

## **SHREWSBURY SCHOOL**

# SIXTH FORM ENTRANCE EXAMINATION 2010

Economics (1 hour)

#### Instructions to candidates:

- Answer ALL Questions
- Each question is worth 15 marks
- You should spend approximately 15 minutes reading

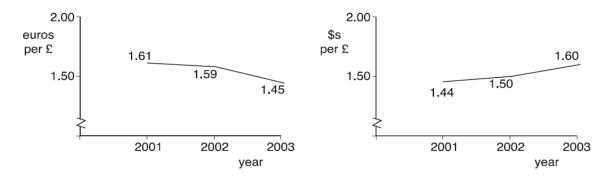
#### **Question I: Airlines**

BudgetAir PLC makes most of its revenue from flights between the UK and Europe and conducts most of its business in  $\pounds$  sterling. However:

- It buys all of its aviation fuel priced in US \$'s.
- It buys its aircraft from American plane maker Boeing.
- It has to pay its expenses at European airports in euros.

Changes in the  $\pounds$  sterling exchange rate can have major effects on its costs and revenues.

Figure 1: The exchange rate of  $\pounds$  sterling 2001-3.



ainst the \$ between 2001 and 2003.	
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	(4)

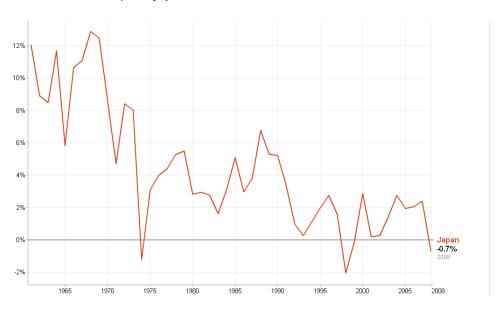
a) Compare the change in the exchange rates of the  $\pounds$  against the euro and the  $\pounds$ 

b) Discuss whether changes shown in these exchange rates will have a major effect on BudgetAir's costs.	
(7)	
c) The present exchange rate of euros to $\pounds$ sterling is approximately $\{0.15\}$ . Explain how this would affect your answer to part b	
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(4	)

#### **Question 2: The Economy**

Gross Domestic Product is a measure of the total output of goods and services produced in an economy expressed in money terms.

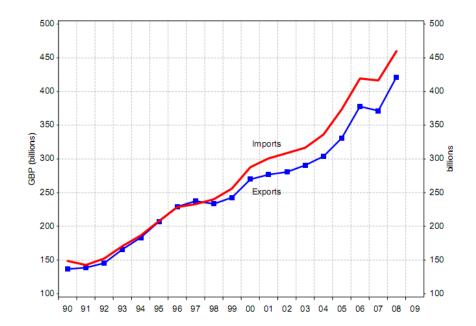
**Figure 2:** Percentage change in Gross Domestic Product in real terms (adjusted for effects of inflation) for Japan



time period shown.
(4)
b) Explain what might have happened to GDP in Japan in 2008 if the figures were not in real terms.

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	 	(2)

Figure 3: UK Exports and Imports of Goods and Services



rts and Imports over the time period shown.	

**Figure 4:** Economic objectives that governments would like to achieve include low unemployment, steady economic growth of approximately 2.5% and low inflation.

	Unemployment	Economic Growth	Inflation
UK	7.8%	1.2%	3.1%
Germany	6.9%	3%	1%
US	9.5%	1.7%	1.2%
Japan	5.2%	0.4%	-0.9%
France	10%	0.7%	1.4%

d) Use the above table to decide which economy was the best performing and which is the worst. Explain your choices.
(5)

## Question 3: The standard of living in the UK

Figure 5

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	1952	2002	2052*
UK population	50m	60m	65m
Numbers in work	23m	28.4m	32m
Average weekly income (manual worker)	£7	£300	£2,840
Average working week (hours)	48	42	35
Life expectancy (years) men	66.1	75.8	86.2
women	70.9	80.6	88.6
Average house price	£2,028	£109,218	£902,600
Number of overseas holidays	150,000	36m	80m
Car ownership	3m	26.5m	39m
Average price of a car	£470	£13,555	£52,300
Price of a litre of petrol	5p	75p	£4.20
Prison population	24,000	69,850	130,000
Divorce rates	2 in 10	4 in 10	6 in 10
	marriages	marriages	marriages

<sup>\*</sup> projection

in 195	_	to dis	scuss wn	etner tn	e UK s s	tandard	of living v	as nigner	in 2002 t	nan
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 (15)

## Extra Paper

If you use the following lined page to complete any question, the question number must be clearly shown.