countries.

Many academics complain that this is evidence of under-funding of university education. They consider this a failing on the part of the government to recognise the importance of investment in their sector, and the returns such investment may yield. They point to a report published in 2009 that estimates the social benefit of university education to the UK economy to be around £60bn per year. This equates to around £1000 per head of the population! In particular many economists feel that an increase in university funding would improve the UK's international competitiveness and contribute to the creation of a knowledge-based economy.

University vice chancellors argue that continued under funding is having a negative impact on the quality of the education offered at UK universities. They argue that the lack of funds makes it impossible for them to offer the salaries required to attract the top academics. It also leads to increased student to teacher ratios and prevents universities from making the investment in infrastructure required to maintain their position among the world's elite.

It was with these concerns in mind that the government commissioned a review of university funding. This review, which was chaired by Lord Browne, published its findings in October 2010. Among the many proposals set out in the report was the suggestion that the cap on tuition fees be lifted and universities be freed to set whatever fee they wish. 4

Not surprisingly this proposal has met with huge opposition. A lecturers' union spokesman said the plan was "the final nail in the coffin for affordable higher education". David Coulter, from the National Union of Students, claimed that the proposals were regressive in nature and would have a detrimental impact on students from poorer households. He said "Already students from poorer households find it difficult to secure a place in the top universities, despite having the grades to do so. Removing the cap will mean that access to the top universities, or the best courses, will be based on the ability to pay, and not on academic ability". 5

Even Vince Cable, the Business Secretary, stated "A free market in tuition fees would be undesirable and unfair as it might shut bright, poor students out. Greater choice and competition between universities is a good thing, but we must have protection for poorer students to ensure that this is a proper progressive scheme". 6

However, not everyone is opposed to the plan. One Conservative MP stated "It is only through the introduction of a market for university education that we can guarantee that the UK maintains its position as a world leader. Research undertaken by our universities generates income and prestige. We will lose these benefits if universities are not properly funded. And let us not forget that holding a degree confers a graduate premium of higher lifetime earnings, so it is only fair that students are asked to make a bigger contribution towards the cost of their education". 7

Adapted from: © More fees please? The future of university fees for undergraduate students by Anna Fazackerley and Julian Chant, published by Policy Exchange, 2010. ISBN 9781906097684

- (a) Using the information in **Fig. 1**, compare the pattern of expenditure on university education in the UK with that of other OECD countries. [6]
- (b) Analyse the impact of an increase in university funding on the UK's production possibility frontier (PPF). [6]
- (c) Explain why tuition fees could be considered to be regressive (Paragraph 5). [6]
- (d) With the aid of an appropriate diagram, examine how free markets may lead to the under-consumption of services such as university education. [10]
- (e) Evaluate the proposal to allow universities to charge whatever level of tuition fees they wish. [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4**.

2 Firms make little use of estimates of price elasticity of demand

- (a) Explain what is meant by price elasticity of demand. [10]
- (b) With the aid of appropriate examples, analyse what determines the price elasticity of demand for a good or service. [15]
- (c) Evaluate the view that estimates of price elasticity of demand are so inaccurate as to make them of little use to firms. [15]

3 Business leaders call for removal of National Minimum Wage

- (a) Explain what is meant by the equilibrium wage rate. [10]
- (b) With the aid of an appropriate diagram, explain the likely impact on economic rent of the introduction of a statutory national minimum wage. [15]
- (c) Critically examine the case for the removal of the National Minimum Wage. [15]

4 Demand for electric cars increases as petrol prices keep on rising

- (a) Explain what is meant by an increase in demand. [10]
- (b) Explain how an increase in the demand for electric cars may impact on other markets. [15]
- (c) Critically examine the government's proposal to subsidise the purchase of electric cars. [15]