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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 approximately 35 minutes on this section.

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

1. In March 2004, the supermarket business Morrisons made a successful takeover bid for Safeway. This increased Morrisons' share of the UK grocery market to 13.9%. A possible motive for the takeover was to
- A increase profits from internal growth.
 - B increase revenue from conglomerate integration.
 - C gain more economies of scale.
 - D increase its monopoly power.
 - E reduce costs through vertical integration.

(a) Answer

(1)

(b) Explanation

(3)

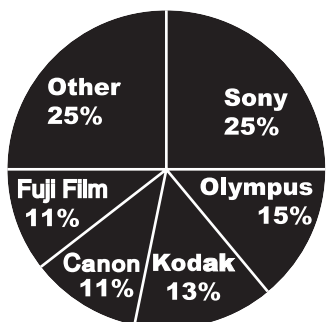
(Total 4 marks)

Q1



2.

The US digital camera market



Source: Deutsche Bank 2003

The chart shows the percentage shares of the US digital camera market in 2002.

Which of the following can be inferred from the data?

- A The market has an oligopolistic structure.
- B Barriers to entry are likely to be very low.
- C It is unlikely that significant economies of scale exist in the market.
- D The three firm concentration ratio is below 50%.
- E The market is characterised by monopolistic competition.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q2



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3.

Total output loaves of bread (daily)	Total cost (£)	Total revenue (£)
0	40	0
100	60	100
200	90	190
300	130	270
400	180	340
500	240	400
600	310	450

The data in the table relate to the daily costs and revenue for a small bakery producing loaves of bread. It can be inferred from the data that the firm is operating under conditions of

- A imperfect competition and constant marginal costs.
- B perfect competition and rising marginal costs.
- C imperfect competition and falling marginal costs.
- D perfect competition and falling marginal costs.
- E imperfect competition and rising marginal costs.

(a) Answer

(1)

(b) Explanation

(3)

Q3

(Total 4 marks)



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4. In the short run, a train operator might continue to offer off-peak services at reduced prices provided that the total revenue from those off-peak fares covers at least

- A the fixed and variable costs of these train services.
- B the sales receipts of rival train operators.
- C the fixed costs of these train services.
- D the overhead costs of the network.
- E the variable costs of these train services.

(a) Answer

(1)

(b) Explanation

(3)

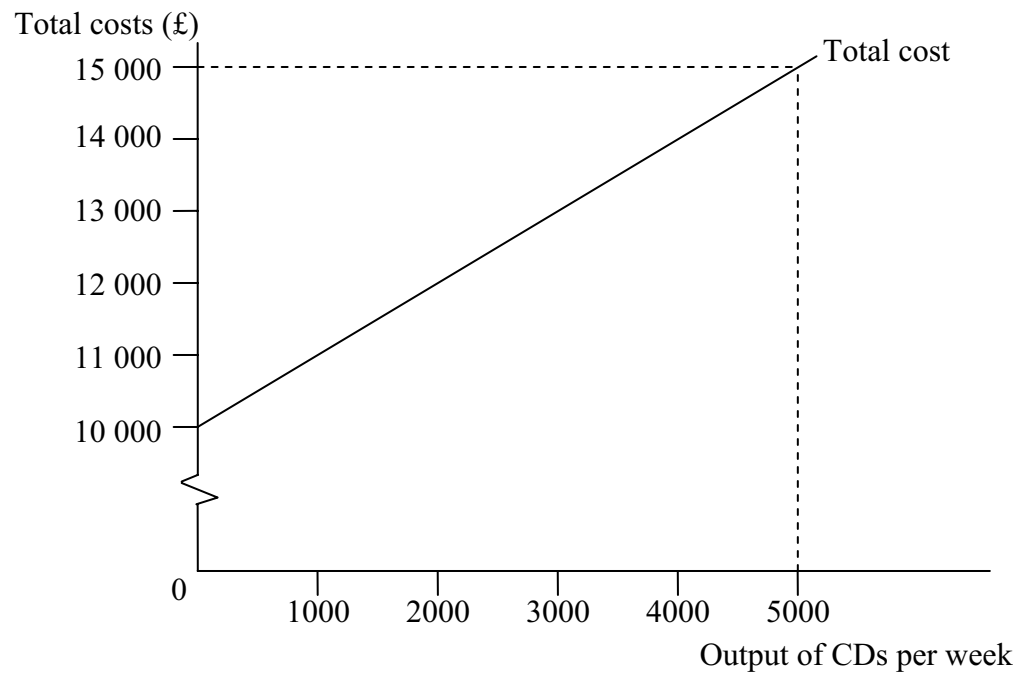
(Total 4 marks)

Q4



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5.



The diagram shows the total cost function for a music company producing CDs. At an output of 5000 units, average variable cost is

- A £15,000.
- B £5,000.
- C £3.
- D £2.
- E £1.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q5



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6. A profit maximising firm owns the patent rights of a pharmaceutical product. However, it is concerned that, after the patent rights expire, new firms may enter the market. In order to prevent competition the most effective pricing policy might be

- A limit pricing.
- B revenue maximising pricing.
- C allocatively efficient pricing.
- D profit maximising pricing.
- E welfare maximisation.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q6



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7. In 2005 Sony launched the 'Play Station Portable' to compete with Nintendo's 'Game Boy' in the handheld computer games market. Which of the following is most likely to make it difficult for other firms to enter this market?

- A High levels of contestability
- B The absence of customer loyalty for handheld computer games
- C High sunk costs
- D Strong government laws on anti-competitive practices
- E High profit margins on each handheld computer game sold

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q7



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8. A soap powder firm in an oligopolistic market may prefer to engage in non-price competition rather than price competition when selling its product because

- A there is limited scope for creating brand loyalty for soap powder.
- B the demand curve for its soap powder is likely to be inelastic in relation to a price fall.
- C its marginal revenue is equal to average revenue.
- D the demand curve for its soap powder is likely to be inelastic in relation to a price rise.
- E a change in price of soap powder will have no effect on the behaviour of other firms in the market.

(a) Answer

(1)

(b) Explanation

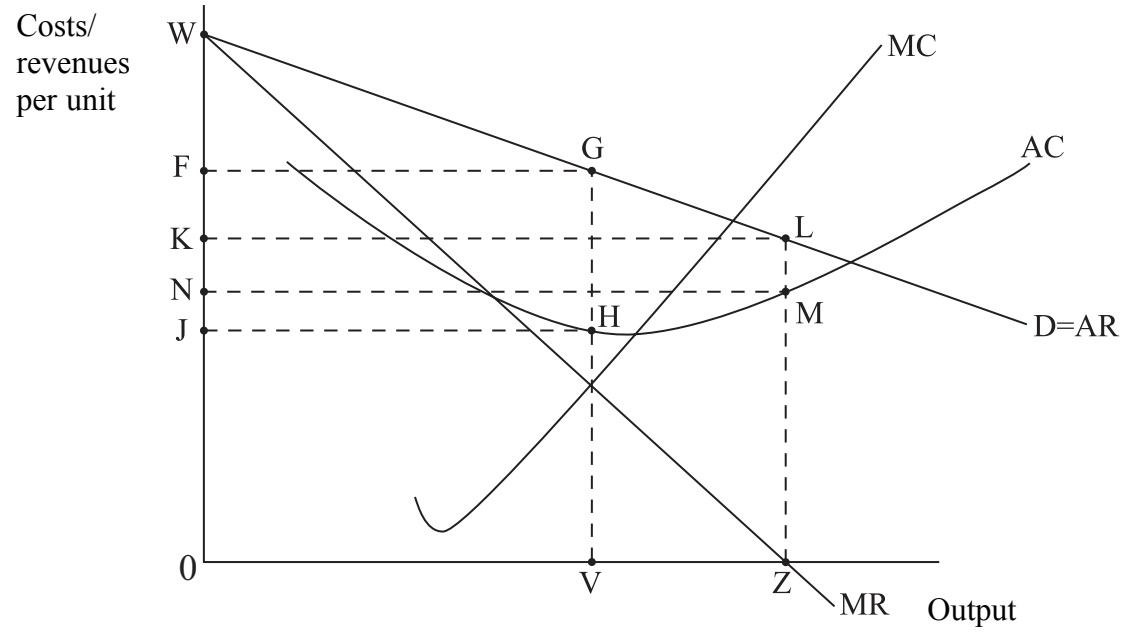
(3)

(Total 4 marks)

Q8



9.



The diagram shows a monopoly's costs and revenues.

Which of the following areas represent its supernormal profits when following a policy of revenue maximisation?

- A FGHJ
- B KLMN
- C WLK
- D FGVO
- E KLZO

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q9



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10. In June 2004, the EU Competition Commissioner, Mario Monti, blocked a proposed £2.7 billion merger between two giant global music companies, Sony and Bertelsmann Music Group. By preventing this merger, the EU Competition Commissioner intended to

- A** maintain competition between the major music companies.
- B** avoid unnecessary waste in advertising and sales promotion budgets of the proposed new company.
- C** decrease the rate of technological change in the EU market.
- D** strengthen the collective position of the dominant music companies in the EU market.
- E** increase the ability of music companies to cooperate in price fixing agreements.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q10

TOTAL FOR SECTION A: 40 MARKS



SECTION B

Answer EITHER Question 11 OR Question 12.

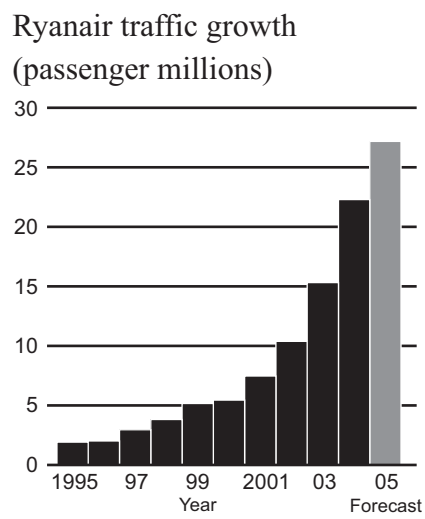
**Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).**

You are advised to spend approximately 35 minutes on this section.

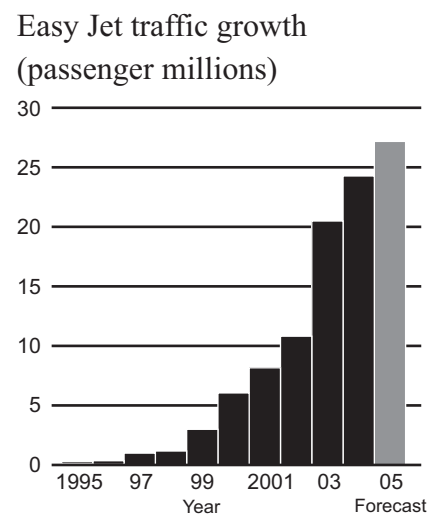
If you answer Question 11 put a cross in this box ☒.

Question 11 The Low Cost European Airline Market

Figure 1: Low cost airline passenger numbers

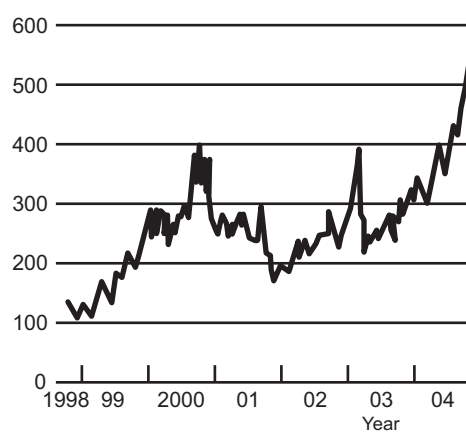


Source: © *The Financial Times*
3 November 2004



Source: www.easyjet.com

Figure 2: Air fuel price (\$ per tonne)



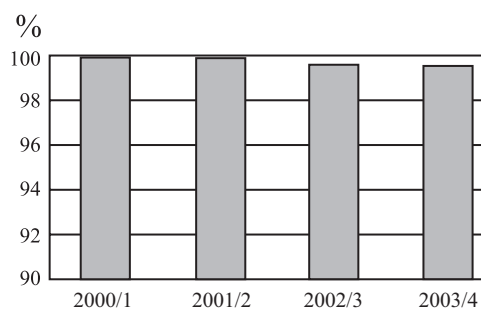
Source: © *The Financial Times*
3 November 2004



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

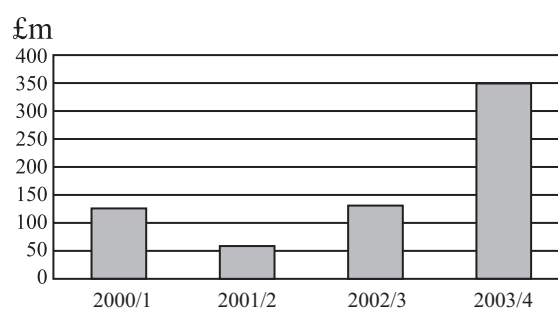
Question 12 The Regulation of Royal Mail

Figure 1: Royal Mail's market share – letter delivery services



Source: Postal Services Commission, www.psc.gov.uk

Figure 2: Royal Mail's profits – letter delivery services



Source: Postal Services Commission, www.psc.gov.uk

The principal aim of Postcomm (the Postal Services Commission) is to protect the interests of consumers. It believes this is best achieved through promoting competition whilst maintaining a universal postal service at an affordable uniform price.

In April 2001 Postcomm imposed a series of price-capping measures on the main supplier of postal services, Royal Mail, to last until March 2006. The effect will be to reduce the price of letter delivery services in real terms by 5% over the period. Within the overall price cap, Royal Mail is allowed to increase individual prices as long as it reduces other prices to compensate. It is likely that bulk mailers will be the main beneficiaries of reduced prices rather than small users. However, cost-cutting measures might reduce the quality of service.

Postcomm has set the Royal Mail a number of performance targets which include achieving a 92.5% next-day delivery for First Class mail. In 2002-03, the company achieved just 84% and was duly fined £7.5 million.

In January 2003, Postcomm opened up 40% of Royal Mail's market to competition. This is likely to be followed by a further 30% in 2005 and a final 30% in 2007. After more than a year of deregulation, Royal Mail has maintained almost a 100% market share. There are a number of reasons for this, including significant economies of scale, brand recognition and customer inertia. Furthermore, all potential competitors need Royal Mail to deliver some of their mail while they are building up their businesses.

Deutsche Post, the German postal group, has just announced an access agreement with Royal Mail for entry into the UK market. It will pay Royal Mail 13 pence for each letter delivered on its behalf. The German company has agreed to avoid 'cherry-picking' the lucrative urban delivery services, the profits of which Royal Mail uses to subsidise loss-making rural services.

Source: adapted from 'The UK Postal Regulatory Regime: Key Indicators', Postcomm, 10 May 2004; www.psc.gov.uk





<p>(ii) To what extent is the Royal Mail letter delivery service a monopoly?</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <p style="text-align: right;">(6)</p> <p>(b) (i) Royal Mail charges different prices to bulk mailers and small users of the letter delivery service. Analyse two possible objectives of this policy.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <p style="text-align: right;">(6)</p>	Leave blank
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(d) Assess the extent to which Postcomm's decision to open up the letter delivery market to competition is in the interests of consumers.

Lined area for writing an answer.

(8)

Q12

(Total 40 marks)

TOTAL FOR SECTION B: 40 MARKS

TOTAL FOR PAPER: 80 MARKS

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