

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

Monday 26 January 2009 – 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
Section A	
Section B	
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 24 pages in this question paper. Any blank pages are indicated.

Advice to Candidates

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

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.

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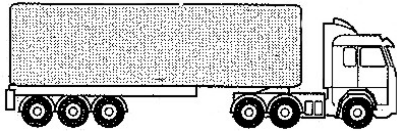


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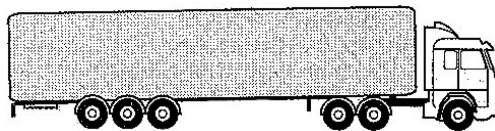
SECTION A

Answer ALL questions in this section.

1. UK articulated lorries – longer, heavier vehicles



Current maximum weight: 44 tonnes
Current maximum length: 54 feet



Proposed maximum weight: 60 tonnes
Proposed maximum length: 83 feet

The Road Haulage Association has proposed that the legal maximum permitted weight and length of lorries on UK roads should be increased. The most likely motive for proposing an increase in the size of lorries is to

- A reduce concentration in the road haulage industry
- B reduce long run average transport costs
- C reduce barriers to entry
- D gain revenue from conglomerate integration
- E reduce diseconomies of scale.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q1



2. Advertising expenditure by four supermarkets in UK 2006 and 2007

Company	2006 £ million	2007 £ million
Tesco	67.5	71.0
Sainsbury	50.6	53.5
Asda	39.5	44.9
Morrison	28.8	46.5
Total	186.4	215.9

Source: Nielsen Media research (reported in *The Times*, 24th December 2007)

The table shows total advertising expenditure conducted by the four largest supermarket companies in the UK for 2006 and 2007. The change in advertising expenditure over the period is most likely to

- A increase sales at a faster rate for Sainsbury than Morrison
- B make the supermarket sector prone to ‘hit and run’ competition
- C decrease contestability in the supermarket sector
- D lead to higher total level of sunk costs for Asda compared to Tesco
- E decrease concentration in the supermarket sector.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q2



3. A shoe manufacturer in an oligopolistic market may prefer to engage in non-price competition rather than price competition when selling its shoes because

- A the demand curve for shoes is likely to be inelastic in relation to a price fall
- B there is limited scope in creating brand loyalty for shoes
- C the demand for shoes is likely to be elastic in relation to a price fall
- D the cost of advertising shoes is too high
- E the demand for shoes is likely to be inelastic in relation to a price rise.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q3



4. Which of the following is true for a firm operating in a perfectly competitive market?

- A It is productively efficient in both the short run and long run
- B It is allocatively efficient in the short run but not long run
- C It is productively and allocatively efficient in the long run
- D It is allocatively efficient in the long run but not short run
- E It is productively efficient in the short run but not long run.

(a) Answer

(1)

(b) Explanation

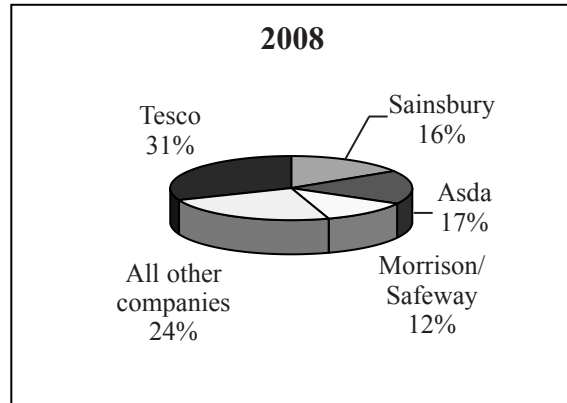
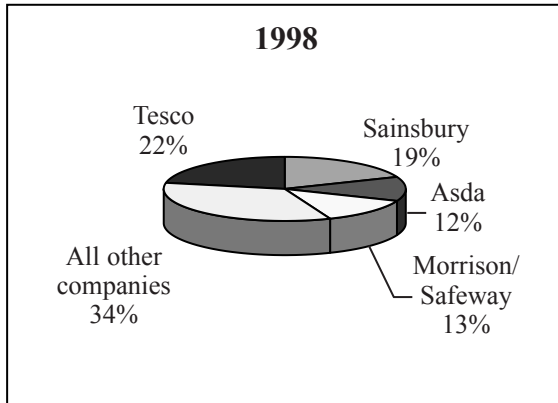
(3)

(Total 4 marks)

Q4



5. The UK Grocery market



Source: TNS Worldpanel

The table shows the market shares in the supermarket industry in 1998 and 2008. From the data it can be deduced that over the period shown

- A the four-firm concentration ratio has decreased
- B the three-firm concentration ratio has decreased from 75 per cent to 72 per cent
- C the supermarket sector has become more perfectly competitive
- D Sainsbury's and Morrison's sales revenue have decreased
- E the supermarket sector has become more concentrated.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q5



6. The government appointed investment bank Goldman Sachs to sell off the Tote, a state owned gambling company, in April 2008. The Tote owns 540 betting shops valued at £320 million. The most likely reason to sell off the Tote is to

- A encourage more gambling
- B reduce contestability within the industry
- C avoid an investigation from the Office of Fair Trading
- D achieve benefits from privatisation
- E open up the industry to 'hit and run' competition.

(a) Answer

(1)

(b) Explanation

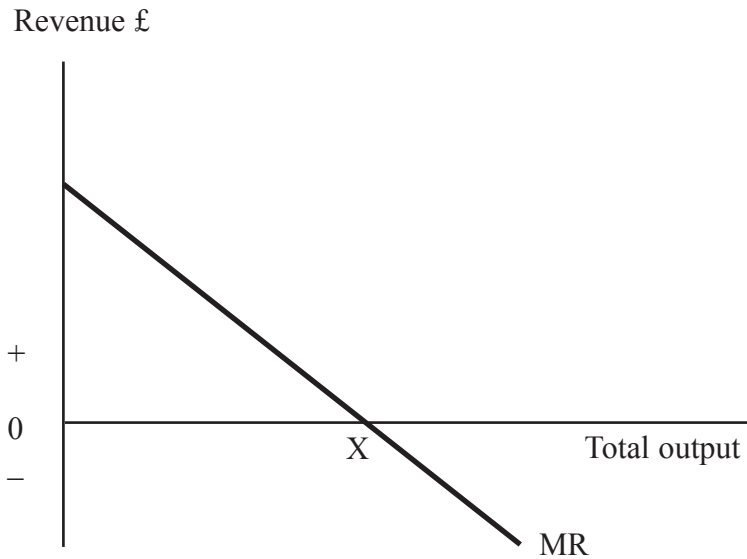
(3)

(Total 4 marks)

Q6



7.



The diagram shows a firm’s marginal revenue curve for a product. Which of the following is true at point X? (You may annotate the diagram in your explanation).

- A Total volume of sales is maximised
- B Average revenue equals marginal revenue
- C Average revenue is maximised
- D Total revenue is maximised
- E Total profits are maximised.

(a) Answer

(1)

(b) Explanation

(3)

(Total 4 marks)

Q7



8. Since 2000, Unilever, a giant food and detergent conglomerate, has reduced the range of products it sells from over 1 600 to less than 400. The latest brands to be sold off include Bertolli olive oil and margarine, Boursin cheese and Birds Eye frozen foods. A likely motive is to

- A** reduce diseconomies of scale
- B** increase entry barriers
- C** increase diversification
- D** increase monopoly power
- E** reduce competition.

(a) Answer

(1)

(b) Explanation

(3)

Q8

(Total 4 marks)



9. In 2008, the Office of Fair Trading offered up to £100,000 reward for information on illegal restrictive practices. The most likely reason for this is to

- A encourage firms to share market information
- B promote competition
- C encourage merger activity
- D protect the producer surplus
- E encourage firms to increase dividends to shareholders.

(a) Answer

(1)

(b) Explanation

(3)

Q9

(Total 4 marks)



SECTION B

Answer EITHER Question 11 OR Question 12.

Write your answers in the spaces provided.

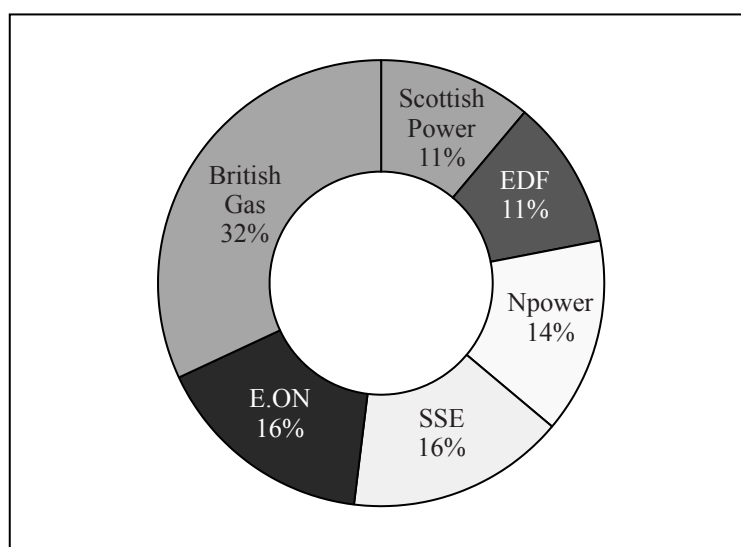
Indicate which question you are answering by marking the box (☒). If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).

You are advised to spend 35 minutes on this question.

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

11. UK Energy distribution market

Figure 1: UK Energy distribution (gas and electricity) market share March 2008



Source: www.Energywatch.org.uk Reported in *The Times*, 6th March, 2008

Figure 2: UK household average annual energy bills ⁽¹⁾

(1) Average annual cost for a dual fuel – medium user, paying by direct debit.

Company	May 2007	May 2008
Npower	£824	£972
British Gas	£841	£968
E.ON	£857	£967
EDF	£861	£965
Scottish Power	£836	£959
Scottish and Southern Electricity	£820	£956
Difference between maximum and minimum bill	£41	£16

Source: www.Energywatch.org.uk (price comparison fact sheets, May 2008)



Extract 1: Rising energy prices

Britain's consumers are paying far too much for gas and electricity prices according to Allan Asher, chief executive of Energywatch, a consumer protection organisation. He believes the fall in the number of energy firms from twenty to six in the last decade has led to tacit collusion. The number could fall further if a proposed takeover of Scottish and Southern Electricity (SSE) by the French electricity company EDF goes ahead. 5

While there is no evidence of outright price-fixing, Mr Asher claims the energy companies follow the price set by British Gas, the largest supplier. He pointed out that the price difference between the six main energy companies is 'just a few pence a week'. Furthermore, the companies tend to raise prices within days of each other and by similar amounts, despite producing energy from a variety of sources with different costs. Severe penalties exist for firms found guilty of collusion. 10

However, a spokesman for British Gas claimed Mr Asher was misleading consumers and that Britain's household energy bills remain the lowest in Europe. The number of households changing their gas and electricity supplier in 2007 hit 5.1 million in 2007 as consumers search for the best deal, demonstrating that competition is strong. 15

Source: Adapted from 'Switching energy supplier hits five year high', by Angela Jameson, *The Times*, 2nd April, 2008 and 'Power companies are ripping off consumers' by Robin Pagnamenta, *The Times*, 21st May 2008

Extract 2: Ofgem investigation

Ofgem, the energy regulator, launched an investigation into the electricity and gas market following record profits announced by British Gas. Between 2006 and 2007, profits leapt from £95 million to £571 million. Despite these profits, British Gas announced price rises to its customers of 15 per cent, blaming increases on the cost of energy in the wholesale market. However, Ofgem is considering the re-introduction of regulatory price controls to protect consumer interests. 5

Sam Laidlaw, chief executive of Centrica, owner of British Gas, defended the price increase, saying that it was necessary for the company to sustain investment in wind farms and secure long term energy supplies. The profits also needed to be put into context – British Gas had sales of £6.45 billion in 2007. Moreover, considerable price volatility exists in the wholesale energy markets where the firms have to compete for supplies. 10

Source: Adapted from 'Watchdog launches investigation into energy prices', by Dearball Jordan and Angela Jameson, *The Times*, 21st February, 2008



(a) With reference to Figure 1:

(i) Explain the market structure that best describes energy distribution.

(4)

(ii) Assess **two** likely motives for EDF's proposed takeover of Scottish and Southern Electricity. (Extract 1, lines 4–5)

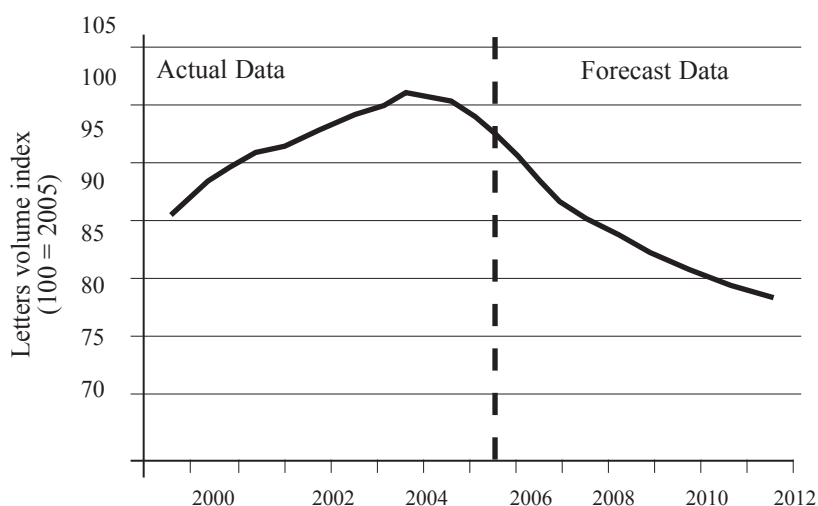
(8)



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

12. Royal Mail letter delivery market

Figure 1: Volume of letter deliveries for Royal Mail (index 2005 = 100)



Source: The challenges and opportunities facing UK postal services; R Hooper, D Hutton, I Smith, May 2008

Extract 1: The decline in letter delivery services

After the Royal Mail’s 350 year letter delivery monopoly ended in 2006, the state owned company is in crisis. Profits of £200 million in 2006 turned into a loss of £100 million by 2008. New competitors such as TNT have gained many large business customers by offering cheaper postal rates. Around 40 per cent of bulk mail sent by businesses and 20 per cent of total mail is now undertaken by Royal Mail’s eighteen competitors. Competition has also come from the growth of internet emails, text messaging and mobile phones, leading to an overall decline in the letter delivery market.

The industry regulator, Postcomm, blamed Royal Mail for being inefficient and failing to develop new products. However, Adam Crozier, chief executive of Royal Mail stated “Since 2002 we have cut £1.5 billion in costs and reduced staffing by 50,000, while at the same time we have met the efficiency and quality of service targets set by Postcomm”.

Royal Mail is considering further efficiency measures such as ending Saturday postal deliveries and the universal service – which guarantees delivery of letters anywhere in the country at a single price. For years, profits from bulk business mail have been used to subsidise the losses incurred by household mail. Royal Mail has urged Postcomm to remove price controls on its letter delivery services so that it can compete fairly with other suppliers. This would involve charging higher prices to individual consumers and small businesses compared to large bulk business users.

Source: ‘Postcomm highlights many Royal Mail failures’, *The Times*, 26th April 2008



(a) With reference to Figure 1 and the first paragraph in Extract 1, outline the reasons for the change in Royal Mail's profitability between 2006 and 2008.

(5)



(c) To what extent is the Royal Mail letter delivery service a monopoly?

(4)



(d) Evaluate price discrimination as a means of reducing losses in Royal Mail’s letter delivery service.

Lined area for student response.



(12)



