

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS

2881

THE MARKET SYSTEM

Revised Specimen Paper

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 in 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(*).

The total mark for this paper is 45.

7812/3812/SP/EN/02

This question paper consists of 4 printed pages.

An Industry Riding for a Fall

High investment, stiff competition and the unpredictable British weather mean that theme parks are a rollercoaster sector of the economy. Many companies are struggling to survive in a market which economists claim has now reached saturation point. One of the exceptions is Chessington's World of Adventures, part of the Tussauds Group, owners of the famous waxworks museum along with theme parks at Thorpe Park and Alton Towers. This company now dominates the theme park market. 5

Chessington's star attractions are the Samurai ride and the more sedate Beanoland, which together cost a massive £4.5 m to build. These are the major attractions for the visitors who pay an average of £15 for entrance to a park which can accommodate 15 000 visitors per day. 10

Economists estimate that most of the smaller family-owned theme parks do not operate at a profit. 'It costs a great deal to build theme parks. This is in addition to labour costs and other operating costs. Despite having loads of visitors, they make little or no return for their owners,' said Simon Lake of ABN Amro. Another economist, Pat Aston of Mintel, said, 'There is little doubt that as a theme park opens new attractions, the demand for visits increases. However, it should be recognised that the London Eye has lured some visitors away from theme parks. Disneyland Paris, despite the cost and journey involved, also plays a part in reducing demand for visits to UK theme parks.' 15
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Source: Daily Telegraph, 19th August 2000 (adapted).

- 1.(a)(i) Define the term opportunity cost. [2]
- (ii) Explain how opportunity cost could be applied to a family deciding on whether to visit a particular theme park such as Chessington's World of Adventures. [2]
- (b) Use a diagram **in each case** to explain how the demand for visits to Chessington's World of Adventures might be affected by
- (i) a general increase in household income [4]
- (ii) the opening of a new leisure attraction such as the London Eye. [4]
- (c) Chessington's World of Adventures attracts an average of 15 000 visitors per day. Each visitor pays an average ticket price of £15. Research by the company indicates that the estimated price elasticity of demand for visits is $(-)$ 0.4.
- (i) What is price elasticity of demand and what does an estimate of $(-)$ 0.4 mean? [4]
- (ii) Explain **two** factors that might affect the price elasticity of demand for visits to Chessington's World of Adventures. [4]
- (iii) The company is considering increasing the average ticket price from £15 to £18 but is concerned about the effect that this increase might have on its revenue. What advice can you provide? [5]
- (d) All theme parks have high fixed costs which might deter new firms from entering the industry. Chessington's Samurai ride, for example, cost £3m to build.
- (i) Explain the difference between the fixed and variable costs of the theme park industry. [4]
- (ii) Excluding the high costs of entry, state and explain **two** other likely barriers to entry into the theme park industry. [4]
- (e)* Chessington's World of Adventures aims to maximise its profits each year; economists have stated that this is not the case with most smaller, family-owned theme parks.
- Discuss whether profit maximisation is the **only** objective for all firms in the theme park industry. [12]

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