

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**ECONOMICS**

**2881**

**THE MARKET SYSTEM**

Tuesday

**18 JANUARY 2005**

Morning

1 hour

Additional materials:

Designated Answer Booklet [2881/AB]

**TIME** 1 hour

**INSTRUCTIONS TO CANDIDATES**

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** questions.

Write all your answers on the separate answer booklet provided.

**INFORMATION FOR CANDIDATES**

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

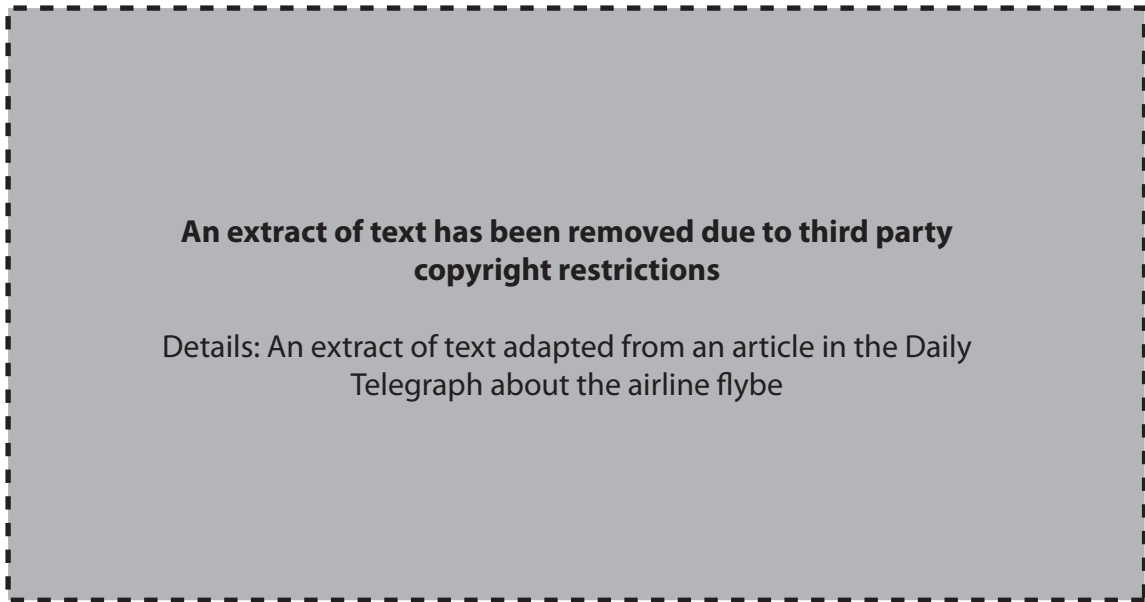
The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (\*).

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**This question paper consists of 4 printed pages.**

Answer all parts of this question in the accompanying answer booklet.

flybe prepares for take-off



5

10

15

Source: Daily Telegraph, 15 June 2003. (adaptation)

- (a) Using the extract, state **two** different factors of production used by flybe and give an example of each. [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.) [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. [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. [2]
- (ii) Explain **two** factors that might determine the price elasticity of demand for flights between Birmingham and Glasgow. [4]
- (iii) Discuss the business significance to flybe of the price elasticity of demand estimates given above. [6]
- (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. [4]
- \*(ii) Using the data, discuss the extent to which flybe should be concerned about a rise in pilots' pay. [12]

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