

SECTION A

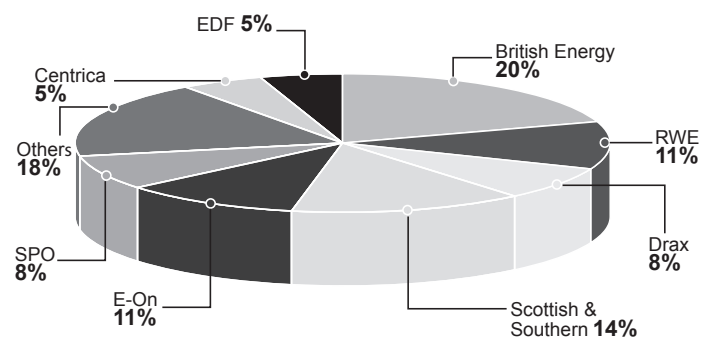
Answer ALL questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You are advised to spend 35 minutes on this section.

You are encouraged to use a diagram in your explanation where appropriate.

1. The electricity generation market for Great Britain 2007



Source: *The Times*, 9th March 2007

The chart shows the percentage shares of the electricity generation market for Great Britain in 2007. Which of the following can be inferred from the data?

- A A legal monopoly exists in the market.
- B The three-firm concentration ratio is above 50%.
- C A merger between British Energy and Drax would be eligible for referral to the Competition Commission.
- D It is a perfectly competitive market because electricity is a homogenous product.
- E The market has a low concentration ratio.

(a) **Answer**

(1)

(b) **Explanation**

(3)
(Total 4 marks)

Q1



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2. A perfectly competitive firm is in short run equilibrium and making supernormal profits. The firm is producing a level of output at which

- A marginal revenue is zero.
- B total cost is minimised.
- C marginal profit is zero.
- D total revenue is less than total cost.
- E marginal cost is negative.

(a) Answer

(1)

(b) Explanation

(3)

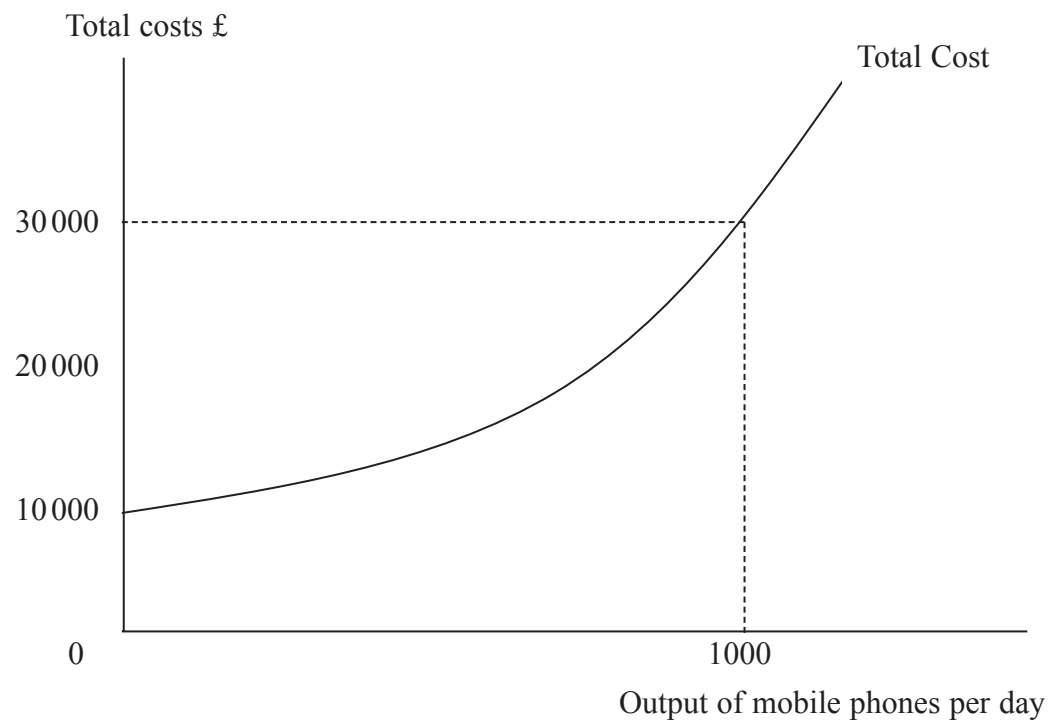
(Total 4 marks)

Q2



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3.



The diagram shows the total cost function for a company producing mobile phones. At an output of 1000 units, average fixed cost is

- A £30 000.
- B £10 000.
- C £30.
- D £20.
- E £10.

(a) Answer

(1)

(b) Explanation

(3)

Q3

(Total 4 marks)



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4. The UK market for plumbing services is characterised by many small firms, product differentiation and low entry and exit barriers. From this it can be deduced that

- A the market structure is an oligopoly and firms often collude on setting a price for fixing leaking pipes.
- B the market structure is perfect competition and firms set the same price for plumbing services in the long run.
- C the market structure is monopoly as firms achieve supernormal profits in both the short run and long run.
- D the market structure is highly concentrated and firms achieve significant economies of scale in the purchase of pipes for plumbing.
- E the market structure is monopolistic competition and firms achieve only normal profits in the long run.

(a) Answer

(1)

(b) Explanation

(3)

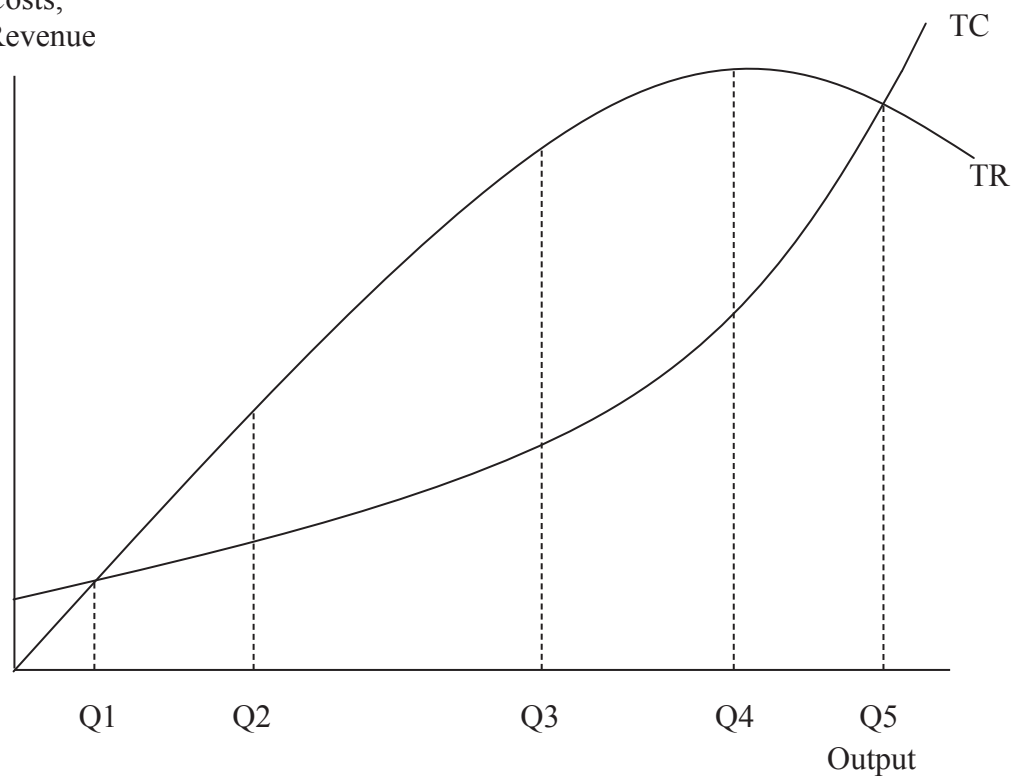
Q4

(Total 4 marks)



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5. Costs, Revenue



The diagram shows the costs and revenue curves for a firm. Which of the following statements is true?

- A Total revenue equals total variable cost at output Q1.
- B Profit maximisation is at output Q2.
- C Sales maximisation is at output Q3.
- D Revenue maximisation is at output Q4.
- E Allocative efficiency is at output Q5.

(a) Answer

(1)

(b) Explanation

(3)

Q5

(Total 4 marks)



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7. Household water bills are regulated by Ofwat according to the formula 'RPI + K'. In 2007, the RPI was 3.9% and K set at 3.1%. This meant average household water bills

- A decreased in nominal terms by 0.8%.
- B increased in both nominal and real terms.
- C increased by no more than the rate of inflation, excluding mortgage interest repayments.
- D increased in nominal terms by 3.1%.
- E decreased in real terms by 3.9%.

(a) **Answer**

(1)

(b) **Explanation**

(3)

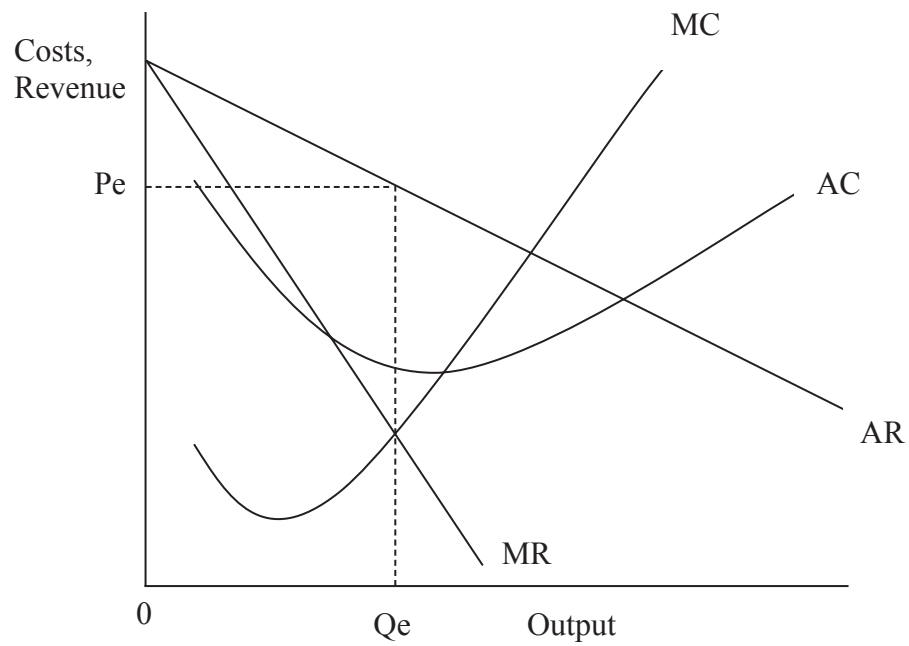
(Total 4 marks)

Q7



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9.



The diagram shows a profit maximising firm producing DVDs where output is initially at Q_e and price P_e . However, the growth of digital downloads and home movie technology is forecast to decrease the demand for DVDs in 2008. This is likely to cause

	Output	Price	Profit
A	Decrease	Decrease	Decrease
B	Increase	Decrease	Increase
C	Decrease	Increase	Decrease
D	Stay constant	Decrease	Decrease
E	Decrease	Increase	Decrease

(a) **Answer**

(1)

(b) **Explanation**

(3)

Q9

(Total 4 marks)



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10. In 2006, Coca-Cola launched a sugar-free soft drink called 'Coke Zero' and spent £8 million on advertising the brand in the UK over the first six-week period. Which of the following is most likely to make it difficult for other firms to enter the soft drink market?

- A The absence of consumer loyalty for Coca-Cola.
- B High sunk costs.
- C Strong government laws on anti-competitive practices.
- D High levels of contestability.
- E A low concentration ratio.

(a) Answer

(1)

(b) Explanation

(3)

Q10

(Total 4 marks)



SECTION B

Answer EITHER Question 11 OR Question 12.

Write your answers in the spaces provided.

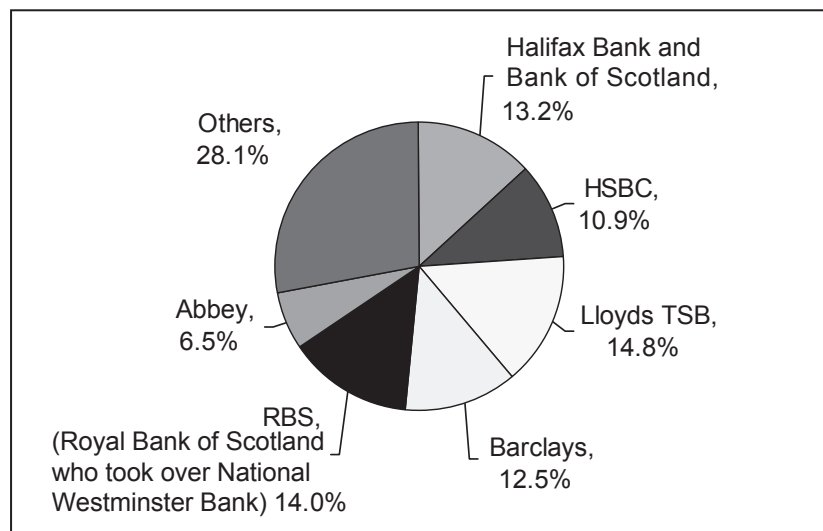
Indicate which question you are answering by marking the box (☒). If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).

You should spend approximately 35 minutes on this section.

If you answer Question 11 put a cross in the box ☒.

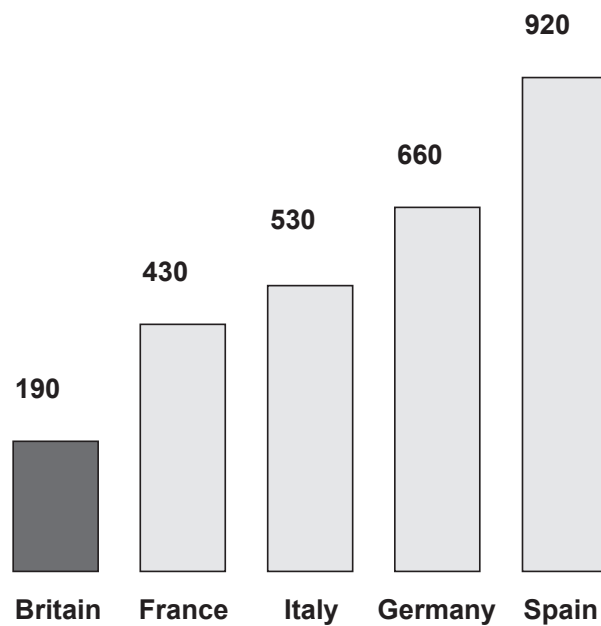
11. Bank branches close as profits soar from penalty charges to customers

Figure 1: Market Share Great Britain Current Account Banking June 2007



Source: Mintel banking results 2007

Figure 2: Bank branches per million people selected countries



Source: British Banking Association 2007



Extract 1

Britain's banking network decreased by 20% between 1995 and 2003 with 4,041 branches closing while only 1,074 were opened. Most closures were in poor inner city and rural areas whereas the new branches tend to be in out-of-town shopping centres and business parks in the prosperous south-east.

One reason for the decline is rationalisation following integration in the industry. Mergers and takeovers have led to some banks having too many branches in a town, and so closures have followed. Another reason is that banks spent millions on developing internet and telephone banking services as an alternative to local branches; for example the Halifax bank launched 'Intelligent Finance' while Abbey bank (taken over by the Spanish bank Santander in 2001) set up 'Cahoot'. These services have proved very popular with many customers. More recently, the banks have focused on offering a wider range of financial services such as mortgages, insurance and stock market investments. But their customers are mainly in the prosperous areas.

Bank retail profits have soared over recent years as have penalty charges to their current account customers who go overdrawn without permission. Over the last six years the 'big six' bank profits from customer account charges alone accounted for £12.4 billion. Many customers are claiming compensation for being overcharged. To date the banks have been forced to refund £2.6 billion to 3.8 million customers – an average of £686 to every successful claimant. The number of compensation claims is likely to include another one million customers as the Office of Fair Trading has taken the banks to the High Court over the legality of the charges.

Source: adapted from 'Budding branches fail to conceal high street exodus', Rupert Jones and Phillip Inman, *The Guardian*, 13th June 2006 and 'Big freeze leaves one million bank customers out in the cold', *uSwitch.com*, 31 August 2007.

- (a) With reference to Figure 1, identify the market structure of Britain's current account banking. Justify your answer.

(3)



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(b) (i) Using the information provided, explain the type of integration that has occurred in the banking industry.

(3)

(ii) Examine the advantages and disadvantages of bank mergers to the banks involved.





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(12)



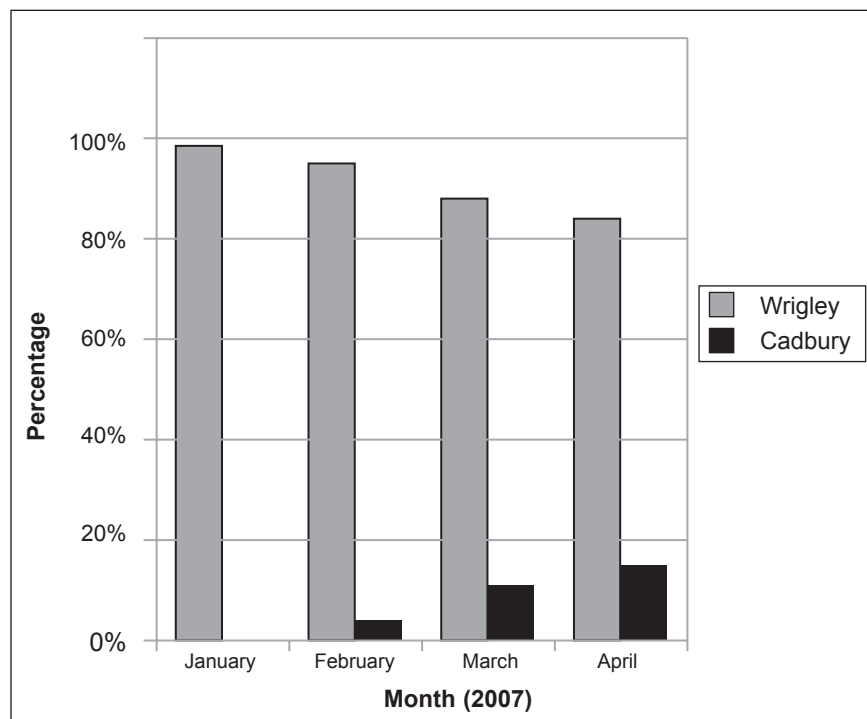
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If you answer Question 12 put a cross in the box .

12. The UK chewing gum market

Figure 1: Market share of Wrigley and Cadbury (%)



Source: Adapted from 'Cadbury spears 15% of UK gum market' by Steve Hawkins, *The Times*, 2nd April 2007

Extract 1

For almost a century, Wrigley had its own way in the UK. Since the company's Spearmint chewing gum was launched in 1911, it scarcely faced any competition and had achieved 98.5% market share of the £240 million spent on the product in 2006. Not surprisingly, profit margins were very high at almost 30% of turnover. Wrigley became an alternative word for chewing gum and is well known by teenagers through its sponsorship of the television programme *Hollyoaks* and the Premiership football league.

However, since 2007, Wrigley has faced a challenge from Cadbury Schweppes, the chocolate, sweets and soft drinks manufacturer. In 2003, Cadbury paid £2.7 billion for the American chewing gum company Adams and then, four years, later it launched the Trident chewing gum brand with a £10 million advertising campaign. Cadbury also spent over £20 million to perfect the brand at its 'Gum centre of excellence' in New Jersey. Its established distribution network with retailers has also helped. Within the first three months of its launch, Trident was thought to have gained 15% of the UK chewing gum market.

However, Cadbury's has faced problems: the UK gum market has been shrinking over the past two years. The average chewer consumes around 130 sticks a year, compared with 180 in the United States. Moreover, a price war has broken out as Cadbury and Wrigley compete for market share. This could deter market entry by Perfetti, an Italian company that has substantial market share on the continent.

A costly salmonella scare recall for its Cadbury Dairy Milk chocolate bars also hit profits and the company is now seeking to sell its US soft drinks business which makes Dr Pepper, 7 Up and Snapple.

Source: Adapted from 'Can Cadbury burst Wrigley bubble?', David Listerick, *The Daily Telegraph*, 7th February 2007.



