

Answer TWO of the three questions in this paper.

Write your answers in the spaces provided.

If you answer this question put a cross in this box .

1. The Olympic Bid:



On Wednesday 6th July 2005, there were celebrations throughout the country as it was announced that the 2012 Olympic Games would be held in London. The estimated cost of putting on the Games is £2,400 million. Much of this money will be spent on building new facilities in Stratford, East London. The work involved in developing the sites for the Games will be carried out by organisations in both the private sector and the public sector.

Image Source: <http://www.london2012.org/en/>

(a) Using an example, explain the meaning of the term *'public sector'*.

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(b) The evidence suggests that the 'cost of putting on the Games is £2,400 million.' Does this mean that the price that spectators will have to pay to watch the Games will also add up to £2,400 million?

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The cost of staging the Olympics will be high. Many cities who have staged the Games in the past have made very large losses and this has imposed a burden on taxpayers for many years after the Games have finished. The benefits of staging the Games therefore might not be as great as some people think.

Athens, which hosted the Games in 2004, suffered a loss estimated at £4.6 billion but Sydney who hosted the 2000 Games made a profit of £110 million and generated £3 billion in tourism.

Source: adapted from Nick Goodway and Jane Padgham, *Evening Standard*, July 6th 2005

The businesses constructing the athletes' village, will use the buildings for retail and housing development after the Games have finished. The businesses had to bid against other building firms to win the right to build the athletes' village.

Source: adapted from Nick Goodway and Jane Padgham, *Evening Standard*, July 6th 2005

(c) Discuss **two** key factors that might give a firm bidding to win a contract to build facilities in the Olympic Village a competitive advantage.

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Not everyone is happy that London has won the right to stage the Olympics. Some people believe that the cost of hosting the Games is too high and that the money could be better used elsewhere.

- A new hospital in Manchester – a so-called super hospital – was estimated to have cost £400 million in 2001.
- The cost of building a new primary school in Worcestershire was estimated at £1.5 million, the capital cost of a new secondary school in Wales, £13 million.
- The average cost of constructing one mile of a three-lane motorway in 1998 was estimated at £17 million.

Source: http://www.bized.co.uk/current/mind/2004_5/221104.htm

(d) Using **one** piece of the information above, estimate the opportunity cost of staging the London Olympics. Show your workings.

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The opportunity cost of hosting the Games might be considered to be very high but the government supported the bid.

(e) Briefly discuss **two** factors that the government might have considered in deciding whether supporting the bid was the best use of taxpayers' money.

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Some people are angry at the decision to host the Games in East London. Those with businesses in the area at the moment believe they will have to move when the Olympic village is built.

There are likely to be many compensation claims from business owners – 300 of them according to one account – employing 11,000 people.

It is thought that, in addition, property prices in the area will rise, making it harder for locally born couples to set up a first home. The road-improvement programme will obstruct the movement of commuters through and around that part of London, perhaps for years.

Source: adapted from <http://sport.guardian.co.uk/london2012/story/0,14213,1523874,00.html>



The building of the new facilities including the athletes' village and the Olympic stadium will be in Stratford in East London. This is a relatively poor area of London. The investment will mean jobs for some, disruption for others and a boost for tourism for the whole of London and the UK.

Image Source: <http://www.london2012.org/en/bid/the+olympic+park/>

Shareholders of businesses building Olympic facilities are hoping for healthy profits. Profits might boost the share price of the business but shareholders will also be aware of possible problems. Multiplex, the building company responsible for Wembley Stadium, made a big loss on the project. The delays to opening Wembley meant Multiplex's reputation suffered.

- (f) Explain the likely views of the following groups of people on the decision to host the Olympic Games.
 - (i) The owner of an existing business in the area where the Olympic village is to be built.

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(ii) A street trader in London's Oxford Street, the main shopping area of London.

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(iii) The shareholders of a business which is to build facilities at the Games.

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Many cities which have staged the Games in the past have made very large losses. This has imposed a burden on taxpayers for many years after the Games have finished.

The last city to host the Olympics, Athens in Greece, saw the Greek government pay out approximately \$12 billion – more than twice the initial estimate – and the money spent by spectators was not enough to make up the difference. Some Greek businesses did pretty well, especially in the construction industry, but the rest of the country was stuck with a steep bill.

Source: adapted from <http://www.reason.com/hod/jw071105.shtml>

(g) Using all the evidence and your knowledge of business and economics, assess the strength of the case for hosting the Olympic Games in London in 2012.

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(Total 50 marks)

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If you answer this question put a cross in this box .

2. The UK Economy:

	<p>The B&Q chain of do-it-yourself (DIY) stores is starting to suffer from the effects of an economic slowdown. It has had to announce that its profits would be lower than expected as a result of weaker sales and that it is planning to make 400 staff redundant. Most of these will be staff from its headquarters near Southampton rather than from its stores. The DIY sector as a whole has seen a slowdown in sales in 2005 as a result of changes in the business cycle.</p>
<small>Source: adapted from http://www.bized.co.uk/cgi-bin/chron/chron.pl?id=2424</small>	

(a) Using an example, what do you understand by the term *'business cycle'*?

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(b) Describe **two** effects that changes in the business cycle might have on a company like B&Q.

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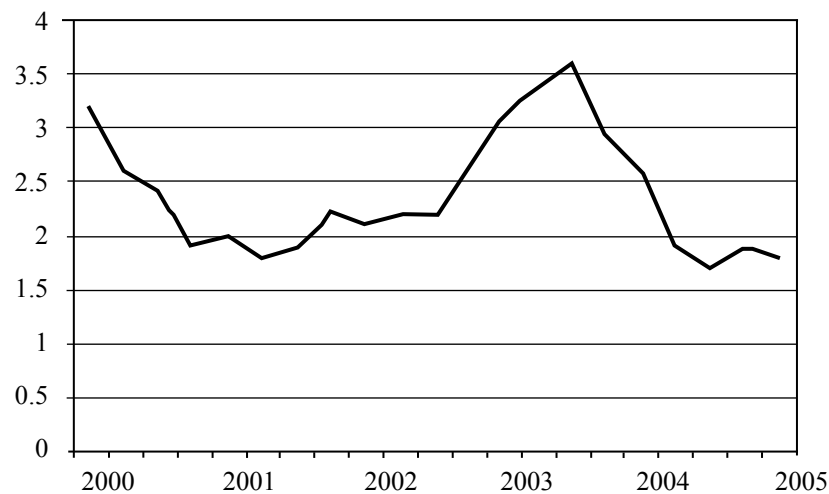
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UK Gross Domestic Product (Economic Growth) 2000 – 2005

Source: <http://www.statistics.gov.uk/cci/nugget.asp?id=192> accessed 22nd April 2006

(c) Describe and explain the trends in UK economic growth between 2000 and 2005.

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Most unemployed people are looking for new jobs. To get these jobs they will have to look for job vacancies and then go through the process of applying for the job. This will include filling out application forms, finding out about the job and what it requires and also going through an interview.

(d) Explain the difference between a job description and a person specification.

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(e) How useful is an interview in the selection of the right person for a job?

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Northampton is a town in the Midlands. Its central location and access to the M1 means that it has been a popular place for businesses to locate. It has a total unemployment rate that is below the national average. Despite this, the rate at which unemployment has grown has been high – 21% in 2005. Different people see the unemployment situation in Northampton in different ways.

Stuart Abraham is Business Manager of Manpower, a recruitment agency in Northampton. This is what he has said about the job market in Northampton.

“Northampton has one of the fastest growing economic rates in the UK in the last 15 years. There have been significant increases in the number of people employed in the service sector with the latest figures showing 69% of all employees are now in this sector.

Unemployment in Northampton stands at just 2.2%, far lower than the regional and national figure of 3.2%. This has created a real scarcity of good quality temporary candidates.

All in all therefore it’s a good time to be looking for work within the Northamptonshire marketplace!”

Source: <http://www.natf.co.uk/OfficeLocations/BranchPage.asp?location=4110>

Kevin Clark is National Projects Manager for recruitment agency Drivers Direct. Drivers Direct help businesses in the transport industry to recruit drivers for lorries, vans, mini-buses and even fork lift trucks. They have plenty of vacancies for experienced drivers on the Web site. If there were more drivers available, Kevin would be able to find work for them easily.

Source: <http://driversdirect.co.uk/pages/intro.html>

The average number of people claiming job seekers allowance (JSA) each month in Northampton is over 2,500. Of that number around 2,300 have been unemployed for under 6 months; 230 have been unemployed from between 6 months and 2 years and 105 have been unemployed for between 2 and 5 years.

The majority of the unemployed in Northampton are aged between 25 and 49.

Some people who are unemployed in the town have difficulties getting a job. In some cases it might be that they do not have the skills to do the jobs that are available or in others it might be that the money being offered is not what they expect.

Source: http://www.northampton.gov.uk/site/scripts/download_info.php?downloadID=172&fileID=247



(f) Explain the views of the following people on the jobs market in Northampton.

(i) Stuart Abrahart.

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(ii) Kevin Clark.

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(iii) An unemployed person.

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Knut Røed and Tao Zhang, two economists, asked the question “How would job seekers react if their unemployment benefits were cut?” Their research suggested that unemployed people would search harder and find new jobs more quickly.

Source: <http://www.res.org.uk/society/mediabriefings/pdfs/jan03/zhang.pdf>

Long-term unemployment is a major problem for many European countries. Researchers from Loughborough and Stirling Universities investigated what was being done for those affected in Germany, Sweden and Britain.

- The effects of unemployment became worse the longer people were out of work. People in all three countries felt lonely and isolated and lost self-respect. They relied on family and friends for company and support, feeling that other people in work held unsympathetic and prejudiced views.
- Benefits in Sweden and Germany are normally higher than in Britain, and paid for much longer periods of time. This seemed to help the unemployed in these countries.
- In Britain there is concern about benefit abuse and people relying on state benefits too much. The British government would rather increase the financial incentive to work and to encourage people to get off benefits and into work.
- The long-term unemployed in Britain were less able to afford basic necessities. They are more likely to be in serious debt than unemployed people in Sweden and Germany.

Source: adapted from <http://www.jrf.org.uk/knowledge/findings/socialpolicy/sp127.asp>

Governments may choose to use fiscal policy in times of recession or a general downturn in economic activity. They may do this by lowering taxes in some form or by increasing the level of government expenditure. This will encourage people to spend more. If they lower indirect taxes then this will lower the prices of the taxed goods and encourage more demand. Alternatively they could lower direct taxes. This will raise people’s disposable income (their take-home pay) and therefore encourage them to spend more. Either way the level of demand in the economy should rise and help encourage economic growth.

Source: adapted from: <http://bized.co.uk/virtual/economy/policy/advisors/fiscal2.htm>



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(g) Assess the strength of the case for the government reducing the level of taxation to help reduce the level of unemployment.

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(Total 50 marks)



If you answer this question put a cross in this box .

3. Ringtones and Regulation:



In 2004, German based music group Jamba, allowed its animation and sound to be used as a mobile phone ringtone. Trading under names such as Jamster, the firm embarked on a strong marketing drive. They released the ringtone with a barrage of TV, internet, radio and print advertising. The ringtone was marketed as the 'Crazy Frog'. Jamba has earned an estimated £14 million from the ringtone, making it the most commercially successful ringtone of all time.

Source: adapted from http://en.wikipedia.org/wiki/Crazy_frog

(a) Explain the meaning of the term '*marketing*'.

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(b) Explain **one** benefit to a business of using the Internet to advertise its products.

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The development of third generation (3G) phones with higher quality sound is fuelling a boom in the downloading of ringtones. It is predicted that mobile phone users will download some £740 million worth of ringtones, screensavers, music and games in 2005, up from £40 million in 2002. Mobile downloads have risen from 30 million in 2002 to 760 million this year and ringtones account for around one-third of downloads.

Clearly it is big business and a business that is growing. Exactly who is doing the downloading is interesting. It might be expected the market segment comprising young people would be the primary source but one company claims that the average age of ringtone downloaders is over 32 with less than 4% being less than 16 years old.

Source: <http://www.bized.co.uk/cgi-bin/chron/chron.pl?id=2437> 22 September 2005

(c) Describe **two** likely market segments for ringtones and explain how a business such as Jamster might target these markets.

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The Crazy Frog tune was created in 17-year-old Swede Daniel Malmédahl's bedroom in 1997 as an impression of the sounds made by his friends' souped-up scooters as they raced around local streets. His efforts were posted on the Internet, at which point he was invited to perform live on national TV in Sweden. Fellow Swede, Erik Wernquist, created the animated frog to go with the music. The pair were then approached by the ringtone company Jamster, who swept Crazy Frog to prominence worldwide, shifting \$15 million worth of tones in the UK.

Source: adapted from <http://www.dagbladet.no/dinside/2005/01/31/421946.html>

(d) Using an example, explain the meaning of the term '*entrepreneur*'.

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(e) How important is risk-taking to the success of a business?

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A number of people have complained to the Advertising Standards Authority (ASA) about the way in which Jamster advertises its ringtones. When you ring one of the advertised numbers for a ringtone you join a club which is subscription based as opposed to a one-off payment for a ringtone.

The ASA received 298 public complaints about the adverts, many of which were concerned that the adverts were targeted at children. Some children downloaded a ringtone only to find that they then received a number of reverse charge texts at £3. This was very expensive.

It is not only children that got caught. There were plenty of adults who felt they had been ‘ripped off’ and were not aware they had signed up to a subscription service.

Source: adapted from <http://www.bized.co.uk/cgi-bin/chron/chron.pl?id=2437>

Mobile phone ringtone sellers are using cynical ploys to extract millions of pounds from consumers – many of them young children. Many customers are unaware when buying a ringtone that they are often agreeing to pay for a tune every week, unless cancelled, at up to £3 a time. Parents have complained that the ringtone subscriptions – with colourful adverts in teen magazines – are being sold to children as young as eight, in breach of a code of practice. They say the “small print” which explains the full scale of the charges is difficult to understand for many adults, let alone teenagers.

Most of us own mobile phones made by one of the major manufacturers, such as Nokia, and pay a service provider such as O2, Vodafone, T-Mobile or Orange for our calls. But not content with a basic service, many of us feel the need to personalise our mobile, with the help of companies which specialise in selling novelties for phones – be that ringtones, wallpaper, games or logos to display on screen.

It took Rob Andrews six months to find out why his daughter Alicia’s mobile phone was costing so much. The IT consultant from Nottinghamshire could not understand why the phone ran up bills of nearly £70 in only a few months. Alicia said she had never signed up to a subscription service, but Mr Andrews thinks she may have done it without realising. Mr Andrews said he was astonished so much money could be made without his or his wife’s permission “I’m very annoyed about it. By targeting children, they are targeting the most vulnerable. It’s just not right”.

Source: adapted from <http://business.scotsman.com/topics.cfm?tid=1297&id=573722005>
dated 26th May 2005, accessed 14th October 2006



(f) Explain the views of the following on the advertising strategy of Jamster.

(i) Young people aged between 14 and 16.

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(ii) Managers of mobile phone service providers such as O2 and Vodafone.

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(iii) Rob Andrews.

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The ASA investigates complaints about advertising from the general public. The ASA investigated Jamster after concerns about the influence of the adverts on children:

“Many of the people who complained to us are parents whose children have received large phone bills because they downloaded the ringtones without realising the financial commitment involved. This ruling sends a warning to the whole industry that adverts for ringtones and other mobile phone subscription services must not appeal to under-16s. It also reminds the whole advertising business that the ASA carries out regulation of the industry to protect the public and to remind advertisers about the law – and that it will be supported by the Courts.” said its Director General.

Source: adapted from <http://www.asa.org.uk/asa/news/news/2005/ASA+Welcomes+High+Court+Ruling+on+Jamster+ads.htm>
dated 15th November 2005. accessed 18th November 2005

- (g) Using the evidence and your knowledge of business and economics, assess the strength of the case for ASA regulation of companies such as Jamster.

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Q3

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TOTAL FOR PAPER: 100 MARKS

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