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| Centre No. | | | | | | Paper Reference | Surname | | Initial(s) |
| Candidate No. | | | | | | 6 3 5 4 / 0 1 | Signature | | |

Paper Reference(s)

6354/01

Edexcel GCE

Economics

Advanced

Unit 4 – Industrial Economics

Friday 26 January 2007 – Afternoon

Time: 1 hour 15 minutes

Examiner's use only

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Team Leader's use only

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| Question Number | Leave Blank |
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| Section A | |
| Section B | |
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| Total | |

Materials required for examination
Nil

Items included with question papers
Nil

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.

Check that you have the correct question paper.

Answer ALL the questions in Section A in the spaces provided in this question paper.

- For each question there are five suggested answers: A, B, C, D or E.
- When you have selected your answer to the question, write the chosen letter in the box provided.
- You can only offer one answer to each question.
- After making your selection you should offer an explanation of why you have made that choice. Your explanation may include a diagram.

Answer ONE question from Section B in the spaces provided in this question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2).

The paper is divided into two sections, A and B; both sections are equally weighted.

The total mark for this paper is 80.

There are 32 pages in this question paper. Any blank pages are indicated.

Advice to Candidates

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, including your use of grammar, punctuation and spelling.

You are advised to divide your time equally between Section A and Section B.

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SECTION A

Answer ALL questions in this section.

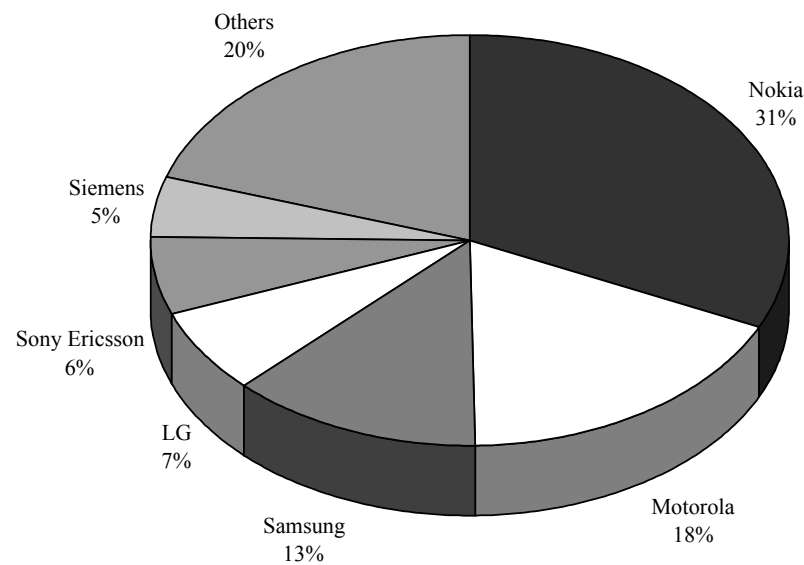
Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You are advised to spend 35 minutes on this section.

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

1.

Mobile phone market share August 2005



Source: Mobile tracker Aug 26 2005

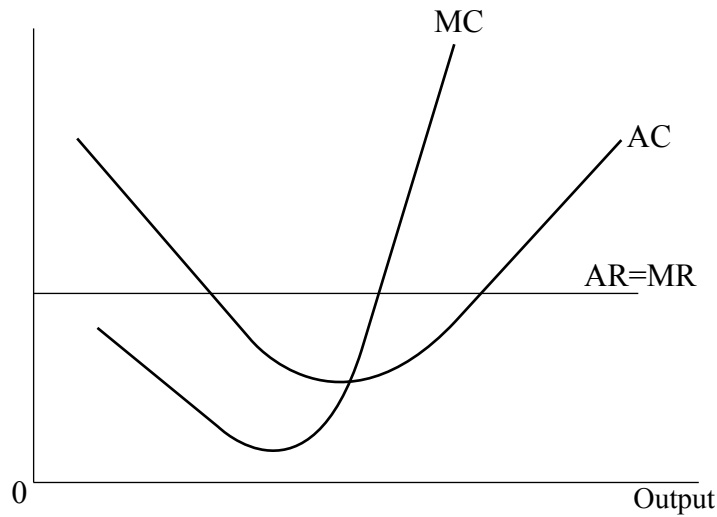
Which of the following is true of the mobile phone handset market?

- A** It is monopolistically competitive
- B** It has a 3 firm concentration ratio of 62%
- C** It has a 4 firm concentration ratio of 75%
- D** It has a 7 firm concentration ratio of 100%
- E** A merger between Samsung and Siemens would be eligible for referral to the Competition Commission

Please write your answer and explanation on the next page.



2. Revenues and Costs per unit



The diagram shows a perfectly competitive firm operating in the short-run. In the long run the firm and industry will necessarily experience

| | Firm's Output | Industry Price | Industry Output |
|----------|---------------|----------------|-----------------|
| A | rise | fall | rise |
| B | rise | fall | fall |
| C | fall | fall | rise |
| D | fall | rise | rise |
| E | fall | fall | fall |

Please write your answer and explanation on the next page.



3. A profit-maximising monopolist changes its objective to revenue maximisation. The new price and output will be

| | Price | Output |
|---|-----------|-----------|
| A | lower | higher |
| B | lower | the same |
| C | lower | lower |
| D | higher | higher |
| E | uncertain | uncertain |

(a) Answer

(1)

(b) Explanation

(3)

Q3

(Total 4 marks)



4. In which of the following is the practice of price discrimination most likely to occur?

- A Sales of milk in a supermarket
- B Sales of cinema tickets
- C Sales of a national newspaper
- D Sales of an ipod in an electrical store
- E Sales of tobacco in a newsagent

(a) Answer

(1)

(b) Explanation

(3)

Q4

(Total 4 marks)





5. In May 2005 the Competition Commission fined Manchester United Football Club and JJB Sports for fixing the price of football shirts. On what grounds might the Competition Commission have acted?

- A The government wished to tax the excess profits made by these two companies.
- B JJB and Manchester United were planning an aggressive marketing campaign.
- C JJB and Manchester United were buying their shirts from unethical sources.
- D The Commission wanted JJB and Manchester United to achieve productive efficiency.
- E JJB and Manchester United were engaged in restrictive practices.

(a) Answer

(1)

(b) Explanation

(3)

Q5

(Total 4 marks)



6. Which of the following measures is used by UK regulatory agencies to protect consumer interests in the utility industries?

- A** Profit capping
- B** Employment capping
- C** Price capping
- D** Investment capping
- E** Output capping

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q6



7. An Indian restaurant owner collects the following information for the production of a Chicken Tikka Masala

| Quantity | Total revenue from Chicken Tikka Masala sales | Total Cost |
|----------|---|------------|
| 50 | £300 | £250 |
| 51 | £308 | £255 |
| 52 | £315 | £262 |
| 53 | £321 | £270 |
| 54 | £326 | £279 |
| 55 | £330 | £289 |

Over what output range would the owner maximise profits?

- A 50 – 51
- B 51 – 52
- C 52 – 53
- D 53 – 54
- E 54 – 55

Please write your answer and explanation on the next page.



8. Virgin Trains charge £101.00 for the standard open single ticket from London to Manchester. Should a passenger travel after 09:15 they can purchase a saver single ticket at a cost of £56.10. Why are Virgin Trains in a position to do this?

Source: National Rail Enquiries.
(Prices correct as of 28 February 2006).

- A It costs less to run a train after 09:15.
- B It can maximise consumer surplus.
- C There is considerable competition on the journey from London to Manchester.
- D Passengers travelling at different times of the day have different price elasticities of demand.
- E The government has reduced the subsidy which Virgin Trains receive.

(a) Answer

(1)

(b) Explanation

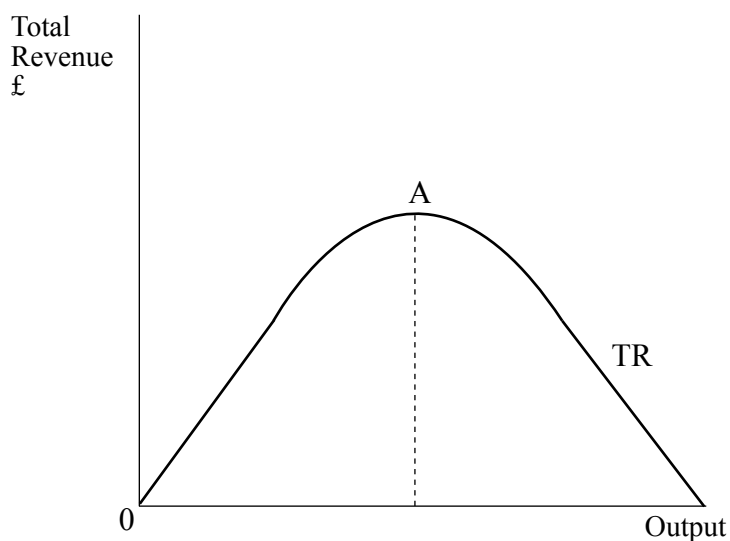
(3)

(Total 4 marks)

Q8



9.



A pizza delivery company operating at point A must necessarily be operating where

- A $MC = MR$
- B $AC = AR$
- C $MR = 0$
- D $P = MC$
- E it is productively efficient

(a) Answer

(1)

(b) Explanation

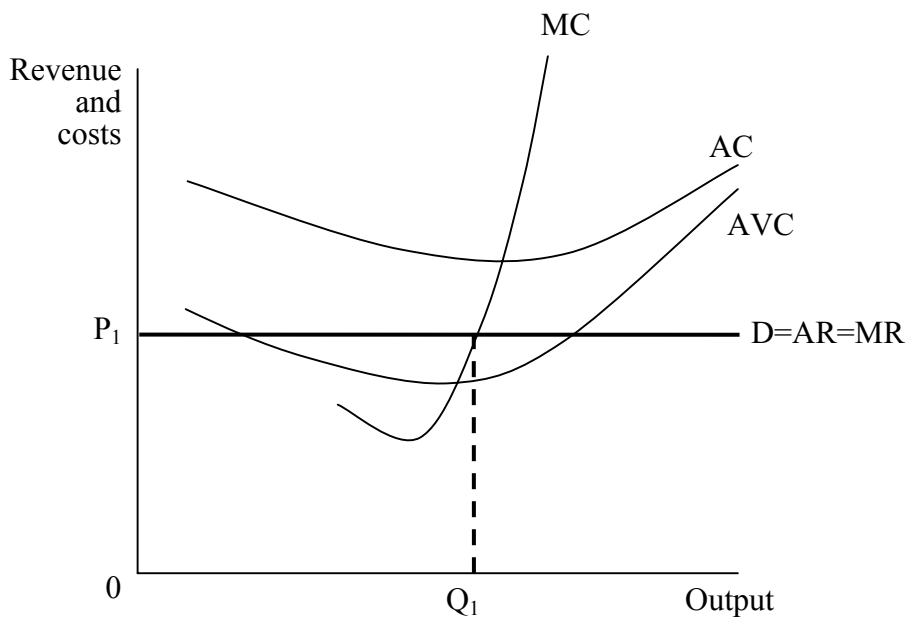
(3)

Q9

(Total 4 marks)



10.



Based on the above diagram of a short-run perfectly competitive firm, it can be deduced that the firm will

- A shut down immediately
- B raise price
- C expand output
- D continue to produce at Q_1 in the short run
- E lower price

(a) Answer

(1)

(b) Explanation

(3)

Q10

(Total 4 marks)

TOTAL FOR SECTION A: 40 MARKS



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SECTION B

Answer EITHER Question 11 OR Question 12.

Write your answers in the spaces provided.

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

You should spend approximately 35 minutes on this section.

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

Question 11 Every little helps on the road to crushing your retail rivals

Extract 1

Tesco wants to sell everything, from food and financial services to DVD players and dresses, to everyone of any social class, and it is succeeding. The recent profit figures showed how in one year it had grabbed business to increase its hold on the British consumer's purse. Tesco made more than £2 billion profits from shops in a dozen countries. Its total UK store sales rose by 11.9 per cent to £39.5 billion. The cut-price electrical goods and widening ranges of health and beauty products helped to send non-food sales up by 17 per cent in the 12 months to the end of February 2005. 5

The electrical retailer Dixons and Boots are among those worried about the difficulties they face on the high street, and Tesco's numbers go some way to explaining why. Tesco is delighted in making it so, expanding on its ranges of cheap T-shirts and discount denims to offer copies of designer dresses. 10

'When will it stop?' wonder those who are uneasy that Tesco's tightening grip on the high street is already collecting £13 in every £100 that is spent. However, Sir Terry Leahy, who has been running the business since 1997 has boundless ambitions. He added 1.5 million square feet of selling space to his portfolio last year and has new stores coming through the pipeline at a rate that leaves his rivals even further behind. 15

Right now that means that Tesco operates 100 hypermarkets, 446 superstores, 160 Metro stores, 546 Express stores, and more than 500 shops that are not branded with the Tesco name but still bring in the cash.

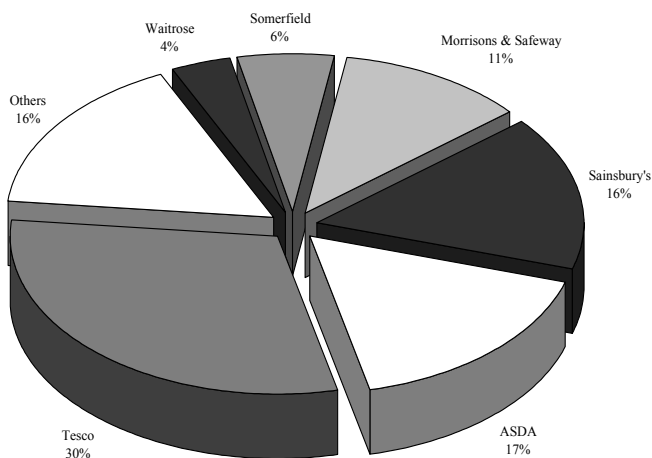
The shape of the business changed when in 2002 the Office of Fair Trading allowed Sir Terry to add 1200 small convenience stores, previously owned by T&S, to his business. Even he thought that the decision could go either way at a time when the rules stopped him buying a supermarket rival such as Safeway or Sainsbury. The OFT ruled that convenience stores were a different market from one-stop supermarkets since when Tesco has been happily snapping them up. 20
25



Tesco is ready with plenty of other routes for its expansion. It has a financial services arm that boasts 4.9 million account holders. It has signed up more than a million customers for its new telecoms services.

Source: adapted from Patience Wheatcroft, *The Times Newspapers*, 13 April 2005

Figure 1
Supermarket sales share,
August 2005



Source: Guardian Unlimited June 30, 2005

Figure 2
Tesco UK market share

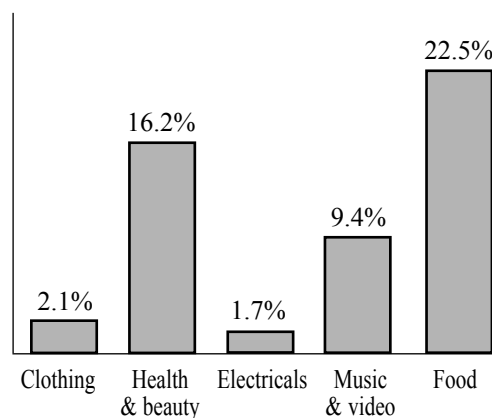


Figure 3



Figure 5
Tesco: International sales

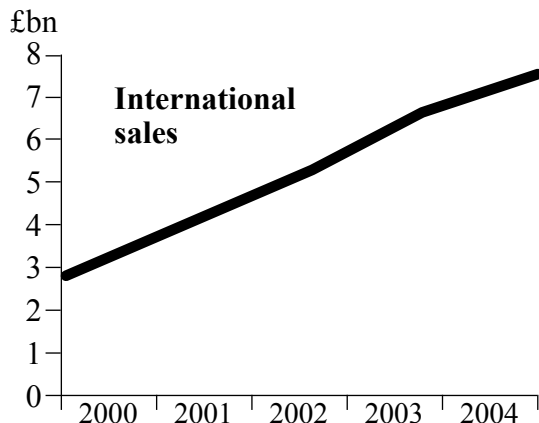
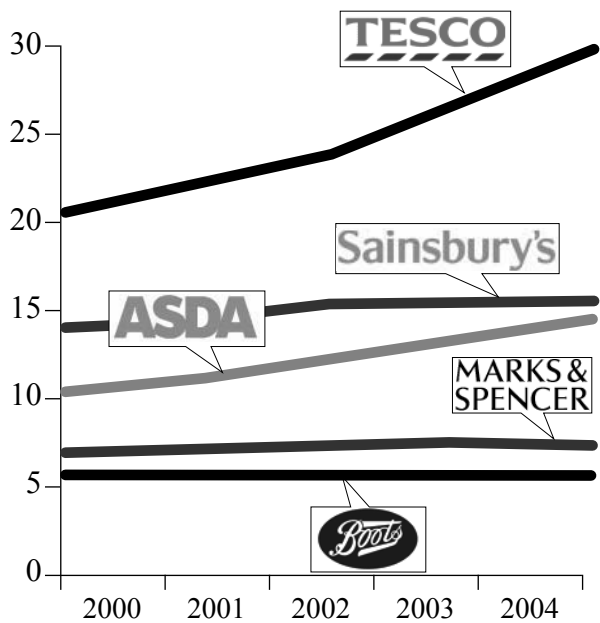


Figure 4
Sales of top UK retailers (£bn)



Source of Figures 2-5: *The Times Newspapers*, 13 April 2005



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Handwriting practice lines consisting of 30 horizontal lines.

(12)



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(d) Discuss the reasons why a company such as Tesco might wish to expand into other countries.

Lined area for writing an answer to question (d).



21
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(8)

(e) Evaluate the decision by the OFT to allow the purchase by Tesco of '1200 small convenience stores, previously owned by T&S'. (*Extract 1, Line 21*).

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(10)
(Total 40 marks)

Q11



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

Question 12 **Extinction of the predator**

Extract 1

The star of the huge Frankfurt Motor Show in 2005 may well be the latest luxury Mercedes-Benz S-class, the model on which the German company is relying to repair its faded reputation for superior quality. However, the most significant event at the show will be the presence on display for the first time of three different vehicles made in China by local firms and destined for export. 5

The European and American car plants will need to be retooled to remain competitive. That is a bleak message for today's established big producers, many of which have merged their way to the giant status they now have. They remain hampered by the costs associated with maintaining older established brands and operating problems which arise from the bringing together of differing car manufacturing cultures. 10

The strategy of consolidating behind the brands has not been entirely successful; indeed there is an inverse correlation between the number of brands a firm possesses and profitability. General Motors may still be the biggest in the industry (Figure 1), but it is no longer in any shape to take over others. It has twice the number of brands of its closest competitor, Ford, but it is second to last in the profitability league (Figure 2). Toyota, the industry's profitability champion, has only four brands and a handful of models, but a huge range of variants on them. 15

There are several reasons for the end of takeover activity as GM found to its cost. It decided to pay \$2 billion merely to go back on a hastily made promise to buy troubled Fiat: five years of collaboration had shown the Detroit firm how weak its Italian partner was. 20

The most sensible of the carmakers has avoided takeovers and mergers. Toyota is still not the world's largest by number of cars built, but given the speed at which it is growing and the speed at which GM is shrinking, the day when Toyota becomes the biggest is probably no more than five years away. This superiority has been achieved by concentrating on internal growth. Apart from buying Daihatsu to get small-car engineering and engines years ago, Toyota has concentrated on improving its own range of cars, with a relentless focus on efficiency and cost-cutting. Toyota's luxury car business, Lexus, was created from scratch, rather than by the purchase of some other firm's famous but tired brand. 25

Buying brands and entering additional international markets have been the strategies behind many takeovers. But so too was the hope of using volume to achieve economies of scale. In the past, making large numbers of a single model was the way to thrive. Now one only needs to see the dozens of model categories in today's Mercedes and BMW ranges – a few years ago they just had three each. BMW now sees strong competitive advantage in maintaining differences between all the cars it sells. 30
35



Figure 1

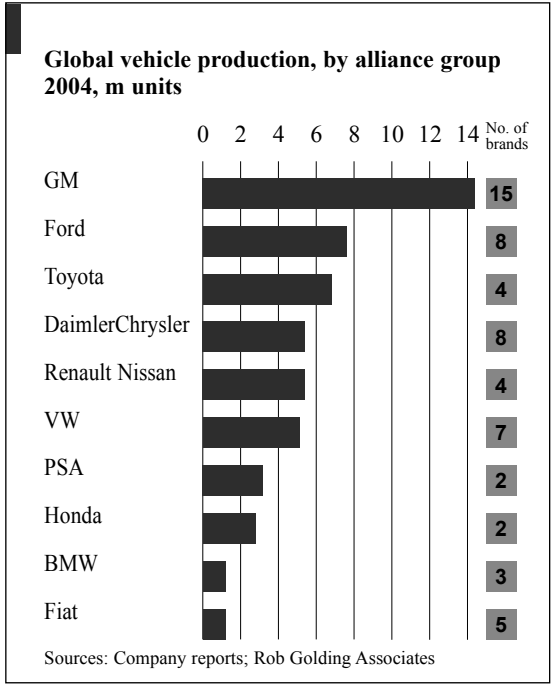
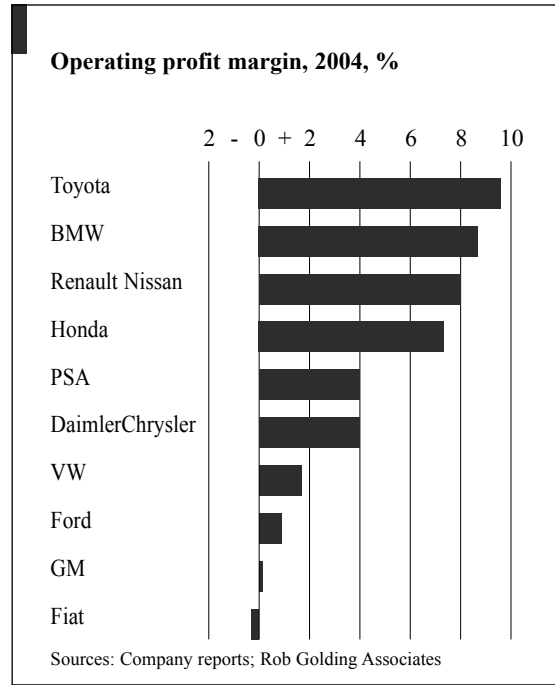
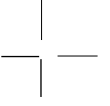


Figure 2



Source: adapted from *The Economist*, 10 September 2005





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(a) (i) With reference to the information provided, what market structure best describes the car industry?

(4)

(ii) To what extent can a firm operating in this market structure use its position to fix prices?



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(8)



M 2 2 7 8 3 A 0 2 7 3 2

