

General Certificate of Education
January 2006
Advanced Subsidiary Examination



ECONOMICS **ECN1/2**
Unit 1 Part 2 Data Response: Markets and Market Failure

Wednesday 18 January 2006 9.00 am to 10.00 am

For this paper you must have:

- an 8-page answer book
- the question paper for Part 1 (ECN1/1)

You may use a calculator.

Time allowed: the total time for papers ECN1/1 and ECN1/2 together is 1 hour

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 ECN1/2.
- Answer **EITHER** Question 1 **OR** Question 2.

Information

- The maximum mark for this paper is 25.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Advice

- You are advised to spend at least 45 minutes on paper ECN1/2.

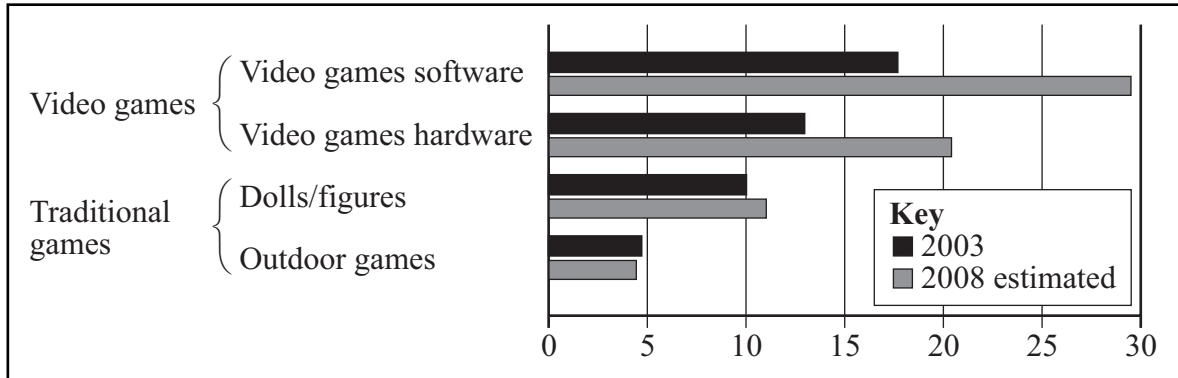
Answer **EITHER** Question 1 **OR** Question 2.

EITHER

Total for this question: 25 marks

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

Extract A: Worldwide sales of toys and games, 2003 and 2008, \$US billion



Source: adapted from *The Financial Times*, 17 September 2004

Extract B: Trouble in Toyland

- 1 There is trouble in Toyland and the nature of the toy industry is changing. The market power of big discount superstore chains such as Wal-Mart has driven many speciality retailers out of business. Consumers and toy manufacturers feel they are suffering from the growth of monopoly and market power among toy retailers. Toy
- 5 manufacturers fear that the concentration of toy distribution in the hands of a few powerful retailers is forcing prices down, devaluing brands that they have spent years building up and leaving them with less to invest in innovative new lines.
- Fewer toy shops means a lot less shelf space. The smaller concentration of stores means retailers wield more power over what products the manufacturers make, the
- 10 price at which they sell them and whether they are going to carry the products.
- One of the challenges for specialist toy shops is the seasonality of toy purchases. As Christmas approaches, shops will soon be stocking their shelves with the items they think will be most in demand. However, toy shops often get this wrong and shortages of toys are caused by failure to predict the season's biggest selling toys.
- 15 To compete with the low price 'everything-under-one-roof' stores, small toy stores have to give their customers added reasons to make the trip. The store owners hand-choose every product that goes into their store to ensure that you can't find it everywhere else. But offering unique products has its drawbacks. Speciality shops cannot count on the big advertising campaigns that promote popular toys and help
- 20 generate media interest and sales. And their customers have to be willing to pay extra.

Source: adapted from articles by LAUREN FOSTER, *The Financial Times*, 17 September 2004

Question 1

- (a) Using **Extract A**, compare the sales of toys and games in 2003 with estimated sales in 2008. *(4 marks)*
- (b) Lines 13 and 14 of **Extract B** state that ‘shortages of toys are caused by failure to predict the season’s biggest selling toys’. With the help of a supply and demand diagram, explain why such shortages occur in the market for toys. *(6 marks)*
- (c) Do you agree that the growth of monopoly and market power among toy retailers harms consumers and toy manufacturers? With the use of the data and your economic knowledge, justify your answer. *(15 marks)*

Turn over for the next question

Turn over ►

OR
Total for this question: 25 marks

- 2 Study **Extracts C and D**, and then answer **all** parts of Question 2 which follows.

Extract C: The predicted effects on car ownership and car use of toll charges for road use and a higher fuel tax

Type of pricing	Effect on car ownership (%)	Effect on car use (%)
Toll charge of 6.2 euros (£4.36) a kilometre	-9.4	-19.6
50% increase in fuel tax	-0.8	-5.9

Source: adapted from J BOOT, P BOOT and E VERHOEF, *The long road towards the implementation of road pricing: the Dutch experience*, 1999

Extract D:

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

Question 2

- (a) Using **Extract C**, compare the predicted effects of toll charges and higher fuel taxation on car ownership and car use. *(4 marks)*
- (b) Lines 6–7 of **Extract D** state that ‘The choice facing motorists is simple: queue or pay for scarce road space’. Using a supply and demand diagram, explain how road pricing may ration scarce road space. *(6 marks)*
- (c) Using the data and your economic knowledge, evaluate the **advantages** and **disadvantages** of alternative policies for reducing road congestion. *(15 marks)*

END OF QUESTIONS

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Extract C: Taken from *Variabilisatie van de autokosten*, McConsult 1998

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