Candidate Name	Centre Number	Candidate Number

OCR
RECOGNISING ACHIEVEMENT

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS 2881/AB

THE MARKET SYSTEM

Tuesday **18 JANUARY 2005** Morning 1 hour

Additional materials:
Separate question paper.
Candidates answer in this designated Answer Booklet.

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write all your answers in the spaces on this separate answer booklet.

The spaces should be sufficient for your answers but if you require more space use the lined page at the end of this booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk(*).

FOR EXAMINER'S USE	
TOTAL MARK	

This answer booklet consists of 7 printed pages and 1 lined page.

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(a) Using the extract, state **two** different factors of production used by flybe and give an example of each.

Factor of Production 1 .....

Example from Extract .....

Factor of Production 2 .....

Example from Extract .....[4]

(b) flybe has only two types of route, domestic flights in the UK and international flights to the rest of Europe.

Using a production possibility curve, explain the choices available to flybe in the use of its aircraft. (Assume all aircraft will be used.)

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.....[5]

(c) The growth of low-fare airlines such as flybe has increased demand for pilots.

(i) Draw a diagram to show how the equilibrium pay of pilots is determined.

[4]

(ii) With the aid of a diagram, analyse how the market for pilots will be affected by an increase in demand for their services.

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.....[4]

(d) Market research for the airline industry has produced the following price elasticity of demand estimates for two routes:

Birmingham to Milan (Italy)	(–) 0.8
Birmingham to Glasgow (UK)	(–) 1.4

(i) Define price elasticity of demand.

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.....[2]

(ii) Explain **two** factors that might determine the price elasticity of demand for flights between Birmingham and Glasgow.

1 .....

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2 .....

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.....[4]

(iii) Discuss the business significance to flybe of the price elasticity of demand estimates given above.

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(e) The data below shows the typical operating costs for an airline such as flybe.

Cost item	**% total costs**
Pay	30
Fuel	10
Purchase/lease of aircraft	15
Maintenance of aircraft	6
Landing charges	7
Insurance	6
Marketing and administration	21
Normal profit	5

(i) From the data, give **one** example of a fixed cost and **one** example of a variable cost. Justify each of your answers.

1 .....

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2 .....

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.....[4]

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***(ii)** Using the data, discuss the extent to which flybe should be concerned about a rise in pilots' pay.

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