

General Certificate of Education
January 2007
Advanced Level Examination



ECONOMICS

ECN5

Unit 5 Business Economics and the Distribution of Income

Tuesday 30 January 2007 9.00 am to 10.30 am

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 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 ECN5.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to use good English, to organise relevant information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 THE COMPUTER GAME MARKET

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

The computer game (or video game) market includes two main sub-markets: for hardware and for software. Sony, Nintendo and Microsoft manufacture most of the hardware, namely the machines or consoles that run the computer games. By contrast, a large number of much smaller companies (the developers) design and sometimes manufacture the software, namely the computer games that are played on the hardware. Firms in the computer game market are facing increasing competition from mobile phone games and online internet games.

Extract A: Actual and forecast worldwide sales in the computer game market, 2001-06

Extract A was a graph.
It has not been reproduced electronically due to third-party copyright constraints.

Extract B: The computer game cycle

Extract B was an extract of text.
It has not been reproduced electronically due to third-party copyright constraints.

Extract C: Competition in the computer game market

In the boom phase of each computer game cycle, dominant firms release game systems that are incompatible with those of their rivals. At any one time, there is only room in the market for two or three successful systems.	1
Each manufacturer then tries to maximise its market share, hoping to reach the ‘tipping point’ at which its system dominates the market and forces others out. Because games developed for one system cannot be played on rival consoles, the consumer is forced into an ‘all-or-nothing’ decision when purchasing a new game system.	5
Hardware prices are deliberately kept low in order to maximise sales of consoles, so as to generate game sales. But hardware manufacturers make much of their profit from the royalties paid to them by software firms.	10
The only common interest that hardware manufacturers have is in the health of the whole industry, and not in each other. They have no incentive to work together because they are all fighting over the same potential user-base. One firm’s gain is another firm’s loss, so the drive to acquire those consumers first is all-consuming. Cartel-like behaviour is unlikely in this market structure.	15

Source: adapted from an article by DMITRI WILLIAMS in *The International Journal on Media Management*, Vol 4, No 1, 2002, pages 41-52

Question 1

- (a) For the period 2001-06, compare the actual and forecast changes in the worldwide sales of console software and mobile phone games that are shown in **Extract A**. (4 marks)
- (b) Explain why sales of computer game hardware and software may **not** be affected by recessions (**Extract B**, line 1). (6 marks)
- (c) Using **Extract C**, analyse the ways in which firms compete in the market for computer game hardware. (10 marks)
- (d) Assess whether a market where there are many manufacturers of computer game hardware would give greater benefits to consumers than the existing market where there are only three dominant producers. (30 marks)

Turn over for the next question

Turn over ►

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

- 2 (a) Explain the possible advantages of privatisation. *(20 marks)*
- (b) In the 1990s, the UK railway industry was privatised and split into a company owning the rail track and a number of companies providing train services in different parts of the country.
- Evaluate the economic case for taking privatised industries, such as the railways, back into public ownership. *(30 marks)*
- 3 (a) Using appropriate diagrams, explain how positive **and** negative externalities may result in market failure. *(20 marks)*
- (b) Evaluate the view that government intervention to correct market failure inevitably results in government failure. *(30 marks)*
- 4 (a) Explain the causes of absolute **and** relative poverty in the United Kingdom. *(20 marks)*
- (b) Evaluate the view that the most effective way to reduce poverty is to redistribute **both** income **and** wealth from the rich to the poor. *(30 marks)*

END OF QUESTIONS

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