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Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

Unit 3: Business Economics and Economic Efficiency

Friday 17 January 2014 – Morning
Time: 1 hour 30 minutes

Paper Reference
6ECA3/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** the questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 72.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Check your answers if you have time at the end.

Turn over ▶

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P 4 3 2 3 8 A 0 1 3 2

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Section A: Answer all the questions in this section

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 In September 2012 the 250-year-old UK toy shop chain Hamleys was taken over by French toy retailer Groupe Ludendo for a reported £60 million. One likely reason for the takeover was to

(1)

A access new markets for Groupe Ludendo in the UK

B achieve benefits from vertical integration

C achieve external economies of scale

D avoid investigation by the European Competition Commission

E achieve benefits of conglomerate integration

Answer ☐

Explanation

(3)

(Total for Question 1 = 4 marks)

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2 A firm selling microchips is operating under conditions of perfect competition. The market price is below the firm's average variable costs. The immediate response of this firm will be to

(1)

A raise its price

B shut down

C reduce output and cut its price

D keep its price and output unchanged

E cut its price and increase output

Answer ☐

Explanation

(3)

(Total for Question 2 = 4 marks)

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3 A firm is experiencing a fall in short run average total costs as output rises. Which of the following must be true?

(1)

A Marginal costs are falling

B Marginal costs are rising

C Marginal costs are above average total costs

D Marginal costs are below average total costs

E There are economies of scale

Answer ☐

Explanation

(3)

(Total for Question 3 = 4 marks)

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4 Cherry runs a tanning shop and the following table shows her costs and revenues in a fixed time period when she changes her prices for a treatment. Some parts of the table are left blank for your own calculations.

(1)

Quantity	Price (£)			Total costs (£)	Marginal costs
0	20			30	
1	18				2
2	16				3
3	14				4
4	12				6
5	10				10

At what price range would Cherry achieve profit maximisation?

A £20 or higher

B £20 - £18

C £18 - £16

D £14 - £12

E £10 or lower

Answer ☐

Explanation

(3)

(Total for Question 4 = 4 marks)

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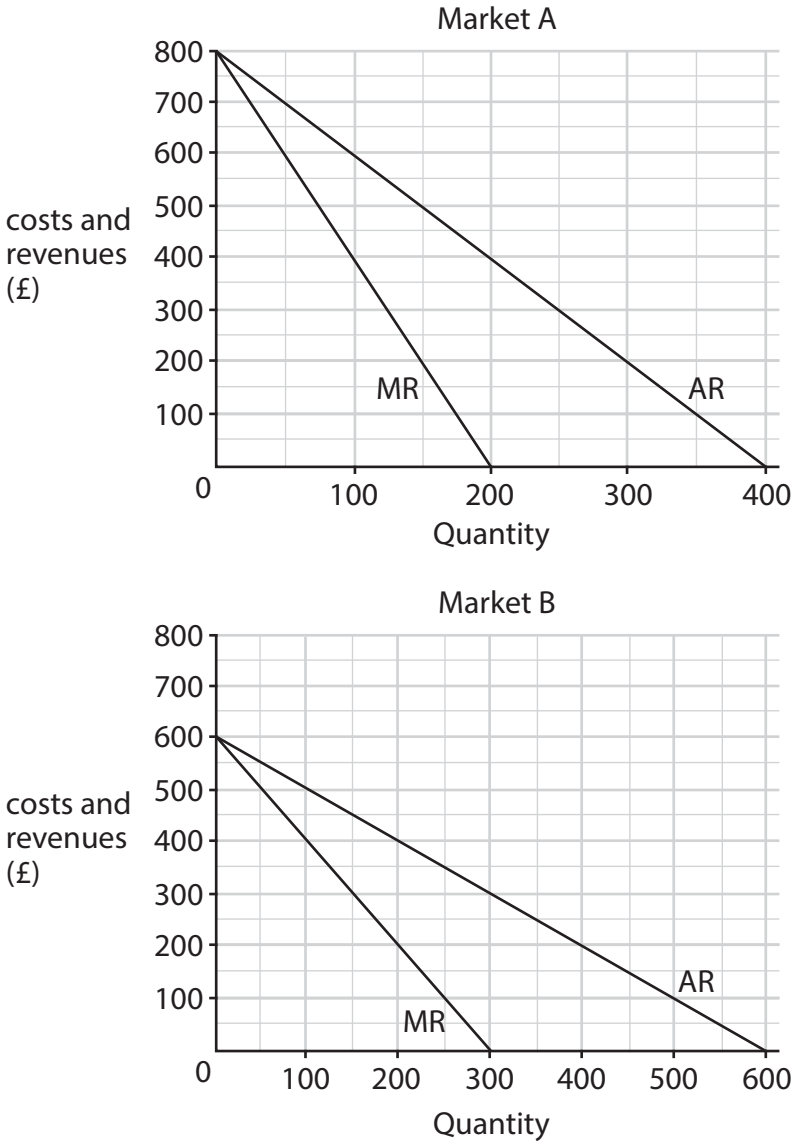
5 A monopolist supplier of ski holidays operates in a small, fashionable resort in the Alps. It splits the market into two sub-markets: A for school holiday time and B for term time. The diagrams show the average revenue (AR) and the marginal revenue (MR) curves for holidays in the two sub-markets.

If the marginal cost of providing one holiday is £200 at any time of the year, what prices should the ski holiday firm charge in the two sub-markets to maximise profits?

(1)



	Price in sub-market A, £s	Price in sub-market B, £s
A	200	200
B	300	300
C	400	300
D	400	500
E	500	400

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Answer

Explanation

(3)

(Total for Question 5 = 4 marks)

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6 In 2008 the competition authority in New Zealand investigated the behaviour of 13 airlines. There was evidence that the airlines colluded to raise the price of air freight by imposing similar fuel surcharges for up to seven years previously. The authority noted that it might have involved as many as 60 airlines.

(1)

What is the most likely reason for collusion to occur in this industry?

A Airlines involved can increase their profits

B Barriers to entry are low

C Cartels are not subject to regulation

D The market is contestable

E There is a low concentration ratio

Answer ☐

Explanation

(3)

(Total for Question 6 = 4 marks)

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7 A price cap of RPI+1% was imposed on increases in selected train fares in the UK in January 2013. The rate of inflation as measured by the RPI was 3.2%. This means that these train fares will rise by no more than

(1)

A 3.2% in real terms

B 4.2% in real terms

C 1% in nominal terms

D 3.2% in nominal terms

E 4.2% in nominal terms

Answer ☐

Explanation

(3)

(Total for Question 7 = 4 marks)

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8 Amazon controls about 90% of the eBook market in the UK but is not currently subject to investigation by the competition authorities. This may be because the firm

(1)

A is productively inefficient as its average cost does not equal its marginal cost

B experiences x-inefficiency in production

C is satisficing the demands of shareholders

D wants to increase producer surplus of its suppliers

E passes some benefits of economies of scale on to the consumer

Answer ☐

Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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SECTION B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in this box ☒ .

Question 10 starts on page 22.

You should spend 55 minutes on this question.

9 Apple and Samsung

Figure 1 A Samsung Galaxy and an Apple iPhone



(Source: © Getty Images)

Figure 2 Smartphone market share (%) in the US and China, first quarter 2012

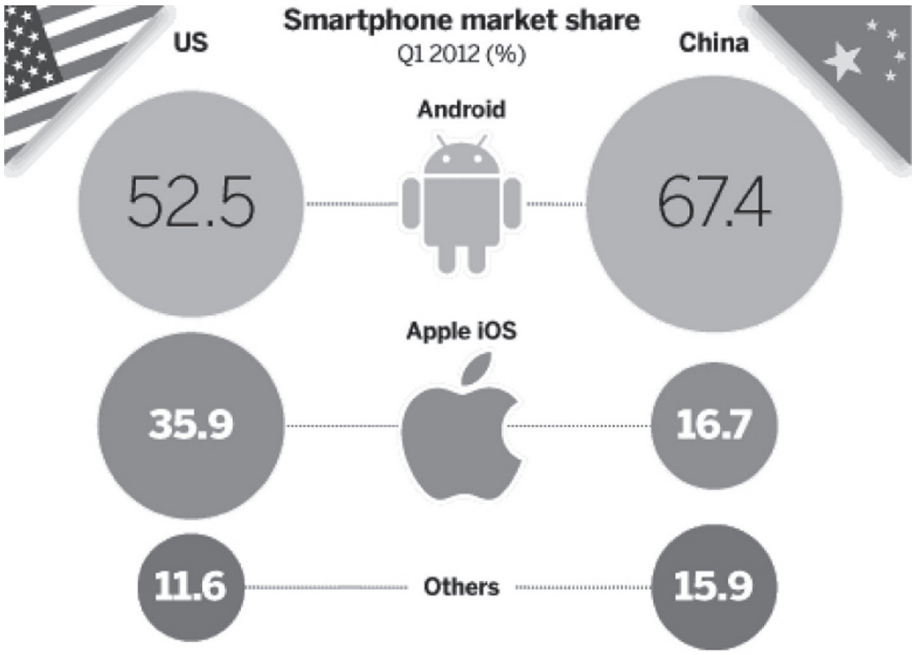

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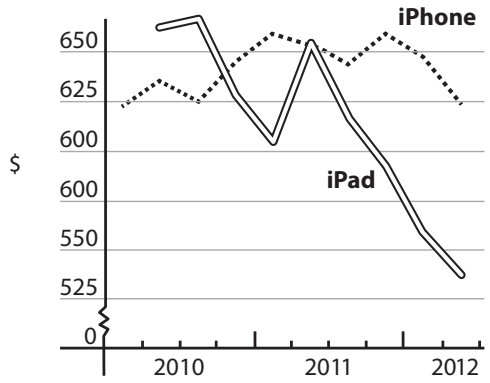
Figure 3 Global average selling price for two Apple products, US dollars



Extract 1 Apple struggles in emerging markets

Apple is an American transnational corporation that designs and sells consumer electronics such as iPads and smartphones, with unique computer software. When Apple officially launched its latest iPad in China in July 2012, the big crowds and long queues seen at earlier such events were absent. Retailers complained they had to cut prices by 30% in the first week, because consumers were slow to buy.

Tim Cook, Apple's chief executive, said that there was no "obvious economic issue" holding back growth in China. But some observers believe that the Chinese addiction to Apple products is fading because consumers are getting spoiled for choice and are becoming more price-sensitive as economic growth slows. Samsung, which had already been taking market share from Apple in the Chinese smartphone market last year, has launched new models with equally attractive design and features but lower prices. Huawei, the Chinese telephone equipment maker, offers sleek smartphones at a fraction of the price of the iPhone. "It is very clear that Android is increasing its market share in emerging markets," says Benedict Evans of Enders Analysis. Android is an operating system owned by Google that is used across different types of phones such as Samsung, HTC and Motorola, in competition with the Apple operating system, iOS.

Many analysts expect the Chinese market to revive later this year when Siri, the voice assistant on the iPhone, is released in the Mandarin language for the first time. China Mobile, the country's largest mobile operator, is expected to begin selling the device soon. "I firmly believe that people in emerging markets want great products, like they do in developed markets," Mr Cook said. He added that Apple wants to innovate and cut prices where possible.

(Source for Figures 2 and 3 and Extract 1: © The Financial Times Ltd, 25 Aug 2012)

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Extract 2 Jury awards over $1billion in patent victory for Apple

Apple has won a powerful victory in its US patent battle with Samsung, after a jury found that the South Korean electronics firm breached design patents. The jury awarded $1.05 billion in damages to Apple for Samsung having copied features such as "rubberbanding" scrolling, its sleek glass front, its touch screen features such as "tap to zoom" and "bounce back" scrolling, its edge-to-edge glass front, rounded corners and app icons.

The verdict that consumers could be confused between the two companies' products will send shockwaves through the smartphone industry, with implications for other handset makers that use Google's Android operating system. Analysts point out that the US ruling will have a global effect, because smartphone makers will be unwilling to create different products for different markets, to continue to innovate, to offer choices and to lower prices for the consumer.

(Source: © The Financial Times Ltd, 25 August 2012)

(a) Using evidence from the extracts, explain what is meant by a ***patent***.

(4)

(b) Apart from patents, discuss **two** possible barriers for firms trying to enter the global market for new technological products.

(8)

*(c) With reference to Extract 2, discuss the possible impact on consumers of the legal decision against Samsung.

(12)

*(d) Assess ways in which Apple could increase its market share for its products in China, given the market conditions illustrated in the evidence.

(16)

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(16)

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(Total for Question 9 = 40 marks)

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If you answer question 10 put a cross in this box ☒ .

10 Motor Fuel Prices

Figure 1 Petrol prices rise as oil prices and tax duties change

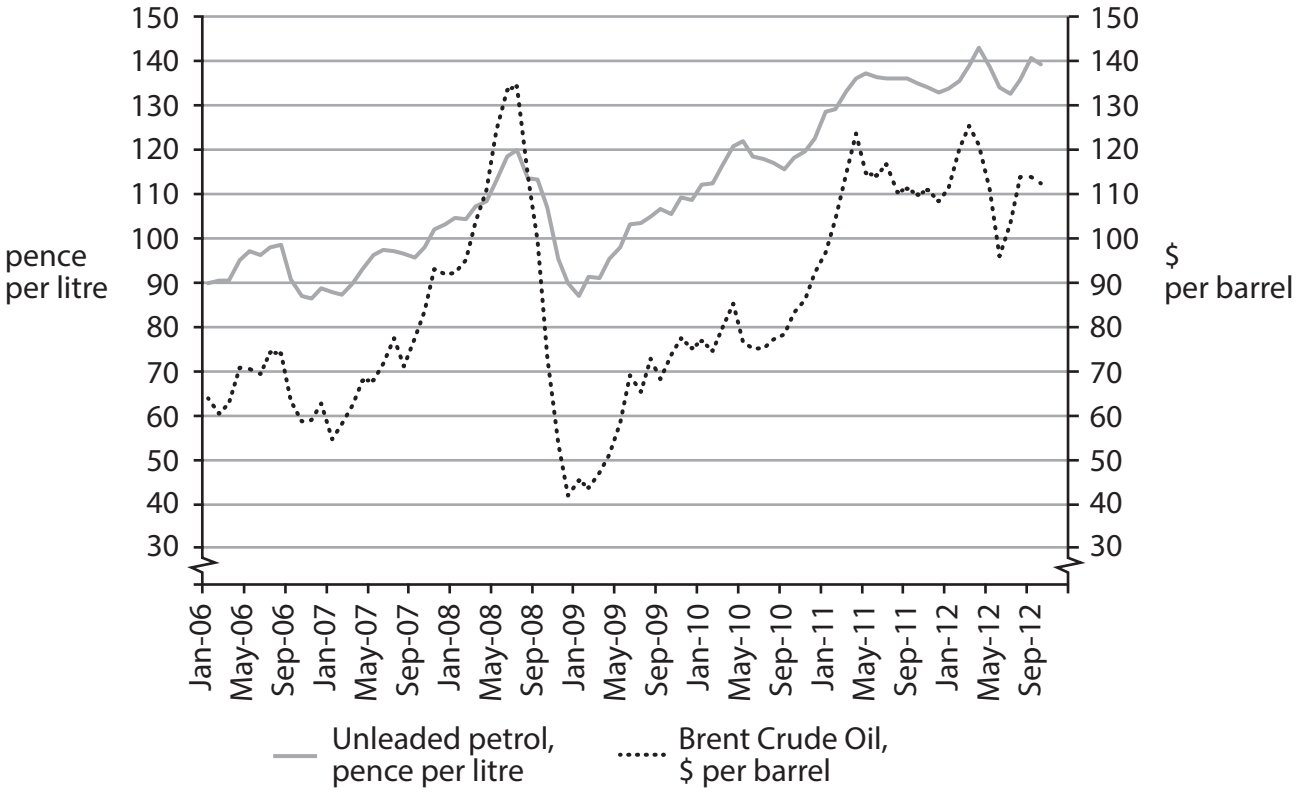

Figure 2 Duty rises in the price of petrol

October 2007	2 pence increase
December 2008	2 pence increase/ VAT reduced
April 2009	1.84 pence increase
September 2009	2 pence increase
April 2010	1 pence increase
October 2010	1 pence increase

(Source for Figures 1 and 2: © Associated Newspapers Ltd, 5 September 2012)

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Extract 1 Petrol prices for motorists

In September 2012 the Office of Fair Trading (OFT) issued a call for information on the UK petrol and diesel sectors. In the light of continuing public concern about fuel prices for motorists, the OFT wanted to identify whether or not there are competition problems that it could tackle in the sector.

The OFT will explore a number of claims about how the road fuels sector in the UK is functioning, including:

- whether reductions in the price of crude oil are being reflected in falling retail prices for petrol and diesel
- whether supermarkets' and major oil companies' practices may be making it more difficult for independent retailers to compete with them
- whether there is a lack of competition between fuel retailers in some remote communities in the UK.

(Source: © Crown copyright 2010)

Extract 2 Predatory pricing of petrol

Supermarket price wars are putting Britain's small petrol stations out of business at the rate of one a day. Sainsbury's, Tesco, Asda and Morrisons have this year embarked on a war to attract hard-hit consumers and the price of fuel has been central to their campaign. Morrisons is offering loyalty points on its new fuel card while Asda has launched a price comparison app for mobile phones to convince shoppers it has the cheapest fuel. Both Sainsbury's and Tesco have offered money-off vouchers for petrol customers.

The Retail Motor Industry Federation (RMI), a trade association representing the interests of 6 000 small petrol stations, is hoping the OFT inquiry will support its members, who believe that unfair and predatory pricing by the supermarkets and some major oil companies is making it impossible for them to compete. There are now about 8 000 small petrol retailers compared with 21 000 two decades ago and 40 000 in 1966. It predicts that in five years there will be very few independent petrol retailers left.

The OFT inquiry comes at a time when the supermarkets have proved particularly effective at building up a huge stake in the petrol market. With the recession dragging on, households are keen to save even one or two pence a litre, particularly those families whose livelihoods depend on the use of a car. Between June 2007 and June 2012 – a period that saw considerable crude oil price volatility – the price of petrol rose by 38% while diesel rose by 45%.

In 2011, supermarkets accounted for 45% of total fuel sales from just 1 316 sites compared with 37.4 % in 2010. The OFT said the fuel market for Britain's 33 million motorists is worth around £32 billion a year, and accounts for 5p in every £1 of household expenditure. But many have also blamed the Government and increases in fuel tax for soaring petrol prices. It takes 60% of the price of every litre of petrol in tax – the highest rate in Europe.

The RMI has been gathering evidence from its members to support the argument that the supermarkets have been involved in unfair pricing. Small garages typically

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make only 5p in profit on a litre of petrol, while major supermarkets were using tactics described as 'loss leading'. It is also blaming the major oil companies for unfair dual pricing. That means they sell to their own garages at one price and then to an independent retailer down the road at a higher price. There is evidence of 'price co-ordination' – otherwise known as price-fixing.

When the price of crude oil goes up, the prices motorists pay go up almost immediately – but when the oil price falls, retail fuel prices don't reflect that fall as markedly.

Andy Peake, Asda's Petrol Trading Director said: 'We welcome the OFT's decision to look into petrol and diesel prices. At Asda we are committed to doing everything we can to bring motorists the lowest possible fuel prices. Our preference would be that everyone is charged a national price for fuel, that way drivers would be treated as equals regardless of where they live.'

(Sources: © Associated Newspapers Limited, 8 September 2012)

(a) Using examples from the data provided, what may be deduced about the market structure of petrol retailing in the UK?

(4)

(b) Using an appropriate cost and revenue diagram, discuss **one** reason why many independent petrol retailers in the UK have left the industry in recent years.

(8)

*(c) Discuss the likely impact on economic efficiency of the suggestion that "everyone is charged a national price for fuel" (Extract 2, line 40).

(12)

*(d) Discuss strategies that petrol retailing firms could use to increase profitability.

(16)

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(16)

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(Total for Question 10 = 40 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 72 MARKS

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