

Paper Reference 9EC0/01

Pearson Edexcel

Level 3 GCE

Total Marks

Economics A

Advanced

**Paper 1: Markets and Business
Behaviour**

Tuesday 6 June 2017 – Afternoon

**Time: 2 hours plus your additional time
allowance.**

**In the boxes below, write your name,
centre number and candidate number.**

Surname					
Other names					
Centre Number					
Candidate Number					

Y51919A

You do not need any other materials.

YOU WILL BE GIVEN

Data Book

INSTRUCTIONS

There are three sections in this question paper. Answer ALL questions from Section A and Section B.

Answer ONE question from Section C.

Answer the questions in the spaces provided in this Question Paper or in the Data Book – there may be more space than you need.

Turn over

INFORMATION

The total mark for this paper is 100

The marks for EACH question are shown in brackets – use this as a guide as to how much time to spend on each question.

Calculators may be used.

ADVICE

Read each question carefully before you start to answer it.

Check your answers if you have time at the end.

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions are multiple choice. Write the letter(s) of your chosen answer(s) in the box(es) provided.

You are advised to spend 30 minutes plus some of your additional time allowance on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1. Refer to the table for Question 1 in the Data Book. It shows market data for e–cigarette kits. The original equilibrium price is £23**

As a result of a successful advertising campaign, demand increased by 3 000 e–cigarette kits at all prices. At the same time production costs fell leading to an increase in supply of 1 000 e–cigarette kits at all prices.

(continued on the next page)

1. continued.

(a) Calculate the new equilibrium price and quantity following the successful advertising campaign and the fall in production costs. Use the last two columns for your working.

(4 marks)

Answer lines continue on the next page.

Turn over

1. (a) continued.

(continued on the next page)

Turn over

1. continued.

(b) Research conducted in New Zealand in 2014 estimated the cross elasticity of demand for e-cigarettes to be 0.16 in response to changes in the price of tobacco. This implies that a 5% increase in the price of tobacco will cause the percentage change in demand for e-cigarettes to be:

Select ONE answer from the options on the next page and write the letter in the box provided.

(continued on the next page)

Turn over

10

1. (b) continued.

A -31.25

B -0.16

C 0.8

D 31.25

Answer (1 mark)

(Total for Question 1 = 5 marks)

Turn over

2. **Between 2010 and 2015 the average price of tea in the UK increased from £7·20 per kilo to £8·48 per kilo. Over the same period the quantity of tea purchased fell from 97 million kilos to 76 million kilos.**

(Source: <http://www.theguardian.com/lifeandstyle/shortcuts/2015/aug/05/brew-do-you-think-you-are-why-tea-needs-to-copy-coffee-in-order-to-survive>)

(continued on the next page)

2. continued.

(a) Assume that the change in the quantity of tea purchased was only caused by the change in the price of tea. Calculate the price elasticity of demand for tea in response to the rise in its price. You are advised to show your working.

(2 marks)

Answer lines continue on the next page.

2. (a) continued.

(continued on the next page)

Turn over

2. continued.

(b) Calculate the change in total sales revenue for UK tea retailers between 2010 and 2015

You are advised to show your working.

(2 marks)

Answer lines continue on the next page.

Turn over

2. (b) continued.

(continued on the next page)

Turn over

2. continued.

(c) Estimates for the demand for black tea in the UK suggest that it is an inferior good. This implies it has a negative:

- A cross elasticity of demand
- B income elasticity of demand
- C price elasticity of demand
- D price elasticity of supply

Answer

(1 mark)

(Total for Question 2 = 5 marks)

Turn over

- 3. Refer to the diagram for Question 3 in the Data Book.**

The Indian government has introduced a subsidy on domestic cooking gas cylinders in the city of Mumbai. The diagram shows the effect following the introduction of the subsidy.

- (a) Calculate the total domestic cooking gas subsidy paid daily by the Indian government.**

You are advised to show your working.

(2 marks)

Answer lines start on the next page.

3. continued.

(b) Calculate the percentage share of the total subsidy received by:

(i) consumers

(1 mark)

(continued on the next page)

Turn over

3. (b) continued.

(ii) producers

(1 mark)

(continued on the next page)

Turn over

3. continued.

(c) One effect of the subsidy is to increase:

A consumer surplus

B market failure

C public good provision

D tax revenue

Answer (1 mark)

(Total for Question 3 = 5 marks)

Turn over

4. In 2015 JCB, the construction equipment manufacturer, experienced a 6% fall in revenue. This resulted from a reduction in sales of construction equipment to emerging markets.

(a) Draw a cost and revenue diagram to show the likely impact of a reduction in sales of construction equipment on JCB's profits.

(4 marks)

Answer lines continue on the next two pages.

4. (a) continued.

(continued on the next page)

Turn over

4. continued.

(b) In India JCB has a strong brand image and a **50%** share of the market for construction equipment. This means the construction equipment market in India is likely to have a low level of:

Select **ONE** answer from the options on the next page and write the letter in the box provided.

(continued on the next page)

4. (b) continued.

A concentration

B contestability

C private ownership

D specialisation

Answer

(1 mark)

(Total for Question 4 = 5 marks)

Turn over

5. Refer to Figure 1 for Question 5 in the Data Book.

It shows the distribution of the revenue received from the sale of a Starbucks cappuccino drink priced at £2.27 in 2015

(a) Which ONE of the following is a fixed cost to Starbucks?

Select ONE answer from the options on the next page and write the letter in the box provided.

(continued on the next page)

Turn over

5. (a) continued.

A Coffee

B Milk

C Packaging

D Rent

Answer

(1 mark)

(continued on the next page)

Turn over

5. continued.

(b) Explain the difference between fixed costs and variable costs.

(2 marks)

Answer lines continue on the next page.

Turn over

5. (b) continued.

(continued on the next page)

Turn over

5. continued.

**(c) With reference to Figure 1,
calculate the profit (in pence) for
a cappuccino drink.**

**You are advised to show your
working.**

(2 marks)

**Answer lines continue on the
next page.**

Turn over

5. (c) continued.

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

Turn over

SECTION B

Read Figure 1, Figure 2, Extract A, Extract B and Extract C in the Data Book before answering Question 6

Write your answers in the spaces provided.

You are advised to spend 1 hour plus some of your additional time allowance on this section.

6. (a) With reference to Figure 1 and Extract A, explain ONE likely reason for the change in the four-firm concentration ratio of the supermarket sector between 2010 and 2015
(5 marks)

(b) With reference to Figure 2 and Extract A, discuss the possible impact of supermarket monopsony power on both food suppliers and consumers.
(12 marks)

(continued on the next page)

6. continued.

(c) Examine measures the government might use to restrict the monopsony power of supermarkets.

(8 marks)

(d) Assess the extent to which ‘information gaps’ (Extract B, lines 6 to 8) and ‘irrational behaviour’ (Extract B, lines 14 and 15) are the main causes of food waste in the UK.

(10 marks)

(continued on the next page)

6. continued.

- (e) Discuss the likely problems for Sainsbury's and Morrisons if the suggested merger between them goes ahead. Refer to Figure 1, Extract C and your own knowledge in your answer. (15 marks)**

6. (a) With reference to Figure 1 and Extract A, explain ONE likely reason for the change in the four-firm concentration ratio of the supermarket sector between 2010 and 2015

(5 marks)

Answer lines continue on the next three pages.

6. (a) continued.

(continued on the next page)

Turn over

6. (b) With reference to Figure 2 and Extract A, discuss the possible impact of supermarket monopsony power on both food suppliers and consumers.

(12 marks)

Answer lines continue on the next six pages.

6. (b) continued.

(continued on the next page)

Turn over

6. (c) Examine measures the government might use to restrict the monopsony power of supermarkets.

(8 marks)

Answer lines continue on the next three pages.

Turn over

6. (c) continued.

(continued on the next page)

Turn over

6. (d) Assess the extent to which ‘information gaps’ (Extract B, lines 6 to 8) and ‘irrational behaviour’ (Extract B, lines 14 and 15) are the main causes of food waste in the UK.

(10 marks)

Answer lines continue on the next six pages.

6. (d) continued.

(continued on the next page)

Turn over

6. (e) Discuss the likely problems for Sainsbury's and Morrisons if the suggested merger between them goes ahead. Refer to Figure 1, Extract C and your own knowledge in your answer.

(15 marks)

Answer lines continue on the next nine pages.

6. (e) continued.

(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

Turn over

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes plus some of your additional time allowance on this section.

EITHER

7. In **2015** a report by Public Health England recommended the imposition of a **20%** tax on the sale of soft drinks that contain high levels of sugar.

Evaluate the likely microeconomic effects of such a tax.

(Total for Question 7 = 25 marks)

(continued on the next page)

Turn over

OR

- 8. 'Revenue maximisation is a more realistic business objective than profit maximisation for many businesses.'**

To what extent do you agree with this statement? Refer to an industry of your choice in your answer.

(Total for Question 8 = 25 marks)

Turn over

Indicate which question you are answering by marking a cross in the box. If you change your mind, put a line through the box and then indicate your new question with a cross.

Chosen question number:

Question 7

Question 8

(continued on the next page)

Turn over

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