

## Friday 7 June 2019 – Morning

### LEVEL 3 CAMBRIDGE TECHNICAL IN BUSINESS

**05878** Unit 10: Economics for business

Time allowed: 2 hours

**C427/1906**



You may use:

- a calculator

Please write clearly in black ink.

Centre number

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Candidate number

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First name(s)

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Last name

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Date of Birth

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#### INSTRUCTIONS

- Use black ink.
- Answer **all** the questions.
- Write your answer to each question in the space provided.
- If additional answer space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

#### INFORMATION

- The total mark for this paper is **90**.
- The marks for each question are shown in brackets [ ].
- This document consists of **16** pages.

FOR EXAMINER USE ONLY	
Question No	Mark
1	/16
2	/22
3	/18
4	/18
5	/16
<b>Total</b>	<b>/90</b>

Read the scenario below.

## **Prestige Coffee**

*Prestige Coffee* is an independent coffee shop. It is located next to Maidenhead railway station which deals with thousands of commuters every day travelling on the busy route between London and Reading. Most of *Prestige Coffee*'s customers are either using the railway station or visiting the nearby shopping centre.

*Prestige Coffee* is jointly owned and managed by Sue and Richard Moreno. The owners chose this current location because it is close to so many other retail outlets. However, since they opened *Prestige Coffee* nine years ago, the number of competing coffee shops has increased from two to more than 20. The coffee shop market has seen a lot of merger and takeover activity in recent years, with many independent stores no longer able to compete successfully. *Prestige Coffee*'s competitors include the international chains Starbucks, Caffè Nero and Costa Coffee.

*Prestige Coffee* sells a range of coffees (including cappuccino, caffè latte and espresso), speciality teas and cold drinks. In addition, it sells a range of food such as cakes, pastries, sandwiches and salads. All of the food is made fresh on the premises, either to eat in or take away. The shop has a small number of tables, both indoors and outdoors. Sue and Richard employ enough part-time staff to ensure that the expected number of customers can be served efficiently. The expected number of customers varies significantly depending on the time of day, the day of the week and the month of the year. Most of the part-time staff are aged between 18 and 21.

Vita, a part-time employee who is now 40 years of age, comes from Lithuania. She came to work in the UK after Lithuania joined the European Union (EU) in 2004. She has worked at *Prestige Coffee* since 2017 and is currently finishing her Level 3 Diploma in Customer Service at the local college.

*Prestige Coffee* buys its coffee beans from a wholesaler in London. All of the coffee beans used and sold by *Prestige Coffee* are imported. The most popular coffees amongst its customers are from less economically developed countries such as Ethiopia, Guatemala and Indonesia.

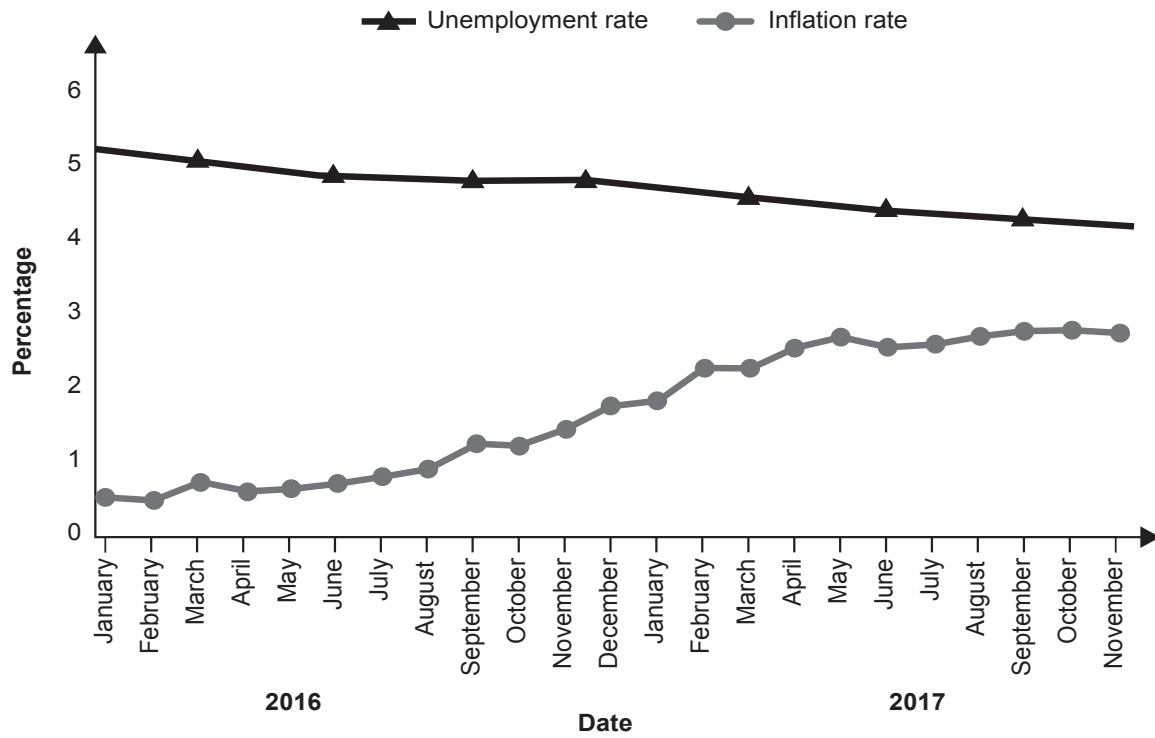
*Prestige Coffee* also sells accessories such as teapots, espresso cups and coffee bean grinders, as well as speciality tea leaves and coffee beans from around the world (sold by weight). Sue thinks that the space currently used to display these items could be put to better use by having more tables for customers. However, Richard thinks that selling these products brings additional customers into the shop who end up buying food and drinks as well. One of the shop's regular customers, who teaches Economics at a local school, has produced some data to assist Sue and Richard (see **Table 1**).

**Table 1: Estimated cross elasticity of demand for some of *Prestige Coffee*'s products**

<b>Products</b>	<b>Cross elasticity of demand</b>
Cappuccino and Caffè Latte	+ 1.6
Cappuccino and Cake	- 1.2
Coffee bean grinder and Cake	- 0.2

Recent economic trends (see **Extract 1**) have had a significant effect on the financial performance of *Prestige Coffee*.

**Extract 1: UK economic trends**



Answer **all** the questions.

1 Coffee beans are sold internationally in 68kg sacks and are priced in US Dollars(\$).

(a) A 68kg sack of Ethiopian coffee beans is currently priced at \$1209. The Pound Sterling to US Dollar exchange rate is £1=\$1.30.

Calculate the price of a 68kg sack of Ethiopian coffee beans in Pounds Sterling.

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.....[2]

(b) The Pound Sterling to US Dollar exchange rate is forecast to fall to £1=\$1.17 in the next year.

Analyse the impact of the falling Sterling exchange rate on *Prestige Coffee*.

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(c) Other than the cost of raw materials, state **two** determinants of supply.

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(d) **Table 1** provides information about the estimated cross elasticity of demand of some of the products sold by *Prestige Coffee*.

State **three** useful pieces of information which Sue and Richard can obtain from **Table 1**.

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[3]

2 (a) The Competition and Markets Authority (CMA) is the UK's competition regulator. Explain **two** methods the CMA can use to alter business behaviour.

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(b) *Prestige Coffee* now has more than 20 competitors in Maidenhead. Analyse **three** effects on *Prestige Coffee* of this increased competition.

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(c) Identify **three** external economies of scale which may affect *Prestige Coffee*.

Analyse the impact of each external economy of scale on *Prestige Coffee*.

[9]

External economy of scale 1

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Analysis of impact

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External economy of scale 2

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Analysis of impact

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External economy of scale 3

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Analysis of impact

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4 (a) Describe **two** factors which have led to increased globalisation.

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[4]

(b) Most coffee is grown in less economically developed countries.

Explain **two** ways the International Monetary Fund (IMF) may help to increase business activity in global markets.

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[6]







**ADDITIONAL ANSWER SPACE**

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s) – for example 3(a) or 4(c).

A large rectangular area with a solid vertical line on the left side and horizontal dotted lines across the page, providing space for writing answers.

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