

**ADVANCED SUBSIDIARY GCE
 ECONOMICS**

The Market System

WEDNESDAY 4 JUNE 2008

2881/AB

Afternoon
 Time: 1 hour

Candidates answer in this designated Answer Booklet
Additional materials (enclosed): Question Paper 2881

Additional materials (required):
 None



* C U P / T 4 4 6 2 7 *

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 that 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 total number of marks for this paper is **45**.
- The quality of your written communication will be taken into account in marking your answers to the question labelled with an asterisk (*).

FOR EXAMINER'S USE

TOTAL MARK

This document consists of **6** printed pages and **2** lined pages.

(a) Sony's manufacturing plant in China can produce Hard Disc Walkmans and Mini-disc players. Assume that the productive capacity is currently divided equally between both products and that senior executives want to see this changed to 80% Hard Disc Walkmans and 20% Mini-disc players.

(i) Define the term 'opportunity cost'.

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..... [2]

(ii) Using production possibility diagrams:

- Show the opportunity cost involved in this proposed change in production; [4]
- Show how the production possibility curve might change if Sony were to increase the productive capacity for Hard Disc Walkmans leaving Mini-disc productive capacity unchanged. [2]

(b) Using supply and demand diagrams explain how the market for Sony Hard Disc Walkmans might have changed following:

(i) Increased output from its Chinese factory (line 2-3).

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..... [4]

(ii) The launch of Apple's new Nano iPod (line 9).

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..... [4]

(c) (i) State what is meant by the term 'cross elasticity of demand'.

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(ii) After studying the market research data (lines 11 to 14), a UK retailer which is not a Sony stockist was convinced that it needed to reduce its prices of both types of iPod in order to compete. Comment on whether or not you agree with this policy.

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(d) (i) Explain what is meant by the term 'barrier to entry'.

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(ii) State and explain **two** barriers to entry that might apply to a firm seeking to enter the music download device market as a **retailer**.

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2.
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..... [4]

(e) (i) State **three** characteristics of an oligopolistic market.

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2.
3. [3]

*(ii) With the help of the information provided, discuss the extent to which the **manufacture** of music download devices is an oligopolistic market.

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