



Rewarding Learning

ADVANCED
General Certificate of Education
January 2010

Economics

Assessment Unit A2 1

assessing

Module 3: Production and Competition

[A2E11]



THURSDAY 21 JANUARY, MORNING

TIME

1 hour 20 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer Question **1** and **either** Question **2** or Question **3**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 60.

Quality of written communication will be assessed in parts **(a)**, **(d)** and **(e)**, of
Question **1** and all parts of Questions **2** or **3**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded
to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the
available examination time.

You **must** answer this question.

- 1 The following article was written in January 2009.

Study it carefully and answer the questions which follow.

Retailers feel the pain

The credit crunch and the consequent recession has hit the UK retail sector hard. Scarcely a day passes without the collapse of another retailer. The list of high street casualties seems to be never-ending. First it was MFI, followed by Woolworths, Land of Leather, Zavvi and Whittard of Chelsea, to name only some of the big names which have shut their doors for the last time.

(Paragraph 1)

Even those shops which survive have found the going tough as anxious consumers cut back on all but the most essential of spending. Tesco could manage only an anaemic 2.5% increase in sales on last Christmas, its worst festive performance since 1993. DSGI, the group behind Curry's and PC world, had a 12% fall in Christmas sales. Importers, such as DSGI, faced a double whammy of weak consumer demand coupled with the impact of the weak pound upon their costs. Marks and Spencer has announced the closure of 27 stores, including one in Newtownards, with the loss of 1200 jobs.

(Paragraph 2)

Of course, not all shopping chains have been adversely affected. Discount supermarkets such as Lidl and Aldi saw their sales rise as cost-conscious consumers tried to save cash. Majestic Wine, the UK's largest wine warehouse saw its sales of high quality wines, such as Champagne, plummet but experienced a 25% rise in sales of Cava and other budget alternatives.

(Paragraph 3)

Overall, the British Retail Consortium estimates that retailers had their worst December since records began and that sales for December 2008 were 3.3% less than those for December 2007. Even these weak figures were achieved only by massive discounting, meaning that profits were significantly reduced.

(Paragraph 4)

Supermarket	Percentage of UK grocery market (November 2008)
Tesco	30.7
Asda	17.1
Sainsbury	15.9
Morrison	11.4
Co-op	4.2
Somerfield	3.9

Fig. 1

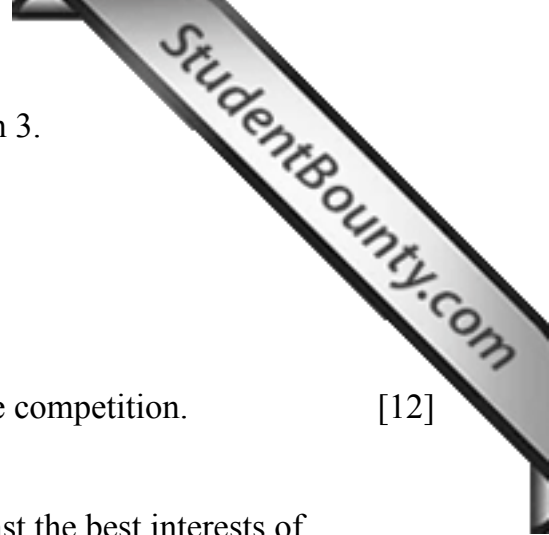
However, not everything about a recession is bad. Some economists see it as a process of “creative destruction” where inefficient businesses are taken over by their rivals. There is some evidence that this is taking place. The Co-op has agreed a plan for the purchase of supermarket rival, Somerfield. This would give it over 8 per cent of the grocery market. (Paragraph 5)

Commenting on this merger, Neil Saunders, managing director at Verdict Research, said, “The benefits for the Co-op of this move are that they are operating on a larger scale and it propels them into a different league in terms of food retailing. Unless you have scale in the market, it is hard to compete with the big four grocers”. (Paragraph 6)

The Association of Convenience Stores (ACS), the trade body for small shopkeepers, remains concerned about high levels of concentration in grocery distribution and sees the merger as a further move toward consolidation. The ACS remains convinced that supermarkets’ buying power is squeezing out smaller stores. Even though a recent Competition Commission report ruled that there was effective competition in the industry, the ACS has stated that it will continue to lobby government to curb the growth of supermarkets. (Paragraph 7)

- (a) Analyse the impact of the recession on the profits of UK retailers. [6]
- (b) Explain what type of merger is represented by that between the Co-op and Somerfield. [4]
- (c) (i) Explain what is meant by a concentration ratio. [2]
- (ii) Using the information in **Fig. 1** calculate the four firm concentration ratio for the grocery industry. [2]
- (d) In paragraph 6 Neil Saunders emphasises the importance of economies of scale in the grocery industry.
Explain the main economies of scale which the Co-op might expect to gain from its merger with Somerfield. [6]
- (e) Write a short report, including a balanced conclusion, examining the arguments for and against the imposition of curbs on the continued expansion of supermarket chains. [10]

Answer **either** Question 2 **or** Question 3.



- 2 (a) Explain what is meant by oligopoly. [12]
- (b) Analyse why oligopolistic firms often engage in non-price competition. [12]
- (c) Critically examine the view that oligopoly is always against the best interests of consumers. [12]
- 3 (a) Explain the difference between marginal cost and average cost for a firm in the short run. [6]
- (b) Analyse the factors which determine the shape of a firm's marginal and average cost curves in the short run. [12]
- (c) Traditional economic theory states that a firm will set output where marginal cost equals marginal revenue. Critically examine the validity of this assumption. [12]

THIS IS THE END OF THE QUESTION PAPER

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will be happy to rectify any omissions of acknowledgement in future if notified.