OCR
RECOGNISING ACHIEVEMENT

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS 2881

THE MARKET SYSTEM

Wednesday **18 JANUARY 2006** Morning 1 hour

Additional materials:
Designated Answer Booklet [2881/AB]

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

Write all your answers on the separate answer booklet provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

SP (SC) S96180/4

Answer **all** parts of this question in the accompanying answer booklet.

An extract of text has been removed due to third party copyright restrictions

Details: An extract of text about Morrisons taking over Safeway, adapted from the Financial Times on 11th February 2004

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Details: A pie chart showing grocery product market shares of UK super-markets in 2003

(a) Morrisons, like its supermarket rivals, sells many different brands of instant coffee. Together these brands make up the market for instant coffee.

(i) Draw a supply and demand diagram to show equilibrium in this market. [3]

(ii) Using a diagram, explain how the equilibrium would change with the successful entry of new producers of instant coffee into the market. [4]

(b) Recent market research for Morrisons has produced the following price elasticity of demand estimates:

Morrisons own label brown bread (–)0.8
Morrisons own label instant coffee (–)2.5

(i) Define price elasticity of demand. [2]

(ii) The manager of a Morrisons supermarket believes that total revenue from each of these products can be increased by cutting their prices. Comment on whether this view is correct. [6]

(iii) The cross elasticity of demand for own label instant coffee with respect to a change in price of a well-known brand is estimated to be +1.5. Explain what this means. [3]

(c) Large supermarkets, such as Morrisons, benefit from economies of scale.

(i) Describe what is meant by 'economies of scale'. [2]

(ii) State and explain **two** types of economy of scale that Morrisons might gain through its takeover of Safeway. [6]

(d) Using Fig. 1, and the fact that Morrisons is now the owner of Safeway:

(i) state the market structure that best describes supermarket retailing in the UK; [1]

(ii) state and explain **three** characteristics of this market structure. [6]

***(e)** Profit maximisation is often assumed to be the only objective of firms. Discuss the extent to which takeovers, such as that of Safeway by Morrisons, are likely to be motivated solely by profit maximisation. [12]