

Tuesday 15 January 2013 – Afternoon

AS GCE ECONOMICS

F581/01 Markets in Action

Candidates answer on the Question Paper.

OCR supplied materials:

None

Other materials required:

- Calculators may be used

Duration: 1 hour 30 minutes



Candidate forename		Candidate surname	
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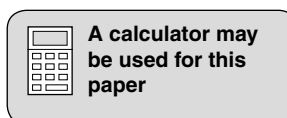
Centre number						Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

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 **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.



The UK housing crisis in numbers

The UK is facing a severe housing shortage. A growing population combined with a rise in the number of households (because more people are living alone and more people have second properties) has meant that the UK is unable to build houses at the rate which they are needed. The government has estimated that the UK requires 240 000 houses to be built each year to meet growing demand. The current rate is only 125 000 per year. As a result the average price of new houses may rise and people on low incomes may struggle to buy (see Fig. 1).

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	% change in price of new houses	% change in quantity of new houses supplied
2006	4.8%	3.6%
2007	1.2%	2.4%
2008	-1.4%	-1.1%
2009	-9.9%	-21.6%
2010	7.4%	-14.5%

Fig. 1 – Annual changes in the price and supply of new houses

In response to this problem, the government has attempted to increase the supply of new houses by:

- relaxing planning regulations in order to allow increased numbers of houses to be built
- subsidising the building of 'affordable' houses.

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In 2007, the government made a commitment to ensure that three million houses would be built by 2020. Where and how these new houses should be provided is causing further problems.

One suggestion is that new housing should be built in major developments on the edge of existing towns or villages. These Sustainable Urban Extensions (SUEs) would have their own schools, shops, and health and community facilities. This would, therefore, put less pressure on existing services than building lots of smaller housing estates. These SUEs would also generate employment and improve infrastructure in the area. Residents close to many of the proposed sites disagree. They believe that such substantial developments would destroy the countryside and reduce the value of existing houses.

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An alternative to the building of new houses is to provide government grants to encourage the renovation and use of existing empty properties. In September 2010, the Homes and Communities Agency published data which estimated that there were 734 000 such vacant houses in the UK. Houses left empty are often the target for vandalism and litter. It has been argued that, on average, empty houses need only £10 000 of investment to prepare them for re-occupation, compared with £90 000 to build a new affordable house.

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With limited government finance available, there is a difficult choice between funding the building of new houses and the renovation of old houses.

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Answer **all** questions.

- 1** Using the information in the case study, explain how the economic problem can be applied to the market for new houses in the UK.

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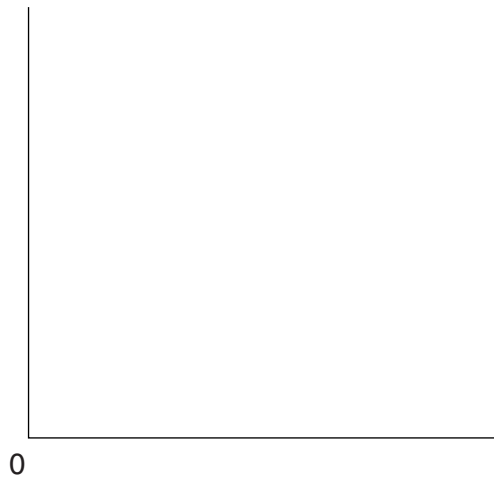
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2 (a) Define the term 'opportunity cost'.

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(b) Using a production possibility curve diagram, illustrate and explain the opportunity cost described in the case study (lines 28–29).



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3 (a) What is meant by a market?

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(b) State and explain **two** likely determinants of an increase in the demand for houses in the UK.

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4 (a) Define the term ‘price elasticity of supply’.

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(b) Using the information in Fig. 1, comment on the significance of price elasticity of supply between 2006–10 on the market for new houses. (Your answer must include calculations of price elasticity of supply.)

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5 Using information in the case study:

(a) identify **one** negative externality arising from the building of Sustainable Urban Extensions (SUEs). Explain why it is a negative externality.

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(b) identify **one** positive externality arising from the building of Sustainable Urban Extensions (SUEs). Explain why it is a positive externality.

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

A large area of lined paper for writing answers. It features a vertical margin line on the left side and horizontal dotted lines for writing. The lines are evenly spaced and extend across the width of the page.

A vertical solid line is positioned on the left side of the page. From this line, 25 horizontal dotted lines extend across the page, creating a series of rows for writing.

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