

## Section A

Read the source material carefully before answering Question 1.

### Source material: The Swiss Mail

The information is from The Swiss Mail sent to its consumers in 2005.

There is and investigations going on for postal service so that it could become consistent and reliable and remains one of the best in the continent. You can trust the Swiss Mail with your post. 99.9 % of all mail gets delivered safely and quickly to the right address. Sometimes letters have the incorrect address or no address at all. At least 92.5 % of the First Class letters arrive by lunchtime the next working day. (In France barely 80% of the First Class mail is delivered on time.) We are determined to manage this better and are investing in technology and training. The prices are rising by less than inflation and are amongst the lowest in Europe. In April the price of First Class post will go up from £0.28 to £0.30 which compares well with a price of £0.26 ten years ago. In Italy First Class could cost you £1.12, in Germany up to £1. There will now be only one delivery a day. Previously, when mail was sorted by hand, it was impossible to sort and deliver it all at once. Now, more mail is sorted automatically and overnight. A single delivery helps us to keep our costs down. We need to make profits so that we can invest in better equipment, better technology and better offices, and also pay our staff more for doing a responsible job.

1.

- a) Explain what is meant by factors of production. [4]
- b) How has the Swiss Mail's use of these factors of production changed? [2]
- c) Explain how the proposed new investment will change the Swiss Mail's fixed cost and variable cost. [4]
- d) Explain the difference between the private and public sectors. Supports your difference with the help of examples for each of the sectors. [6]
- e) Discuss which kind of economy is considered the best in modern economic world. [4]
- f) Discuss how the rise in price from £0.28 to £0.30 might affect demand for substitute methods of communication. [4]
- g) Is there enough evidence in the article to support the Swiss Mail's statement that it is one of the best in Europe? [6]

## Section B

Answer any **three** questions.

2. Sometimes in an industry a firm buys a smaller competitor which uses similar factors of production. At other times a firm buys another firm which supplies it with the raw materials and other inputs for its production.
- a) Explain what is meant by the factors of production. [4]
  - b) Discuss the reasons why some firms remain small. [6]
  - c) Identify the types of integration in the two situations described above. [3]
  - d) Discuss whether such integration is always beneficial. [7]
3. Production involves the use of the four factors of production. The use of these resources involves an opportunity cost.
- a) Describe why the four factors of production are considered scarce and how the concept of scarcity links to factor of production. [6]
  - b) Using a production possibility curve, explain what is meant by opportunity cost. [6]
  - c) Discuss whether more factors of production should be used to build houses. [8]
4. The central bank and stock exchanges can perform important roles in economies.
- a) What is meant when it is stated that money performs the functions of (i) a medium of exchange and (ii) a store of value? [4]
  - b) Explain the role a central bank can play in an economy. [6]
  - c) Discuss how important a stock exchange can be in encouraging firms to expand. [10]
- 5.
- a) Explain the difference between an equilibrium price and a disequilibrium price. [4]
  - b) Many more people travel by airplane today than ten years ago. With the help of a demand and supply diagram, explain what might have happened in the market for air travel to cause this increase. [6]
  - c) Define price elasticity of demand and suggest why different goods have different price elasticities. [5]
  - d) Discuss whether knowledge of price elasticity of demand is of use to a company selling holiday tours. [5]