

General Certificate of Education
January 2005
Advanced Level Examination



ECONOMICS **EC4W**
Unit 4 Working as an Economist: The European Union

Wednesday 26 January 2005 Afternoon Session

In addition to this paper you will require:

an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour 40 minutes

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 EC4W.
- Answer the compulsory question.
- **At the very start of the examination**, tear along the perforations in order to detach the question on page 2 from the extracts.
- **The extracts** are printed on pages 3, 4, 5 and 6, which can be unfolded.

Information

- The maximum mark for this paper is 84. This includes up to 4 marks for Quality of Written Communication.
- 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 the first 20 minutes reading the Case Study.

Answer the compulsory question.

You may detach this page by tearing along the perforations.

Case Study:

THE EUROPEAN UNION

You are advised to spend the first 20 minutes thoroughly reading the Case Study before writing the report. The instructions below set the scene of the Case Study and explain what you should include in your report. The whole report will be marked out of 84, including 4 marks for Quality of Written Communication.

Setting the scene

You are an economist working for the European Commission.

Consumer groups in Europe are arguing that the prices of cars are too high, and that this is partly because there are cartels operating in the supply of components. They have asked the European Commission to use their powers to look for evidence of collusion, in a similar manner to the inspections and enquiries that have been carried out in other industries, such as cross-Channel ferries and computer software.

Meanwhile, a large US components manufacturer is proposing a merger with an EU company. You have been asked to write a report on this proposal.

When writing your report, you should make use of the information in **Extracts A to F**, together with any other relevant knowledge you possess.

Requirements of the report

You are to write a report entitled: 'Competition and monopoly policy in the EU's single market'.

Your report should:

- outline the main economic arguments that can be put forward for government control of monopoly and intervention against anti-competitive practices;
- explain why such controls should be implemented at the European level, and not just at the national level;
- identify and discuss problems that the European Commission might have in deciding whether particular industries are acting competitively;
- evaluate the likely costs and benefits of the proposed merger between the US and EU components manufacturers, and make a recommendation, with reasons, as to whether it should be allowed.

Use economic concepts and principles where appropriate. You will be given credit for demonstrating your ability to analyse, comment critically on, and make effective use of, the data provided. *(84 marks)*

Extract A:

Extract A was an extract of text and a graph.
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Extract B:

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Extract C: The European Union's Microsoft case

If press accounts are to be believed, the EU is about to clamp down on Microsoft for violating European competition laws. We can hear it now from the laissez-faire newspapers and the big-business think tanks:	1
“Those arrogant Europeans! What right did the EU have to bring an anti-trust case against Microsoft (trusts being the US term for monopolies), especially since our own US Justice Department just finished its own lengthy suit against the same company? The US had anti-trust enforcement for almost 70 years before the Europeans even thought about the subject. Is this another exercise in America-bashing, or is it to protect inefficient European companies?”	5
The answer is: neither of the above. The EU case involves allegations of an attempt by Microsoft to take over the market for workgroup systems (the software that enables computer networks to operate) by deliberately preventing other companies connecting properly with the 95% of personal computers that use a Microsoft operating system. It also involves an attempt by Microsoft to take over the market for media players.	10
Both cases involve allegations of an abuse of monopoly power by a global corporation. The Europeans are merely applying their rule book to protect their consumers against <i>any</i> predator, not just an American one, just as the US Justice Department recently brought a similar type of case against an international vitamin cartel – a group of mostly European companies colluding to raise the prices of vitamins worldwide. The harm from Microsoft's anti-competitive conduct affects consumers not just in the USA, but also in Europe and, indeed, all over the world.	15

Source: adapted from ALBERT FOER AND ROBERT LANDE, The American Antitrust Institute, www.antitrustinstitute.org, accessed on 28 August 2003

Extract D: EU regulations and globalisation

Having conducted a three-year investigation into Microsoft, the EU Commission has announced that it is likely to impose sanctions on the company. This is just the latest in a series of tough anti-monopoly decisions by the EU against US companies. A few years ago, American authorities gave the go-ahead to a merger between General Electrics and Honeywell, but this was then blocked by the EU Commission.	1 5
The rules are quite tough: the EU can fine companies up to 10% of world total annual revenue, which would amount to billions of euros in the case of Microsoft. They can also force Microsoft to disclose technical data to competitors, so that others can compete with their own versions of 'Windows' software features such as Media Player.	
Critics of the EU action claim that the Commission is forcing companies to reveal the technological secrets which give them a competitive edge. This reduces the incentives for companies to take risks and develop new products. Critics also question the right of the European Union to interfere with the activities of American companies. Defenders of the EU position point to globalisation and the role of the multinational. If multinationals want to have access to European markets, then they must expect to behave by European rules.	10 15

Source: an opinion from a government adviser in 2003

Extract E: International agreements

Competition policy is directly affected by the internationalisation of production and trade, the growing integration of the world economy and the inadequacy of national rules. The US courts have acted as pioneers as regards anti-trust laws, and the EU Commission now has important powers in this area. In several cases the EU has taken action against companies based outside the EU.	1 5
A bilateral agreement on competition policy was signed between the EU and the US in 1991 in order to try to avoid conflicts between these two strong sides, each of which is large and powerful enough to take unilateral action that affects other countries.	

Source: adapted from LOUKAS TSOUKALIS, *The New European Economy Revisited* (Oxford University Press) 1997

TURN OVER FOR EXTRACT F

Turn over ►

Extract F:

Extract F was an extract of text and a table.
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END OF EXTRACTS

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