

Paper Reference 9EC0/01  
Pearson Edexcel  
Level 3 GCE

Total Marks
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Economics A  
Advanced  
Paper 1: Markets and Business Behaviour

Monday 20 May 2019 – Morning

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					

**You do not need any other materials.**

**YOU WILL BE GIVEN**

**Data Book**

## **INSTRUCTIONS**

**There are three sections in this 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.**

**Turn over**

**ADVICE**

**Read each question carefully before you start to answer it.**

**Check your answers if you have time at the end.**

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**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. Between **2016** and **2017** the average price of new build houses in the UK rose by an estimated **5.4%**

- (a) With reference to the data provided, calculate the price elasticity of supply for new house builds between **2016** and **2017**. You are advised to show your workings.  
(2 marks)

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1. continued.

(b) A  $2.5\%$  increase in new build house prices in one region of the UK causes a  $10\%$  increase in the number of houses built. *Ceteris paribus*, this suggests that supply of new house builds is:

- A perfectly price elastic
- B perfectly price inelastic
- C relatively price elastic
- D relatively price inelastic

Answer

(1 mark)

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Turn over

**1. continued.**

**(c) Explain ONE factor that is likely to determine the price elasticity of supply of new house builds.**

**(2 marks)**

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

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**Turn over**

**2. In August 2017 Hurricane Harvey caused the closure of nearly a quarter of the oil production capacity in the United States.**

**(a) Refer to the diagram for Question 2(a) in the Data Book.**

**Draw a supply and demand diagram to show the likely microeconomic effects of the hurricane on the US oil market.**

**(4 marks)**

**(b) Refer to the four diagrams for Question 2(b) in the Data Book.**

**The diagrams show movements from position X to Y on production possibility frontiers. In which ONE of the diagrams does the movement from X to Y illustrate the most likely impact on the US economy of a natural disaster such as Hurricane Harvey?**

**(1 mark)**

**Answer: \_\_\_\_\_**

**(Total for Question 2 = 5 marks)**

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**Turn over**



3. According to the Royal Mail, more hair and beauty salons opened on UK high streets last year than any other type of independent business, with a net increase of **10%**, representing **626** new salons.

(Source: adapted from <https://www.theguardian.com/small-business-network/2016/nov/18/beauty-boom-or-bust-uk-too-many-salons>)

(a) The UK hair and beauty industry is an example of monopolistic competition because:

- A** firms spend nothing on advertising and research
- B** the industry is dominated by a few large firms
- C** the products are homogenous
- D** there are low barriers to entry and exit

Answer

(1 mark)

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Turn over

**3. continued.**

**(b) Refer to the diagram for Question 3(b) in the Data Book.**

**Draw a cost and revenue diagram to show the long-run equilibrium of a firm in monopolistic competition.**

**(4 marks)**

**(Total for Question 3 = 5 marks)**

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4. In 2016, the insurance group Esure undertook a demerger with its GoCompare price comparison website.

(a) The most likely reason for this demerger was to:

**A** benefit from external economies of scale

**B** benefit from internal economies of scale

**C** focus more on its core business

**D** increase its market share

Answer

(1 mark)

(continued on the next page)

4. continued.

Following the demerger, GoCompare announced in **2017** a profit of **£17·5** million, up **21·5%** on **2016**. Total revenue in **2017** was **£75·8** million, up **4·1%** on **2016**

(Source: adapted from <https://www.insuranceage.co.uk/insurer/3107496/profits-up-at-go-compare>)

(b) Calculate, using the information provided, the total costs of GoCompare in **2016**

(4 marks)

Answer lines continue on the next page.

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4. (b) continued.

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(Total for Question 4 = 5 marks)

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**5. Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.**

**(a) Explain how resources are allocated in a free market economy.**

**(2 marks)**

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5. continued.

(b) Which ONE of the following statements is true?

- A** Friedrich Hayek believed that the government should subsidise inefficient firms
- B** Friedrich Hayek was a key advocate of command economies as a way of allocating resources
- C** Karl Marx advocated allocating resources via the free market
- D** Karl Marx criticised the private ownership of factors of production

Answer

(1 mark)

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**5. continued.**

**Adam Smith described the benefits of specialisation and the division of labour.**

**(c) Explain ONE advantage to a firm of using division of labour when organising its production process.**

**(2 marks)**

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

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**TOTAL FOR SECTION A = 25 MARKS**

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**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. Energy and telecommunication markets in the UK**

**(a) With reference to Extract A, explain the difference between a positive statement and a normative statement.**

**(5 marks)**

**(b) With reference to Extract B, examine the likely benefits to consumers of the integration between BT and EE.**

**(8 marks)**

**(c) With reference to Extract C, assess possible reasons why many ‘landline-only’ customers do not switch to a cheaper telephone provider.**

**(10 marks)**

**(d) Discuss ONE likely reason for the rise in BT’s profit (Figure 2, Extracts B and C)**

**Use a cost and revenue diagram to support your answer.**

**(12 marks)**

**(continued on the next page)**

**Turn over**

**6. continued.**

- (e) Discuss methods of government intervention to protect consumers within the utilities markets, such as energy and telecommunications.  
(15 marks)**

**(continued on the next page)**

**6. continued.**

**(a) With reference to Extract A, explain the difference between a positive statement and a normative statement.**

**(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. continued.**

**(b) With reference to Extract B, examine the likely benefits to consumers of the integration between BT and EE.**

**(8 marks)**

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**6. (b) continued.**

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**6. (b) continued.**

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**Turn over**

6. (b) continued.

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**6. continued.**

**(c) With reference to Extract C, assess possible reasons why many ‘landline-only’ customers do not switch to a cheaper telephone provider.**

**(10 marks)**

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

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6. (c) continued.

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6. continued.

(d) Discuss ONE likely reason for the rise in BT's profit (Figure 2, Extracts B and C)

Use a cost and revenue diagram to support your answer.

(12 marks)

Answer lines continue on the next five pages.

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6. (d) continued.

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**6. continued.**

**(e) Discuss methods of government intervention to protect consumers within the utilities markets, such as energy and telecommunications.**

**(15 marks)**

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

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**6. (e) continued.**

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**6. (e) continued.**

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**6. (e) continued.**

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6. (e) continued.

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(Total for Question 6 = 50 marks)

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**TOTAL FOR SECTION B = 50 MARKS**

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## **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 July **2017** it was announced that only a third of the BBC's **96** top earning presenters were women and that its seven highest-paid presenters were all men.

According to the High Pay Centre, in **2018**, UK chief executives can earn **120** times more than the average full-time worker earning **£28 758**

With reference to an industry of your choice, evaluate why wage differences exist within the UK labour market.

(Total for Question 7 = 25 marks)

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**OR**

8. In October **2017** Scania, the Volkswagen-owned truck maker, was fined **€880** million (**£771** million) by the European Commission for colluding with five other truck manufacturers over a **14**-year period. The firms had agreed to coordinate prices after experiencing additional costs of meeting emission regulations.

With reference to an industry of your choice, evaluate why some firms engage in collusive behaviour.

(Total for Question 8 = 25 marks)

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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**

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

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**Turn over**

## Section C continued.

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Section C continued.

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Section C continued.

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## Section C continued.

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Section C continued.

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Section C continued.

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## Section C continued.

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**TOTAL FOR SECTION C = 25 MARKS**

**TOTAL FOR PAPER = 100 MARKS**

**END OF PAPER**