**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 | |

Q51919A

Pearson

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.

**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.**

    (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.**

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**Turn over**

**1.** **(a)** **continued.**

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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:

A   −31·25

B   −0·16

C   0·8

D   31·25

Answer ☐ (1 mark)

**(Total for Question 1 = 5 marks)**

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)

(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.

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**2.** **(a)** **continued.**

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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)

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(continued on the next page)

**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)**

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3.    continued.

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

(i)    consumers

(1 mark)

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(continued on the next page)

3.  (b)  continued.

     (ii)  producers

          (1 mark)

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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)**

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 page.

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**4.** **(a)** continued.

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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:

**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?**

   **A   Coffee**

   **B   Milk**

   **C   Packaging**

   **D   Rent**

   **Answer** [        ] **(1 mark)**

**(continued on the next page)**

5.   continued.

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

(2 marks)

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**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)**

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**(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)

    (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)

**Turn over**

**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 two pages.

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**6.** **(a)** continued.

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**6.** **(a)** **continued.**

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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 four pages.**

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**6.** **(b)** **continued.**

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**6.** **(b)** **continued.**

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**6.** **(b)** **continued.**

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

**(8 marks)**

**Answer lines continue on the next two pages.**

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**6.** **(c)** **continued.**

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**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 four pages.**

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**6.** **(d)** continued.

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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 six pages.

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**6.** **(e)** continued.

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**(Total for Question 6 = 50 marks)**

**TOTAL FOR SECTION B = 50 MARKS**

**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)**

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# 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)**

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**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**

**Write your answer here:**

**Answer lines continue on the next eleven pages.**

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**TOTAL FOR SECTION C = 25 MARKS**

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**TOTAL FOR PAPER = 100 MARKS**

**END OF PAPER**

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