

**ADVANCED SUBSIDIARY GCE
 ECONOMICS**

2881/AB

The Market System

THURSDAY 17 JANUARY 2008

Morning
 Time: 1 hour

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



Candidate Forename

Candidate Surname

Centre Number

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Candidate Number

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INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use blue or black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Write your answer to each question in the space provided.
- 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 for each question 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 answers to the question labelled with an asterisk (*).
- The total number of marks for this paper is **45**.

For Examiner's Use	
Total Mark	

This document consists of 7 printed pages and 1 lined page.

(a) Using an example in each case, identify **two** different factors of production which may be needed for the production of pizzas that are delivered to homes.

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- 2.
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(b) State and explain **two** possible determinants of the increase in demand for high quality pizzas.

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- 2.
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(d) Between 2002 and 2004 the global price of mozzarella cheese increased by around 60%. It is estimated that on its own this price increase would have led to a 12% fall in the quantity demanded of mozzarella cheese.

(i) Calculate the price elasticity of demand for mozzarella cheese between 2002 and 2004.

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(ii) Explain the significance of your answer to part **(d)(i)** for mozzarella cheese producers.

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(e) Using the evidence provided, comment on the extent to which the market for high quality pizzas may be considered to be one of monopolistic competition.

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(f) **Table 1: Typical cost structure of producing a high quality mozzarella cheese pizza**

Variable costs	% of V. C.	Fixed costs
Mozzarella topping	40%	Business rates
Pizza base and topping	20%	Rent
Labour	25%	Other overheads
Energy/cooking	5%	
Packaging	10%	

Variable costs amount to 40% of total costs. The Fixed costs are 60% of total costs.

(i) Using examples from the above table, explain the difference between the Variable and Fixed costs of producing a high quality mozzarella cheese pizza.

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