

General Certificate of Education  
January 2004  
Advanced Subsidiary Examination



**ECONOMICS** **ECN1/2**  
**Unit 1 Part 2 Data Response: Markets and Market Failure**

Friday 16 January 2004 Morning Session

**In addition to this paper you will require:**

- an 8-page answer book;
- the question paper for Part 1 (ECN1/1).

You may use a calculator.

Time allowed: 1 hour for papers ECN1/1 and ECN1/2 together

**Instructions**

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

**Information**

- The maximum mark for this paper is 25.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

**Advice**

- You are advised to spend at least 45 minutes on paper ECN1/2.

Answer **EITHER** Question 1 **OR** Question 2.

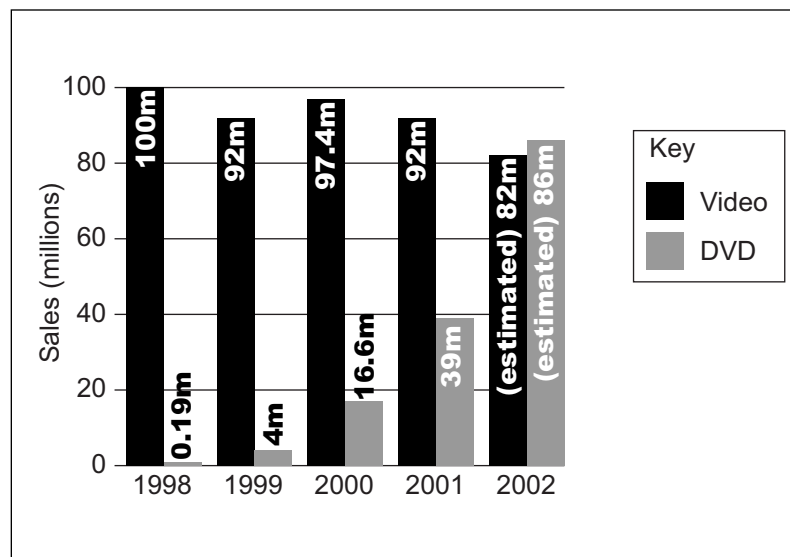
**EITHER**

1

Total for this question: 25 marks

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

**Extract A: Sales of pre-recorded video cassettes and DVDs in the UK, 1998–2002**



Source: *Daily Mirror*, 12 August 2002

**Extract B: DVD kills the video**

We are living in a period in which digital versatile disc (DVD) technology is replacing video cassette technology. Prices of DVD players have recently fallen below £100. Video cassette recorders (VCRs) and video cassettes currently have two advantages, though these are soon likely to disappear. First, there is a much larger back-catalogue of films to buy or rent on video cassette than on DVD. Second, VCRs can record TV programmes as well as play pre-recorded films. By contrast, only pre-recorded discs can be used with DVD players available at a similar price to VCRs. 1  
5

In 2001, Philips manufactured and sold a DVD recorder that enabled the user to record TV programmes as well as to play pre-recorded DVDs. Since then, rival manufacturers, such as Sony, have marketed their own recorders. Prices of DVD *recorders* are still much higher than prices of DVD *players*, but a price war is developing, and prices are likely to fall rapidly over the next few years. 10

Source: adapted from the *Daily Mirror*, 12 August 2002

**Extract C: Winning technologies**

Over twenty years ago, when VCRs first hit the market, three different and incompatible technologies fought for market dominance. During this struggle, sales of VCRs were held back because consumers did not know which type of machine would win the battle for market dominance. JVC's VHS format eventually emerged the winner. Now, virtually every VCR incorporates the technology originally developed and controlled by JVC. In the consumer market, rival technologies developed by Sony and Philips disappeared without trace. In a similar battle involving computer software, Microsoft's Windows PC operating system beat off the challenge of Apple's operating system.

History may be repeating itself with DVD recorders. Currently, DVD recorders developed by different manufacturers use different technologies. Remembering the earlier battle over twenty years ago, consumers may keep their old VCRs for a few more years rather than spend hundreds of pounds on the 'wrong' DVD recorder technology.

*Question 1*

- (a) Using **Extract A**, compare the changes in sales of pre-recorded video cassettes with the changes in sales of digital versatile discs (DVDs) for the period 1998 to 2002. *(4 marks)*
- (b) **Extract B** (lines 11–12) states that the prices of DVD recorders “are likely to fall rapidly over the next few years”. With the help of a supply and demand diagram, explain how this may affect the market for video cassette recorders. *(6 marks)*
- (c) **Extract C** describes how markets for electronic goods and software are sometimes dominated by a single type of product, which incorporates the technology developed and controlled by one of the firms in the market. Do you agree that this reduces competition and is bad for consumers and producers? Justify your answer. *(15 marks)*

**TURN OVER FOR THE NEXT QUESTION**

**Turn over ►**

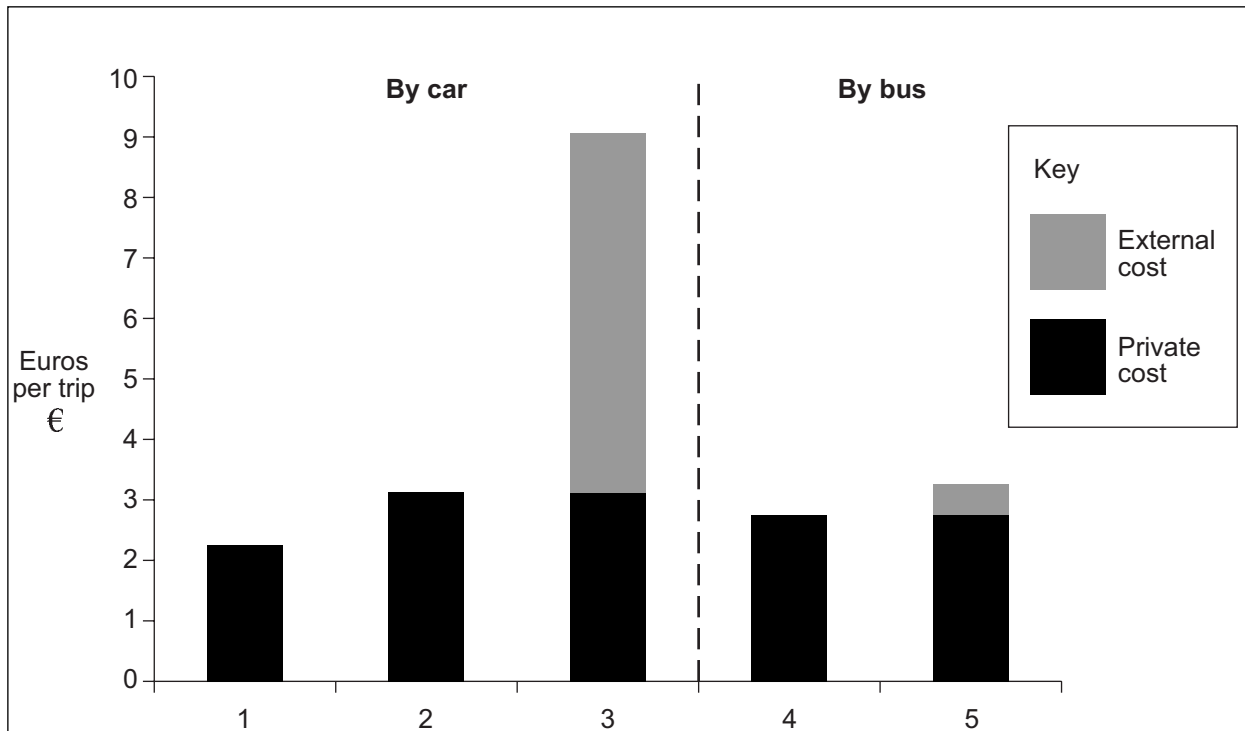
OR

2

Total for this question: 25 marks

Study **Extracts D and E**, and then answer **all** parts of Question 2 which follows.

**Extract D: The daily cost of commuting to work in central Brussels**



The graph above shows the daily cost of a worker commuting to work in central Brussels by car and by bus. 1

- **Column 1** – the private cost of commuting borne by a motorist when the employer provides a parking space.
- **Column 2** – the motorist's private cost when no parking space is provided by the employer. 5
- **Column 3** – the social cost of the car journey when no parking space is provided by the employer.
- **Column 4** – the private cost of commuting to work by bus.
- **Column 5** – the social cost of commuting to work by bus. 10

(For both car and bus, taxes imposed on the mode of travel, mainly fuel tax, are not shown, but the cost of the commuter's time is one of the private costs that has been estimated.)

Because motorists, more so than bus users, pay prices for commuting that are too low, the signalling function of prices is not working properly. This is also the case in most other European cities. 15

Source: adapted from data collected by the TRENEN consortium and published in *CAPRI – Final Report, p. 64*, European Commission 2001 (EUR19966EN)

**Extract E: The price of parking in London**

So hot is the market for garages in London that one on offer in Islington for £55 000 went for almost double that. In parts of London where most residential property is Georgian, houses lack garages, and parking space is at a premium. Demand throughout London is high, and increasing because of higher incomes and an increase in soft-top and classic car owners. Demand is also being fuelled by tighter on-street parking restrictions imposed by local councils. In Kensington and Chelsea, residents can park for free on a yellow line after 6.30 pm and from 1.30 pm on Saturday. But restrictions are now being extended between 8.30 am and 10 pm during the week and until 6 pm on Saturdays.

“Residents will have to find another property with a garage or off-street parking, or buy or rent a garage separately”, says a local estate agent. The biggest bargain is residents’ on-street parking, which is less than £100 a year. Nevertheless, many residents think this is too high. There is no cover, no security, and no guarantee of a parking space. Residents returning home in the evening often have to drive round for up to half an hour to find a vacant space, which may be hundreds of yards away from where they live.

*Source: adapted from the Daily Telegraph, 15 September 1999*

*Question 2*

- (a) Using the data in **Extract D**, compare the private and external costs of commuting to work in central Brussels. *(4 marks)*
- (b) Explain the meaning of the statement, “the signalling function of prices is not working properly” (**Extract D**, lines 13–14). *(6 marks)*
- (c) Many motorists believe that parking in city centres is too expensive, but many economists argue that it is too cheap. In the light of the information in the data, evaluate the economic case for charging motorists significantly more for parking in city centres. *(15 marks)*

**END OF QUESTIONS**

**THERE ARE NO QUESTIONS PRINTED ON THIS PAGE**

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