

**ADVANCED SUBSIDIARY GCE
ECONOMICS**

The Market System

THURSDAY 17 JANUARY 2008

2881

Morning
Time: 1 hour

Additional materials: Designated Answer Booklet [2881/AB]



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Write your answers in the separate answer booklet provided.
- The spaces should be sufficient for your answers but if you require more space use the lined page at the end of the answer 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 answer to the question labelled with an asterisk (*).
- The total number of marks for this paper is **45**.

This document consists of **4** printed pages.

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

Cheese Price Rise Melts Pizza Producers' Profits

The demand for pizzas is continuing to grow at a healthy rate, boosted by the ever-increasing appetites of consumers in the USA, Australia and the UK for high quality pizzas delivered to their homes. Demand has also been fuelled by the inventiveness of the major retailers who are continuously introducing consumers to new products such as stuffed crust, ciabatta and stoneground pizzas. The global market is now worth billions of dollars and is dominated by well known brands such as Pizza Hut, Domino's, Papa John's and Yum!. At the same time, there is a living to be made by thousands of small locally-owned retailers. 5

The global price of mozzarella cheese, the principal ingredient in quality pizzas, rose to US\$3000 a tonne this month. Two years ago it was US\$1940 a tonne. Cheddar cheese, which is sometimes used as a cheaper substitute, has also increased in price but by much less than the price of mozzarella. Global cheese output has risen to meet increased demand and US stockpiles have been released as suppliers have sought to benefit from rising market prices. 10

Pizza topping can account for up to 60% of the variable cost of producing a quality pizza, according to a senior manager of Yum!, the Australian and Asian pizza chain. Speaking at the International Dairy Federation's World Dairy Summit in Melbourne, he claimed that the rising price of mozzarella was of serious concern to all pizza producers, whether they were multinational companies with strong buying power, or just small independent producers. In short, profits were being melted down. 15
20

- (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. [4]
- (b) State and explain **two** possible determinants of the increase in demand for high quality pizzas. [6]
- (c) (i) With reference to the data in lines 9 to 14, use a supply and demand diagram to show how the global price of mozzarella cheese has increased. [4]
- (ii) Explain how the global market for cheese might change with the release of US stockpiles. [4]
- (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. [2]
- (ii) Explain the significance of your answer to part (d)(i) for mozzarella cheese producers. [4]
- (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. [6]
- (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. [3]
- *(ii) Discuss the extent to which the increase in the global price of mozzarella cheese is really of 'serious concern to all pizza producers'. (lines 18-19) [12]

[Total: 45 marks]

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