AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.1.5 PERFECT COMPETITION, IMPERFECTLY COMPETITIVE MARKETS AND MONOPOLY

SCORE	PERCENTAGE
/1676	%

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1. **Extract B** (lines 13–14) states: ‘Most water (and sewerage) services are not provided by competitive markets… Only businesses can choose their water supplier’.

Explain how firms in the water industry could compete to attract businesses or other customers.

[10 marks]

2. **Extract E** (lines 17–19) states that, ‘the price gap between discounters and conventional supermarkets is now about 10–12%, against more than 20% a few years ago.’

Evaluate the view that the supermarket sector is serving customers' interests well.

[25 marks]

3. Several loss-making retailers including Homebase, House of Fraser and Poundworld have had to decide whether to shut down operations or carry on while making losses. In contrast, the music-streaming firm Spotify was valued at $27 billion in 2018, despite never having made a profit in any year since it was founded. Spotify has been more focused on expanding market share.

Explain the factors a profit-maximising firm will take into account when deciding whether to shut down or to carry on operating, both in the short run and in the long run.

[15 marks]

4. **Extract F** (lines 9–10) suggests that ‘the British public really don't care about who runs the trains; what they care about is reliability, comfort and price.’

Use the extracts and your knowledge of economics to evaluate the case for renationalising railways in the UK.

[25 marks]

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5. **Extract C** (lines 14–15) states that 'Rising prices will eventually also force builders in developing countries to explore alternatives to sand.'

Use the extracts and your knowledge of economics to assess the view that the increasing scarcity of sand is a problem best solved by market forces, rather than through government intervention.

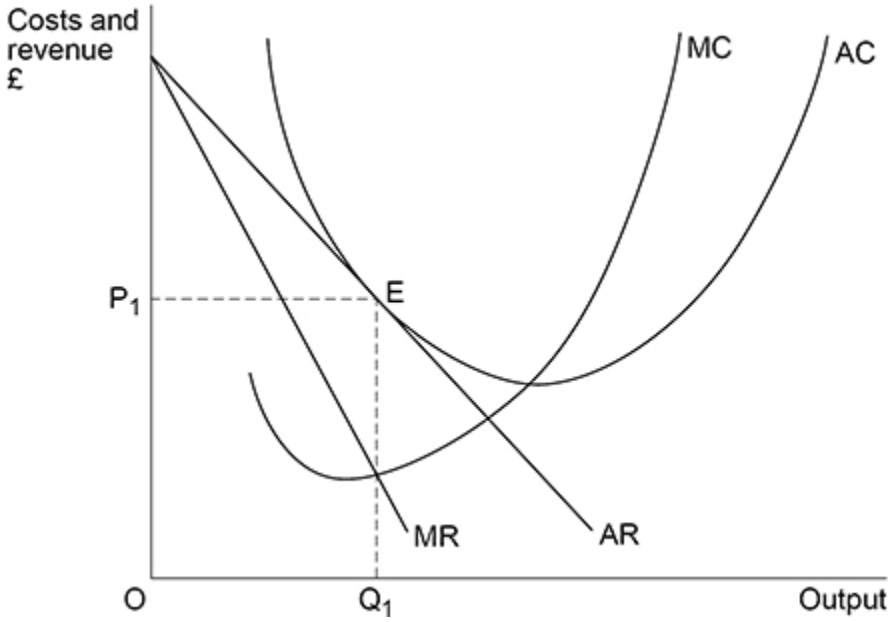
[25 marks]

6. **Extract E** (lines 10–11) describes the British railway sector as a 'natural monopoly', which was split up into 'no less than 100 pieces' when it was privatised.

With the help of a diagram, explain why breaking up a natural monopoly in rail may affect long-run average costs.

[9 marks]

7. The graph shows the equilibrium position, point E, of a profit-maximising firm in a monopolistically competitive industry.



All other things being equal, which one of the following applies to the firm's equilibrium at point E? The firm is

A in short-run equilibrium, but not in long-run equilibrium. ⬭

B making normal profit because AC = AR. ⬭

C making supernormal profit because MC = MR. ⬭

D productively efficient but not allocatively efficient. ⬭

[1 mark]

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8. The economist Greg Mankiw has written that ‘society faces a trade-off between efficiency and equity. Efficiency means that society is getting the maximum benefits from its scarce resources. Equity means that those benefits are distributed fairly among society’s members. Often, when government policies are designed, these two goals conflict.’

Explain how a production possibility diagram can be used to illustrate some features of the fundamental economic problem.

[15 marks]

9. In December 2018, the Competition and Markets Authority (CMA) announced a range of policies to prevent firms charging existing customers more than new customers. Firms supplying financial services, mobile phones and broadband are no longer allowed to discriminate against loyal customers renewing their contracts.

Assess the view that price discrimination is always damaging.

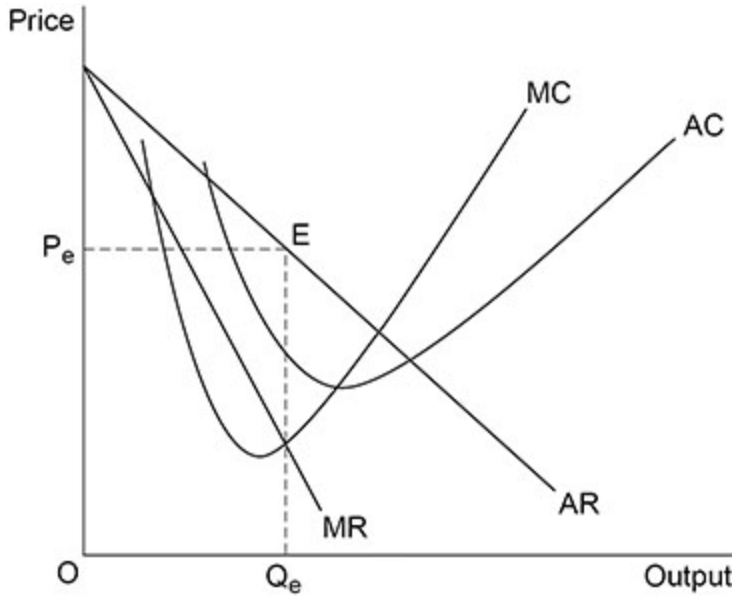
[25 marks]

10. Critics of the world’s five most valuable multinational technology firms (Google, Amazon, Apple, Facebook and Microsoft) argue that there ought to be greater government intervention to protect consumers’ interests. Several European governments are considering imposing new taxes on the revenues of such firms, rather than their profits.

Discuss whether governments should consider increasing the regulation and taxation of technology firms which have acquired significant global monopoly power.

[25 marks]

11. The diagram below shows the average and marginal revenue (AR and MR) curves and the average and marginal cost (AC and MC) curves for a firm. The firm is in equilibrium producing an output of Qe.



From the diagram it can be inferred that the

A firm is a price taker and will reduce its supply if the market price falls below P_e. ⬭

B firm is making abnormal profits but this will not attract new firms into the market because the firm has a monopoly. ⬭

C firm is maximising its abnormal profit and has no incentive to expand its production. ⬭

D firm's abnormal profit will lead it to expand its production and shift its market supply curve to the right. ⬭

[1 mark]

12. A monopolistically competitive firm's demand curve for good X has a price elasticity of demand of minus 1.0 throughout its entire range. All other things being equal, which one of the following is most likely to result in an increase in the firm's profits?

A A decrease in the cost of producing the good ⬭

B A decrease in the price of the good ⬭

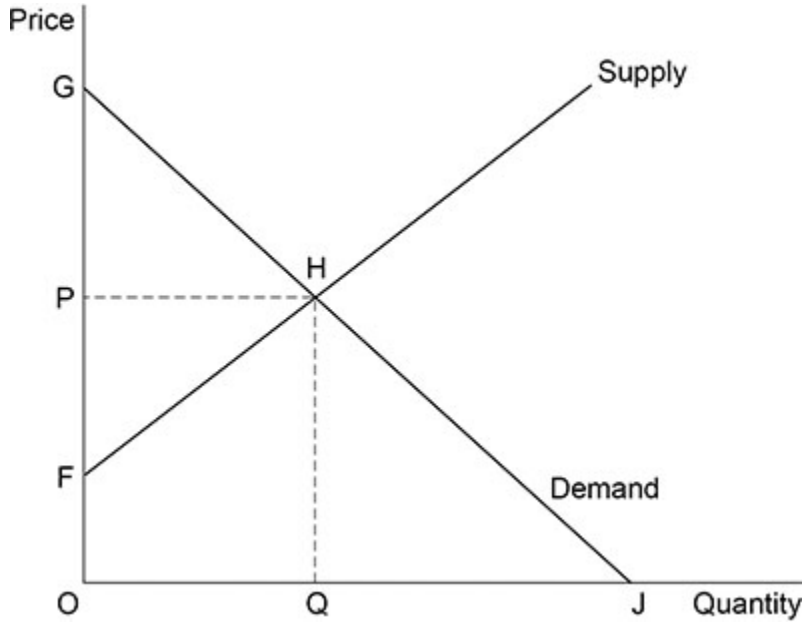
C An increase in the price of the good ⬭

D An increase in the scale of its operation ⬭

[1 mark]

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13. The diagram below shows the demand curve (Demand) and the supply curve (Supply) for bus travel within a city. The initial market equilibrium price is P.



To reduce pollution, the city council pays bus companies to provide bus travel free of charge. As a result of this policy, consumer surplus will increase by the area

A OFHJ ⬭

B FGH ⬭

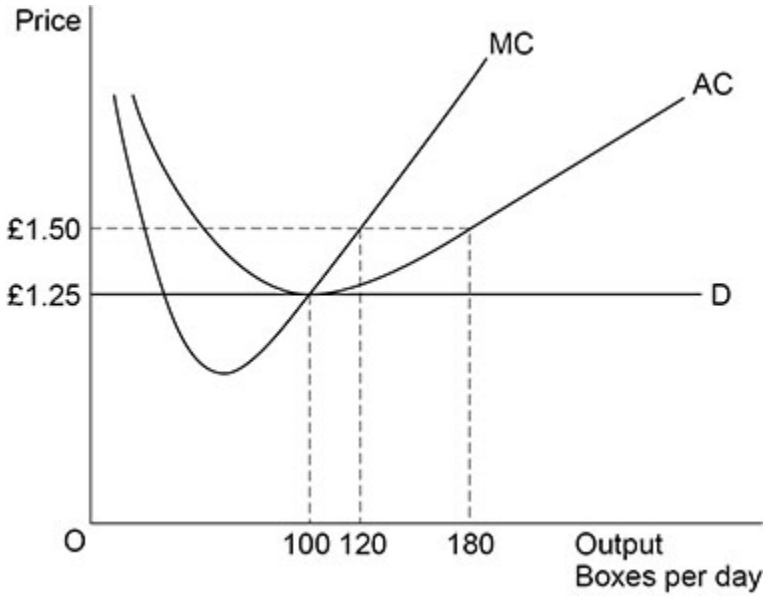
C OPHJ ⬭

D QHJ ⬭

[1 mark]

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14. The diagram below shows the demand (D) curve and the average and marginal cost (AC and MC) curves for a firm operating in a perfectly competitive market for eggs.



The firm is in equilibrium at the initial market price of £1.25 for a box of 6 eggs. If the market price increases to £1.50 for a box of eggs the firm will

A have a marginal revenue of £0.25. ⬭

B increase its average revenue by 20%. ⬭

C make supernormal profits in the long run. ⬭

D sell 180 boxes per day in the short run. ⬭

[1 mark]

15. Price comparison websites were used to purchase 53% of car insurance policies in 2017, improving competition and reducing prices for consumers. In other sectors, dominant firms such as Amazon have used innovation to capture market share. In the UK, 70% of online consumers say that Amazon is the first online retailer they visit when buying goods.

Evaluate the view that technological change tends to bring industries closer to the market structure of perfect competition.

[25 marks]

16. **Extract C** (lines 1–3) states: 'The market for most generic drugs is oligopolistic, with just two or three manufacturers making each product. This enables significant economies of scale within firms, but also presents the risk of consumer interests being harmed.'

Using the extracts and your knowledge of economics, assess the view that the market structure of the pharmaceutical industry is damaging for consumers.

[25 marks]

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17. Price comparison websites were used to purchase 53% of car insurance policies in 2017, improving competition and reducing prices for consumers. In other sectors, dominant firms such as Amazon have used innovation to capture market share. In the UK, 70% of online consumers say that Amazon is the first online retailer they visit when buying goods.

Explain how perfect competition should lead to outcomes which are **both** productively and allocatively efficient.

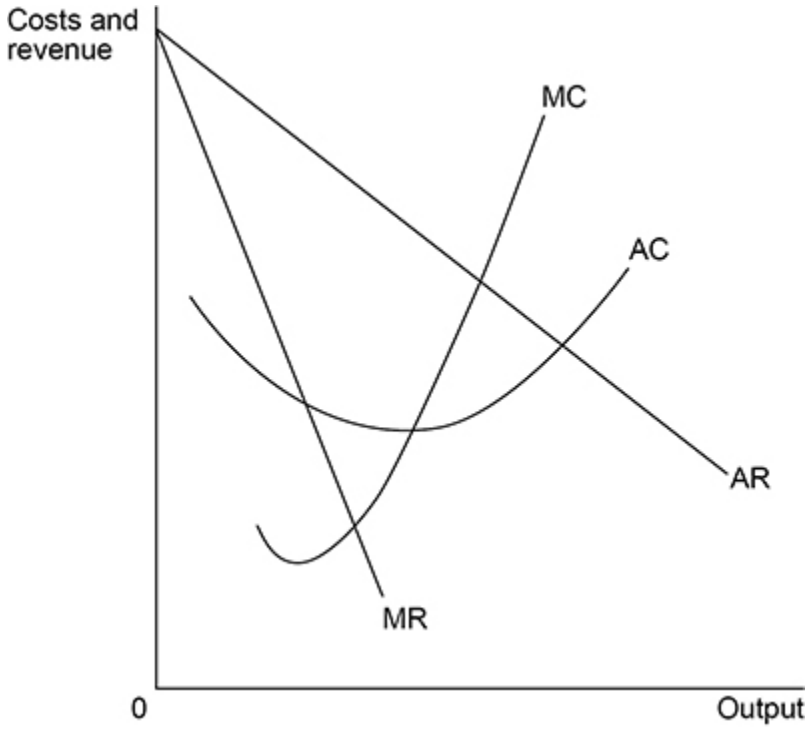
[15 marks]

18. **Extract B** (lines 9–10) states: 'After the monopoly's patent expires, other companies can manufacture and market the same drug under its generic name, usually at a lower price.'

With the help of a diagram, explain why prices of pharmaceutical drugs supplied by a monopoly are likely to be higher than in markets which are more competitive.

[9 marks]

19. The diagram below shows the average revenue and marginal revenue (**AR** and **MR**) curves and the average cost and marginal cost (**AC** and **MC**) curves for a firm in monopolistic competition in the short run.



At the profit maximising price and output the firm will

A make supernormal profits. ⬭

B produce the allocatively efficient output. ⬭

C produce where average revenue = average cost. ⬭

D set price equal to minimum average costs. ⬭

[1 mark]

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20. After considering **Extract D**, and the original evidence in **Extracts A**, **B** and **C**, would you recommend that the UK government provides financial and other support to companies involved in the production of commercial aircraft? Justify your recommendation.

[25 marks]

21. There is a reduction in the market demand for the product supplied by firms operating in a perfectly competitive industry.

All other things being equal, which one of the following will happen to firms' average and marginal revenue as a result of this change?

A Average revenue and marginal revenue will both fall. ⬭

B Average revenue and marginal revenue will not change. ⬭

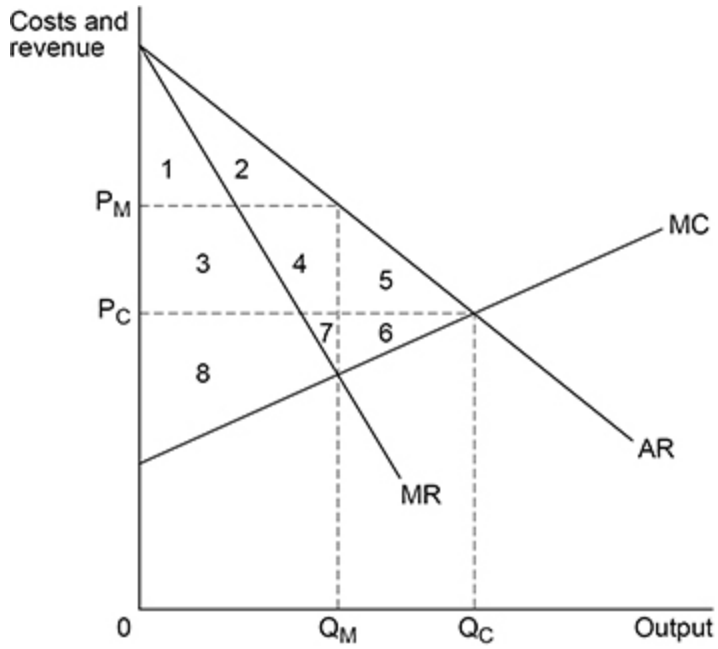
C Average revenue will fall and marginal revenue will increase. ⬭

D Average revenue will increase and marginal revenue will fall. ⬭

[1 mark]

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22. The diagram below shows the average revenue (**AR**), marginal revenue (**MR**) and marginal cost (**MC**) curves for an industry which was perfectly competitive but is now a monopoly. The cost and revenue curves remain unchanged.



Which of the following areas shows the total deadweight loss of consumer and producer surplus resulting from the structure of the industry changing from perfect competition to monopoly?

A 1 + 2 ⬭

B 3 + 4 ⬭

C 5 + 6 ⬭

D 7 + 8 ⬭

[1 mark]

23. **Essay 1**

The government has promised that everyone will be able to access superfast broadband by 2025. As more people have switched to studying and working remotely, good Internet connections have become more important. Low-income households have difficult choices to make between high-speed Internet and essential items such as food, heating and clothing.

Explain how the price mechanism allocates resources in a market economy.

[15 marks]

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24. A firm charging different customers different prices for the same product is practising

A limit pricing. ⬭

B marginal cost pricing. ⬭

C price discrimination. ⬭

D price leadership. ⬭

[1 mark]

25. **Extract E** (lines 16–17) states that, 'Supermarkets set prices interdependently, and price wars look very likely.'

With the help of a diagram, analyse the impact on grocery consumers of interdependence between supermarkets.

[9 marks]

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1. Is price discrimination always good for producers and bad for consumers? Justify your answer.

[25 marks]

2. '…given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised'
(**The Global Context Extract B**, lines 12–14).

Using the data and your economic knowledge, do you agree with the view that enterprises such as the MHPA should be privatised? Justify your answer.

[25 marks]

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3. THE GLOBAL CONTEXT

Extract B: Diminishing returns and food production

The British political economist Thomas Malthus (1766-1834) argued that because cultivatable land is in fixed supply, food production is subject to the law of diminishing returns and cannot keep pace with population growth. Technological improvements and international trade have meant that his gloomy predictions of famine and drought have largely been avoided, certainly for industrialised countries like the UK. Now that the world has more than 6 billion people, predicted to rise to 9 billion by 2050, there is a worry once again that diminishing returns will set in. Some estimates suggest that the world's undernourished could soon number over a billion people.

Genetically modifi ed (GM) crops are seen by some experts as providing a way around the problem of diminishing returns. Supporters of GM technology claim that by developing crops that are resistant to disease, drought, salty soil and flooding, more land can be cultivated and existing farmland used more efficiently. The result is improved agricultural productivity. They also claim that private goods like rice and tomatoes can be turned into merit goods by being modifi ed to contain vaccines or cures for diseases.

Anti-GM groups have mounted high profile campaigns against what the media have called 'Frankenstein foods'. In response, the British frozen food chain Iceland decided that there was a competitive advantage in announcing that all of its products would aim to be GM-free and the major British supermarkets quickly followed. Meanwhile, the UK Government's official position is that it has an open mind, and that its priority is to protect human health and the environment while being 'pro-consumer choice'. In the USA, the 'choice' argument has been undermined by the view that foods containing GM products need not be labelled as such.

Can GM crops really guarantee 'food security'? Critics claim that a lack of spending power, not food supply, is the real problem, with poor people in failing economies often starving in front of full stores and granaries. They also claim that GM crops cause negative externalities. For instance, their pollen can contaminate the crops of nearby organic businesses. Also, most GM crops are developed for resistance to weed-killers and pesticides, and this encourages farmers to use more chemicals, killing wildlife and reducing biodiversity. Furthermore, there are fears that eating GM foods might have long-term risks to human health which have yet to be fully investigated.

Regulations in Europe are so strict that it costs a seed manufacturer at least ten times as much to develop a new GM crop than a conventional crop. This means that only big companies can afford to develop them. Globally, the American company Monsanto controls the seeds on over 80 per cent of the world area of planted GM crops. Furthermore, Monsanto bans 'seed saving'. It uses patent laws to sue farmers if they save seeds for planting, rather than buying new seeds every year.

Almost every single piece of evidence on each side of the debate is contested, making it difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side-effects on human health.

Source: news reports, 2008 / 9

4. ‘On a typical train journey, there could be as many as twenty different fares being paid by passengers travelling between the same two stations.’

Using the concept of price discrimination to help you, explain how and why this might happen.

[15 marks]

5. Many of the world’s large companies, such as *Microsoft* and *Ryanair*, started out as small businesses.

Explain the different ways in which a firm can grow in size.

[15 marks]

6. ‘The law of diminishing returns is an economic principle which will definitely operate at some point, whereas economies of scale are less certain.’

Evaluate the view that firms will always try to minimise their costs and maximise their revenues.

[25 marks]

7. Explain the term ‘price taker’ **and** analyse the likely effects of an increase in the world demand for scrap metals on the output **and** profits of a scrap metal dealer (**The Global Context Extract B**, lines 1−4).

[9 marks]

8. Using the data and your economic knowledge, evaluate the view that mergers, such as the one proposed between *British Airways* and *Iberia Airlines*, are usually ‘good for consumers as well as for the companies involved’ (**The European Union Context Extract D**, lines 22−23).

[25 marks]

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9. THE EUROPEAN UNION CONTEXT

Extract D: *British Airways and Iberia Airlines*

Until about twenty years ago, most European countries had at least one large 'national carrier' airline which was in public ownership. When airlines were privatised, there were fears that a state-owned monopoly would simply become a private monopoly. On some routes, de-regulation took some time and it was not until 2008 that the 'Open Skies' agreement sought to eliminate anti-competitive practices among airlines flying from Europe to North America. These anti-competitive practices included denying smaller airlines the opportunity to rent landing slots (landing spaces) at major airports.

In the face of greater competition from smaller, more innovative airlines such as *Virgin Atlantic* and the low-cost carriers such as *easyJet*, there has been increasing collaboration between some of the larger, traditional companies. *British Airways (BA), Iberia Airlines (Spain) and American Airlines (AA)*, together with five other airlines, belong to *One World Alliance*, an arrangement which enables member airlines to sell seats on each other's flights.

With *BA* reporting a pre-tax loss of £401m in May 2009, its Chief Executive proposed a 'tie-up' with *Iberia* and *AA* which would come closer to a full-blown horizontal merger, enabling not only the marketing of flights but also joint pricing and a sharing of revenues. The proposal needed to be cleared by both EU and US anti-monopoly authorities, but it quickly failed when the European Union's Competition Commissioner objected, mainly on the grounds that it would raise prices and reduce consumer choice.

In October 2009, two European members of *One World Alliance, BA* and *Iberia*, tried again to reach a preliminary agreement for a full merger which they aimed to complete in late 2010. They claimed that a merger would be good for consumers as well as for the companies involved because duplicated European routes could be rationalised, while the routes operated in North America by *BA* and in South America by *Iberia* were complementary rather than competitive. The merger would need to be approved by the European Commission but there was a precedent because, in 2004, *Air France* was allowed to merge with Dutch airline *KLM*.

The merger between *BA* and *Iberia* would create Europe's biggest airline. Critics raised concerns about the new company's market share and claimed that *BA*'s dominance at Heathrow Airport would increase to even more than its existing 44% of landing slots. Meanwhile, both *BA* and *Iberia* workers were planning strikes over cost-cutting proposals and pay offers.

Source: news reports, 2009

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10. **THE GLOBAL CONTEXT**

Extract B: The recycling market

Scrap metal dealers are once again touring housing estates in their pick-up trucks obtaining steel and other metals from householders. Increased demand for steel and other metals on world markets has led to a change in the fortunes of these dealers, who are price takers.

Recycling has become a global activity. In 2009, with gold selling internationally at well over $1000 an ounce, there were TV adverts from companies wanting to buy unwanted jewellery. A mobile phone also contains tiny traces of precious metals which can be extracted profitably from the millions of phones discarded each year. This is done at large processing centres, usually near sea ports, and much of the recovered material is exported to factories in China. The Olympic stadium in Beijing, China, was built almost entirely using recycled steel.

Germans, Scandinavians and Canadians are used to sorting their rubbish into different coloured bins. But instead of matching the recycling rates achieved in some countries, the UK still dumps many potentially useful materials. These include plastics, glass, paper and metals, which are buried in landfill sites partly because there are insufficient market incentives for recycling. The UK's strong reliance on landfill indicates the existence of widespread environmental market failure. Landfill creates greenhouse gases, threatens to pollute water sources and wastes scarce resources.

Some critics suggest that it would be better for the UK to aim at waste reduction, eliminating unnecessary packaging and other 'bads' at the production and retail stages. The UK pressure group *Waste Watch* also suggests more reuse, for example encouraging people to buy second-hand clothes from charity shops. However, other methods, such as returnable milk bottles, are in sharp decline.

There are now landfill taxes and regulations which provide incentives for recycling. Households could face the prospect of fines for breaking 'bin-bag rules'. However, this may lead to unintended consequences such as illegal dumping of waste. *Waste Watch* wants national targets and other policies to promote composting because, by weight, garden and kitchen waste make up the majority of material sent to landfill. *Waste Watch* also suggests increasing the landfill tax each year and extending it to cover incineration and other waste-disposal methods.

Recovery is a further option. In less developed countries, some homeless people live on city rubbish dumps making a living from what they can find and sell. In the UK, market conditions are such that the metal in a 2p coin is now actually worth 3p. Some experts even predict that within ten years it will be economic to excavate landfill sites to 'mine' the tin cans and other scrap materials that have been buried there.

Source: news reports, 2009−10

11. Assess the view that making an oligopolistic market more contestable is the best way to improve the efficiency of that market.

[25 marks]

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12. ‘Oligopolistic markets, such as supermarkets or car manufacturing, can be defined in terms of market structure or in terms of market conduct (behaviour).’

Using examples of particular industries, explain this statement.

[15 marks]

13. Discuss whether the objective of profit maximisation becomes less important than other possible objectives as a firm grows in size.

[25 marks]

14. ‘The European Union (EU) wishes to improve the mobility and flexibility of labour’ (**The European Union Context Extract F**, line 6).

Evaluate the possible **costs** and **benefits** for the UK economy of the free movement of labour within the EU.

[25 marks]

15. Explain the term ‘Barriers to entry’ (**The Global Context Extract B**, line 20) **and** analyse **two** ways in which technological change can affect entry into creative industries such as recorded music.

[9 marks]

16. ‘Although monopolies are generally regarded by economists as undesirable, legallybacked monopolies created by IPRs can be justified as being in the public interest’ (**The Global Context Extract C**, lines 12 −14).

Evaluate the case for stronger action by governments to protect the monopoly power of firms involved in UK creative industries.

[25 marks]

17. An oligopolistic firm is trying to decide on the selling price and output of its product, and is also considering colluding with other firms in the industry.

Evaluate policies which a UK government could use to control the activities of oligopolists.

[25 marks]

18. ‘Bigger is better.... Small is beautiful.... Size does not matter.’

Discuss whether large firms in the UK today are necessarily more efficient than small firms.

[25 marks]

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19. **THE GLOBAL CONTEXT**

Extract C: The creative industries and intellectual property

The UK government regards the 'creative industries' as an important source of income and employment. This sector is defined as comprising 13 sub-sectors, including architecture, films, music, fashion, television and video games. The UK creative industries contribute nearly 8 % of annual Gross Domestic Product (roughly half the contribution of the manufacturing sector) and produce exports worth £10 bn (almost equal to oil industry exports). The creative sector is expected to grow at twice the rate of the rest of the economy between now and 2013.

The main distinguishing feature of a 'creative' industry is that it depends on intellectual property rights (IPRs). These include copyrights (e.g. for music, literature, art works and films), trademarks, patents, industrial design rights and trade secrets. In effect, IPRs enable creative people and businesses to enjoy a degree of monopoly power. This is strongest when IPRs are enforced throughout the world. Although monopolies are generally regarded by economists as undesirable, legally-backed monopolies created by IPRs can be justified as being in the public interest.

Source: news reports, 2008−9

20. **THE GLOBAL CONTEXT**

Extract B: Technological change and the recorded music industry

Technological change presents both threats and opportunities to the global music industry. Around the world in 2008, 1.4 billion song tracks were legally downloaded to computers and paid for over the internet. However, an estimated 40 billion tracks (over 95% of music downloads) were obtained illegally. From the point of view of people sharing and using these tracks, new technology has changed recorded music into a form of public good. To stay in business, record companies and retailers have to find ways of selling recorded music to people who do not want to pay because people expect everything on the internet to be free. Some politicians and industry representatives want to use the force of law to punish the people who download illegally, while some businesses, such as satellite broadcasters and computer games developers, appear to be using technology successfully in order to sell to paying customers and exclude 'free riders'. For example, *BSkyB* subscribers are sent a decoder card so they can access programmes.

While *iTunes* and others have had great success in selling downloads, CD sales are still important for on-line retailers like *Amazon*, traditional high street music stores such as *HMV* and *Virgin* and the large supermarkets. These sellers of music in physical format are taking on the new digital competition with aggressive pricing, persuasive TV advertising and differentiated products such as special edition CD box sets.

Many new and established artists have used the internet to their advantage. It is possible to record a song in a bedroom, place a clip on *YouTube* and go on to sell to a global market. Barriers to entry have changed and the music industry as a whole has to be creative to compete in new ways that build upon legal downloading and the on-line selling of CDs.

Source: news reports, 2008−9

21. Evaluate whether profit maximisation is always the most important objective of firms.

[25 marks]

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22. An oligopolistic firm is trying to decide on the selling price and output of its product, and is also considering colluding with other firms in the industry.

Explain why oligopolistic firms are affected by both interdependence and uncertainty when selling their product.

[15 marks]

23. 'A pharmaceutical company can expect to make supernormal profits on a new drug or medicine in the short run.'

Explain why some firms might be able to **continue** to make supernormal profits in the **long run.**

[15 marks]

24. Evaluate the view that, providing there is market contestability, government intervention to ensure competition is unnecessary.

[25 marks]

25. Explain why competition might lead to **both** productive efficiency **and** allocative efficiency.

[15 marks]

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1. ‘Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets.’
(**Extract C**, lines 15–16).

Using the data and your knowledge of economics, assess the arguments for and against the UK electricity industry being brought back into public ownership.

[25 marks]

2. In January 2012, a BBC consumer programme reported that British nationals living in Florida were paying £3000 for a return flight to London, while the same airline was charging British tourists flying from London £300 for a return flight to Florida.

Explain the market conditions that enable firms to charge different customers different prices for a product.

[15 marks]

3. Assess whether price discrimination is always undesirable.

[25 marks]

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4. THE GLOBAL CONTEXT

Extract B: Supplying the energy market: the case of Milford Haven

For hundreds of years, the harbour of Milford Haven in West Wales has responded to changes in the global economy. It has accommodated many global activities, including trade, defence, transport and tourism. These activities are often in potential conflict with the environment. Although it is surrounded by the Wales coastal footpath and the *Pembrokeshire National Park*, Milford Haven contains two massive oil refineries, several leisure marinas, an international car ferry port and quays for what little remains of the West Wales fishing industry.

Milford Haven Port Authority (MHPA) is a nationalised enterprise, accountable to the *Department of Trade and Industry* in London. Ports have often developed historically as 'public works' due to their strategic importance and because of the large amount of investment needed to build port installations. Governments are trying to reduce the size of the public sector in order to improve efficiency and competition. However, given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised. For example, the MHPA has argued that privatisation would reduce its ability to take part in infrastructure projects in public-private partnerships. These partnerships involve a variety of companies and government bodies at local, regional, national and international levels.

A major strategy adopted by the MHPA involves anticipating and reacting to changes in the global energy market. The boom years of North Sea oil and gas, which created high wages in skilled jobs for northern ports such as Aberdeen, are drawing to a close. Global oil and gas markets are often concentrated markets. For this reason, as well as for reasons of ensuring security of supply, new sources such as biofuels and other diverse forms of energy are being sought.

The MHPA, together with the UK government, has negotiated a long-term deal with the government of Qatar in the Arabian Gulf for the supply of liquefied natural gas (LNG). This is sent to Milford Haven in refrigerated container ships and then stored in huge tanks at the port. When the gas is warmed up, it expands to 600 times its liquefied volume. The gas is sent through a new pipeline to a pumping station 150 miles away in Gloucestershire. It is then distributed into the UK national grid for industrial and domestic use. This is an example of a public-private partnership in action.

The distribution of fuels such as gas and oil involves some negative externalities. There was controversy when the new pipeline was laid through attractive Welsh countryside, including the *Brecon Beacons National Park*. Some 15 years ago, the oil tanker *Sea Empress* sank near the entrance to Milford Haven and it took the local economy several years to recover from the environmental impact of the resulting pollution. Given the recent environmental experiences of BP in the Gulf of Mexico, environmentalists are concerned about the possibility of some sort of disaster arising from the storage or movement of LNG.

There are also concerns about the UK's possible over-reliance on a single product (LNG) from a monopoly source (the state of Qatar) and a single distribution channel (the Pembroke-Gloucester pipeline). Supporters of the MHPA strategy claim that the LNG business actually aids consumer choice and competition through diversification, adding gas installations to the existing oil and renewable energy installations in and around the port. The MHPA states that safety and the prevention of environmental incidents are the 'most important priorities' of their business.

Sources: news reports and industry information, 2010

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5. ‘Most people would say that the ending of the BT telephone monopoly, and competition in the telecommunications market, have been beneficial. However, Britain’s railways show why some monopolies should not be replaced by a number of competing firms.’

Evaluate the view that consumers are always better off and producers are always worse off if monopolies are broken up to encourage as much competition as possible.

[25 marks]

6. Critically assess the proposition that perfect competition will always result in an efficient allocation of resources, no matter what good or service is being produced and consumed.

[25 marks]

7. Explain why the average and marginal revenue curves of a perfectly competitive firm are horizontal, while those of a monopoly slope downwards.

[15 marks]

8. ‘While some economic theories become dated, the theory of perfect competition has become more realistic over time.’

Discuss whether technological developments, such as the internet, are making markets more competitive and making perfect competition theory more realistic.

[25 marks]

9. Explain why a perfectly competitive firm might be regarded as statically efficient while a monopoly might be regarded as dynamically efficient.

[15 marks]

10. ‘Consumers might have doubts about the effectiveness of regulators such as OFGEM’ (**The European Union Context Extract E**, line 13).

Using the data and your economic knowledge, assess methods that could be used by the UK government and the EU to promote competition in the supply of domestic gas.

[25 marks]

11. Thirty years ago the computer market was dominated by one huge monopoly called IBM (International Business Machines). Today, most people have never even heard of IBM. Newer companies such as Microsoft, Apple and Google have grown rapidly to become very competitive giants.

Evaluate the view that competition policy is never necessary because, in the long run, market forces will ensure that monopolies cannot abuse their power and will not last.

[25 marks]

12. Explain what is meant by an ‘oligopolistic market’ (**Extract F**, line 14) **and** analyse why such a market might lead to ‘sticky’ gas prices (**The European Union Context Extract E**, line 16).

[9 marks]

13. **THE EUROPEAN UNION CONTEXT**

Extract F: The ‘Butane Man’

One reason why it is difficult to regulate gas in the same way across all 27 member states of the Single European Market is that most EU states do not have well-developed pipeline distribution networks. Spain, Portugal, Greece and Ireland are leading the way in the process of catching up. In Spain, for example, where most of the population live near town centres in apartments that were built some time ago, there has been a strong tradition of using liquid petroleum gas (LPG). The ‘Butane Man’, who regularly delivers gas cylinders to households, has much the same standing in popular culture as the traditional ‘milkman’ in the UK. A recent proposed strike by butane delivery workers was regarded as a very serious threat by Spanish media, government and consumers.

Putting homes onto the gas mains is least costly when new housing estates are being built, meaning that such houses can all be connected at the same time. It is often forgotten that there are over 4 million homes in the UK not connected to gas mains and which therefore rely on deliveries of LPG. It would also appear that the market for LPG is a highly concentrated oligopolistic market, with just four main suppliers: Shell, BP, Calor and FloGas. However, the market is unregulated and, according to OFGEM, this is because it is not dependent on a pipeline and therefore is ‘not a natural monopoly’.

However, in 2011, a BBC consumer affairs programme alleged that these companies were carrying out anti-competitive practices, such as locking consumers into long-term contracts, and that a smaller new entrant, Extra Gas, was the only company with transparent prices on its website. The programme found 30 houses in one neighbourhood all paying different prices, ranging from 35p to 52p per litre, with companies apparently charging the highest prices to customers using the least gas. While their MP called for OFGEM to get involved, one group of 51 households in a village in Devon saved £14 000 a year between them by forming a buying group and negotiating a single contract with a petroleum gas supplier.

Sources: news reports, 2011

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14. **THE EUROPEAN UNION CONTEXT**

Extract E: Getting gas to market

In the EU as a whole, there are over 72 million domestic consumers of piped natural gas. The largest consumers of piped gas are Belgium, France, Germany, Italy, the Netherlands and the UK. In the UK, six energy companies control 99% of the market for natural gas. *British Gas*, the privatised utility, dominates the market with over 50% market share. There are no signs, at present, of any significant new entrants to the market.

The EU Commissioner for Energy has called for the 'Europeanisation' of energy policy. The Commissioner argues that it is necessary to assure all EU consumers that their energy sources are safe, competitive, efficient and sustainable. To help achieve this, the *Agency for the Cooperation of Energy Regulators* (ACER) was launched in 2011 as an agency of the EU. At present, it has an advisory and coordinating role across the EU, rather than a regulatory one. In the UK, The *Office for Gas and Electricity Markets* (OFGEM) is the main regulator for piped natural gas.

Consumers might have doubts about the effectiveness of regulators such as OFGEM. In August 2011, price increases averaging 18% were announced for piped natural gas, while general inflation was 4.5%. Observers noted that, while wholesale prices were volatile, domestic retail prices tended to follow them upwards and then became 'sticky' and unlikely to follow them downwards. One problem is that there is very little storage capacity in the UK. OFGEM does not directly regulate prices, and is far more concerned with the ease with which consumers can switch between suppliers.

Sources: news reports, 2011

15. The UK government is considering building a high-speed train line (known as HS2) linking London with cities in the north. It is claimed that HS2 will enable significant reductions in journey times for passengers and goods.

Explain the likely short-run and long-run effects of investment in infrastructure projects such as HS2 on both labour **and** product markets in the UK.

[15 marks]

16. Thirty years ago the computer market was dominated by one huge monopoly called IBM (International Business Machines). Today, most people have never even heard of IBM. Newer companies such as Microsoft, Apple and Google have grown rapidly to become very competitive giants.

Explain the main sources of monopoly power.

[15 marks]

17. Explain the distinction between 'monopsony power' and 'oligopoly' (**The European Union Context Extract E**, line 5) **and** analyse how the market power of supermarkets can affect the profitability of dairy farms.

[9 marks]

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18.

Small, independent coffee shops face competition from large multinational companies with well-promoted brands. In the High Street of a major British city, one such independent business advertises in the following way:

‘Cappuccino or Pot of Tea: £1.19 before 12 noon; £1.39 during lunch time (12 − 2.30 pm); and only 99p after 2.30 pm.’

Economists sometimes analyse small and large businesses through a ‘structure, conduct, performance model’ and consider such issues as a ‘divorce’ of ownership from control.

Discuss ways in which the size of firms and the structure of the coffee-shop market might affect the conduct **and** performance of the firms within it.

[25 marks]

19.

Small, independent coffee shops face competition from large multinational companies with well-promoted brands. In the High Street of a major British city, one such independent business advertises in the following way:

‘Cappuccino or Pot of Tea: £1.19 before 12 noon; £1.39 during lunch time (12 − 2.30 pm); and only 99p after 2.30 pm.’

Explain how such a pricing strategy is influenced by price elasticities of demand, revenues and costs.

[15 marks]

20.

In recent years, the EU has decided that the agricultural sector must become ‘more responsive to market forces’ (**The European Union Context Extract F**, line 12).

Using the data and your economic knowledge, discuss whether UK farming would benefit from greater responsiveness to market forces and less intervention by the UK government and the EU.

[25 marks]

21.

The European Commission prevents mobile phone networks from colluding on ‘roaming charges’ when consumers travel around Europe. Meanwhile, the EU has forced mobile phone manufacturers to cooperate in making a single design of phone charger.

Evaluate the view that governments should never intervene to influence how oligopolists collude or cooperate on such issues as fixing prices, varying output, conducting research, developing products, or carrying out any other aspect of their business.

[25 marks]

22. **THE EUROPEAN UNION CONTEXT**

Extract F: The EU milk market

Over recent decades, the governments of most industrialised countries have intervened in their agricultural markets to offer support through subsidies and other measures. In Europe, agriculture employs less than 5% of the workforce, while agricultural intervention has traditionally taken about 50% of the EU budget.

Aimed at limiting state spending on the dairy sector, controlling milk production, and stabilising both milk prices and producer incomes, the EU introduced a milk quota system in 1984 as part of the Common Agricultural Policy (CAP). Milk quotas place a limit on the amount of milk that a farmer can sell every year without paying a 'levy' or penalty to the EU. The CAP has forced dairy farmers to work below capacity and even to dump milk, damaging the EU's reputation for economic efficiency.

The EU plans to end milk quotas in 2015 and wants agriculture to be less influenced by government intervention and more responsive to market forces. As quotas are removed, farms might be expected to become fewer, larger and more intensive. In Spain, for example, the industry has been allowed three times as much milk output since 1993, while the number of dairy farms has fallen drastically and productivity has risen. Meanwhile, like the UK government, the Spanish government has intervened to try to negotiate new pricing contracts between farmers, food processors and retailers. There is always a risk that government intervention in such negotiations in any market can adversely affect efficiency.

Sources: news reports and government information, 2012

23. **THE EUROPEAN UNION CONTEXT**

Extract E: British milk from British cows

Milk is the single largest part of the UK agricultural sector by value of output. Almost all the milk in the UK is purchased by just six major processors who then sell on to a market dominated by five or six large supermarket chains. UK dairy farmers complain that while they have to act competitively as price takers, there is a combination of some degree of monopsony power and oligopoly standing between the farms and the public. They claim that dairy processors have too much power when they buy milk from the farms and, in turn, the market for the processors' output is dominated by the buyers working for large, powerful supermarkets, which then sell to the public as oligopolists.

The supermarkets argue that British producers are in a weak position because alternative sources of cheap milk are available for import. The farmers claim that this argument is unsustainable because, if they were forced into bankruptcy, consumers would have no alternative but to buy imported milk which would no longer be offered at low prices.

In 2013, there were concerns about complicated supply chains across Europe resulting in a lack of traceability in meat products, leading to problems such as supermarket beef burgers containing horse meat. If more dairy farms go out of business, similar problems might occur with milk.

Sources: news reports and government information, 2013

24. Explain how the determination of prices and output by oligopolists is affected not only by the reactions of their customers, but also by their interdependence with other producers.

[15 marks]

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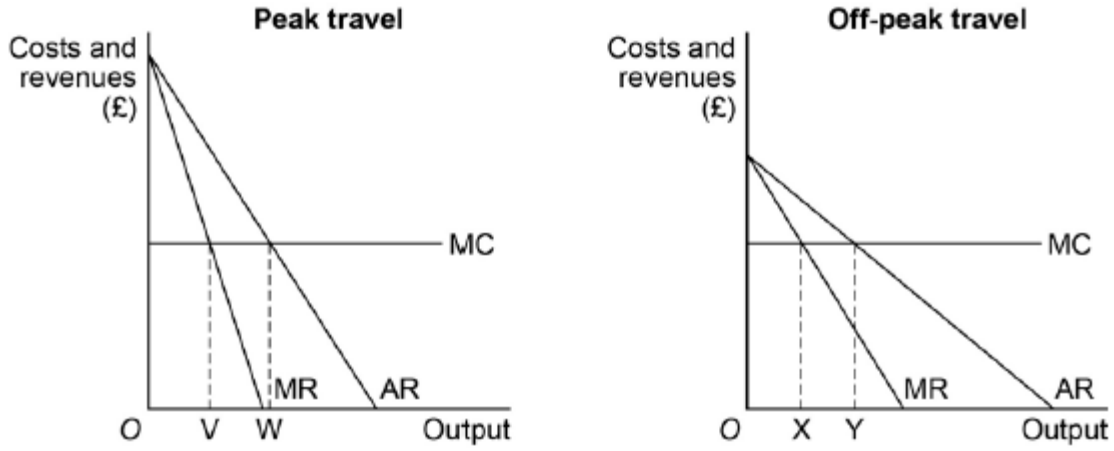
25. ‘The internet has benefited small firms and has helped to make some markets more competitive.’

Explain why this might be the case.

[15 marks]

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1. The diagrams below show the peak and off-peak travel markets for a price-discriminating train operating company. The firm is a monopolist and the costs in both markets are the same.



To maximise profits, how much should be supplied in each market?

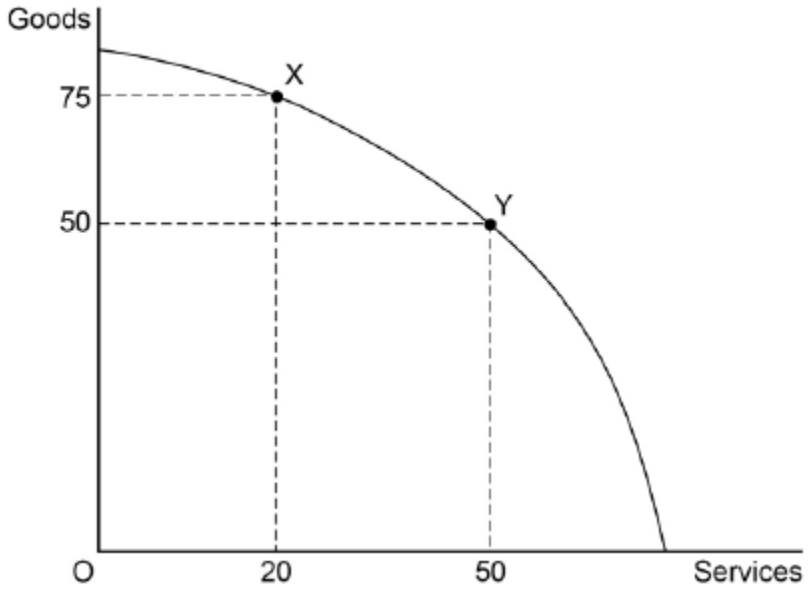
	Peak travel	Off-peak travel	
A	OV	OX	⬭
B	OV	OY	⬭
C	OW	OX	⬭
D	OW	OY	⬭

[1 mark]

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2. The diagram below is a production possibility curve showing the various combinations of goods and services that an economy can produce.

Which one of the following can be deduced from the diagram?



A Point Y is allocatively efficient but Point X allocatively inefficient ⬭

B Point Y is productively efficient but Point X productively inefficient ⬭

C The opportunity cost of producing more goods, in terms of services, is greater at Point Y than at Point X ⬭

D The opportunity cost of producing more goods, in terms of services, is lower at Point Y than at Point X ⬭

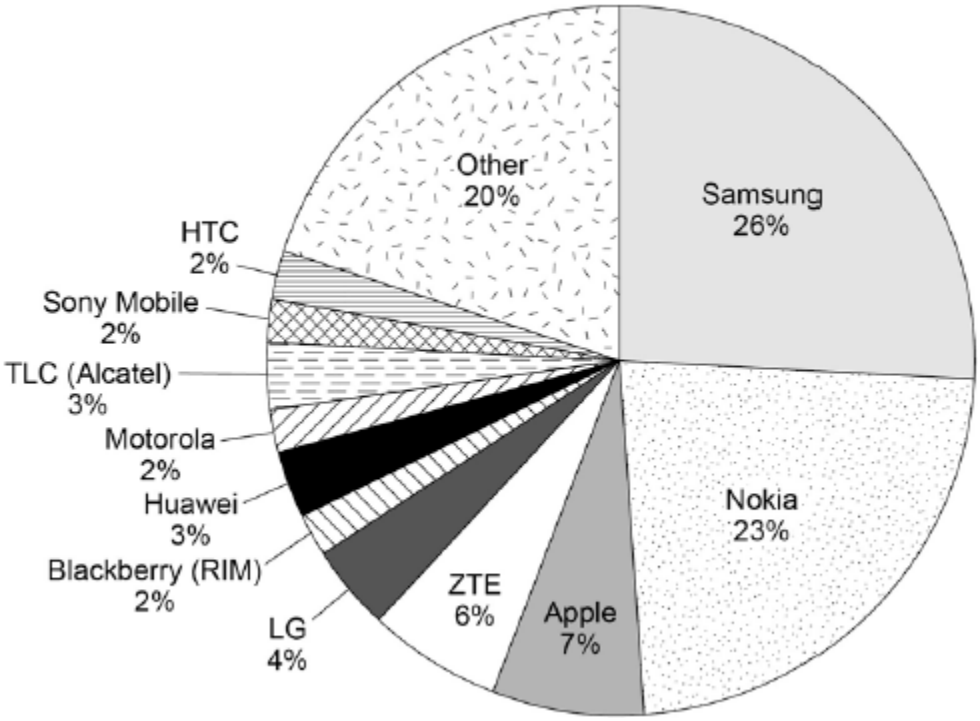
[1 mark]

3. Explain what is meant by 'supernormal profits' (**The Global Context Extract B**, line 21) and analyse the likely effects on an electricity company of a one-off windfall tax that would take a percentage of its supernormal profits.

[9 marks]

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4. The table below shows the market share of mobile phone handset producers in 2012.



From the data, what is the 5 firm concentration ratio?

A 62% ⬭

B 66% ⬭

C 69% ⬭

D 82% ⬭

[1 mark]

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5. THE GLOBAL CONTEXT

Extract C: Some international trends

Some of the costs facing firms in the electricity market are domestic, such as, the charges levied by the companies who own the transmission cables. However, many input costs are determined internationally, including coal, gas and even labour costs. For example, npower, which is owned by a German company, recently announced plans to cut 1400 office and call centre jobs (about 15% of its UK workforce) as part of a major re-structuring, outsourcing them to India. While reducing labour costs this way, it increased prices by 10.4 per cent.

The costs of producing electricity could go down if the UK adopts fracking, a process widely used in the USA. Fracking involves the use of chemicals to extract oil and gas from rocks deep underground. In the USA, electricity prices have fallen as a result of the production of shale gas using this controversial process. Would there be a similar reduction in electricity prices in the UK? Some economists predict that this will not be the case. American shale gas is sold within the USA, whereas, without government intervention, UK gas is more likely to be exported via pipelines to generators on the Continent, to take advantage of high prices there.

Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets. They claim that this is due to differences between the two industries, such as the type of product sold, entry barriers, minimum efficient scale, company objectives, effects of technological change and international factors.

Source: News reports, 2013

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6.

THE GLOBAL CONTEXT

Extract B: The Big Six

The UK electricity industry used to be a nationalised state monopoly. In the 1980s, a process of privatisation of utilities began with the stated aims of increasing competition, efficiency and investment. Now, in theory, competing generating companies produce electricity and sell it wholesale to competing supply companies to sell retail to final customers. In practice, the markets have become dominated by six large-scale multinationals (the Big Six). There are about ten smaller firms which are mainly involved on the retail side but some have generating capacity, such as wind farms.

There is evidence that, while the wholesale costs of generating electricity differ quite considerably, retail prices charged to customers all end up being very similar. Critics say that the market is not working efficiently for various reasons, including insufficient separation between generating and selling electricity. The main concern of the regulator, Ofgem, has been to promote consumer choice. It has therefore encouraged consumers to consider switching suppliers. Prime Minister, David Cameron, has suggested that customers should shop around as they would when buying groceries from supermarkets. The generators are now charging prices which have given profit margins of between 8 and 32 per cent, while the retailing divisions have profit margins of 5 or 6 per cent.

For comparison, supermarkets can operate on profit margins as low as 2 or 3 per cent. The electricity companies claim that they have to make high profits in order to invest. Critics argue that supermarkets also have to invest, and are more genuinely competitive.

In 1997, the Labour Government announced a one-off windfall tax on the privatised utilities, which took a percentage of their supernormal profits (also referred to as 'abnormal' or 'excess' profits). This was done to put right the bad deal customers and taxpayers were alleged to have got from privatisation. In 2013, when Leader of the Opposition, Ed Miliband, announced a possible future government policy of freezing energy prices for 20 months, the companies claimed this would hit investment in much needed new generating capacity.

Source News reports, 2013

7.

Profit maximising monopolies are said to be allocatively inefficient due to

A their marginal revenue being greater than their marginal cost. ⬭

B their average revenue being greater than their average cost. ⬭

C their average revenue being greater than their marginal cost. ⬭

D their marginal revenue being equal to their marginal cost. ⬭

[1 mark]

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8. The law of diminishing returns is an economic principle which will inevitably affect firms in the short run, whereas it is not always possible for firms to achieve economies of scale.

Evaluate the view that firms will always try to minimise their costs and maximise their revenues.

[25 marks]

9. In August 2013, the UK government argued that there needed to be greater competition in energy markets in the UK.

Evaluate the view that if markets can be made more contestable there is no need for further government intervention.

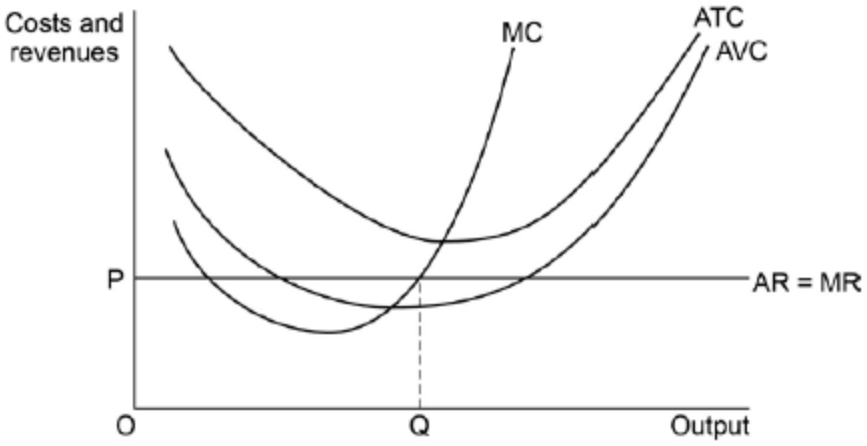
[25 marks]

10. 'In tackling environmental problems there is not really a straight choice between perfectly performing markets on the one hand, and wonderfully wise governments on the other.' (**Extract C**, lines 18 – 19).

Using the data and your knowledge of economics, assess the relative importance of market forces and government intervention in encouraging businesses to behave responsibly towards the environment.

[25 marks]

11. The diagram below shows the cost and revenue curves for a firm in a perfectly competitive market.



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All other things being equal, the firm

A is making a loss in the short run but will remain in the market in the long run. ⬭

B is making a profit and will remain in the market in the long run. ⬭

C will exit the market immediately to minimise its loss. ⬭

D is minimising its loss by staying in the market in the short run. ⬭

[1 mark]

12. In August 2013, the UK government argued that there needed to be greater competition in energy markets in the UK.

Explain why a lack of competition is likely to lead to allocative and productive inefficiency in markets such as the market for energy.

[15 marks]

13. 'In the real world of business, two observations can consistently be made. Firstly, sooner or later, the law of diminishing returns will operate; and secondly, over time, profit maximising is always a key goal.'

Evaluate the view that, for all firms, whether small or large, in the long run, profit maximisation is always more important than any other business objective.

[25 marks]

14. **The UK energy market Extract B** (lines 11−12) states that there is 'no evidence of collusion between energy suppliers to date.'

With the help of a diagram, explain how collusion between energy suppliers could affect the retail prices paid by consumers.

[9 marks]

15. It is generally accepted that we need to adopt new ways of charging for the use of our roads. This is partly because of worsening congestion, but is also due to the reduction in revenue generated from taxes on fuels as a result of more fuel-efficient vehicles.

Assess the view that a system of road-pricing is the best way to tackle the problem of worsening traffic congestion in the UK.

[25 marks]

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16. Apple sells iPhones and iPads at considerably lower prices in the USA than in the UK market, but sources the products from the same factories in the Far East.

Discuss the view that price discrimination only benefits suppliers, such as Apple.

[25 marks]

17. Apple sells iPhones and iPads at considerably lower prices in the USA than in the UK market, but sources the products from the same factories in the Far East.

Explain why firms, such as Apple, might be able to charge different prices for the same product in different markets.

[15 marks]

18. Explain how the data in **The UK energy market Extract A** show that energy companies have exploited their market power.

[4 marks]

19. **The UK energy market**

Extract B: Are energy firms exploiting their market power?

The UK energy market was privatised in the early 1990s and is dominated by six firms, British Gas, EDF Energy, E.ON, Npower, Scottish Power and SSE. These firms supply, produce and own energy reserves. Gas is the main source of fuel used by electricity generators.

The increase in household fuel bills has been a cause of rising inflation in recent years. In autumn 2013, prices were increasing at three times the rate of inflation. Energy prices have risen faster than average earnings and 6.5 million households were spending over 10% of their incomes on energy and so experiencing 'fuel poverty'.

Are the oligopolistic energy utilities exploiting their monopoly power? Firms raise prices quickly when their wholesale costs increase, but are slow to reduce them when market conditions change. The energy regulator, OFGEM, doesn't regulate prices or profits, but aims to promote greater competition in the market. OFGEM has found no evidence of collusion between energy suppliers to date.

Wholesale energy costs are responsible for around half the final domestic bill. Suppliers buy energy on the wholesale market from energy producers. Contracts are complex and firms buy energy to cover their future needs. A generator may sell energy to a supplier within the same company before it is sold on to the consumer. The determination of wholesale prices and their link to retail prices aren't clear.

UK households faced over 1756 different price plans in early 2013. This makes it difficult for consumers to compare rates and few consumers switch supplier. In 2013 OFGEM intervened to fix the maximum number of price plans to four per firm; this should bring greater price transparency.

Source: News reports, October 2013

20. **The UK energy market**

Extract A: Average household dual fuel bills August 2009−2013 (£)

	2009	2010	2011	2012	2013
Household bills	1145	1105	1250	1310	1420
Wholesale energy costs per bill	615	485	585	625	635
Profit per bill	10	55	45	50	95

Source: Contains public sector information licensed under the Open Government Licence v. 1.0

21. During 2015, the European Commission investigated allegations that people booking at Disneyland Paris, and on the cruises of some shipping lines, paid substantially different prices for the same holiday. British and German customers appear to have paid more than French customers.

Explain the conditions that enable price discrimination to take place.

[15 marks]

22. 'In the middle of the twentieth century, the UK had more than 20 large car producing companies, and countless small, local manufacturers, many of which also produced motorbikes and pedal cycles. Now there is no single car producer that is purely 'British' and, globally, there are probably fewer than 20 significant car producers in the world.'

Evaluate whether growing market concentration and monopoly power, in an industry such as motor manufacturing, are necessarily undesirable.

[25 marks]

23. Sony, one of the largest electronics and entertainment companies in the world, started out as a two-man operation in a back-yard garage. Facebook, now a huge global company, was created by two college students to enable their circle of friends to communicate with each other.

Since economies of scale give major advantages to large firms, is there any future, without government intervention, for small firms in a global economy? Justify your answer.

[25 marks]

24. 'In the middle of the twentieth century, the UK had more than 20 large car producing companies, and countless small, local manufacturers, many of which also produced motorbikes and pedal cycles. Now there is no single car producer that is purely 'British' and, globally, there are probably fewer than 20 significant car producers in the world.'

Explain how economic theory suggests that perfect competition among many small firms leads to an efficient allocation of resources.

[15 marks]

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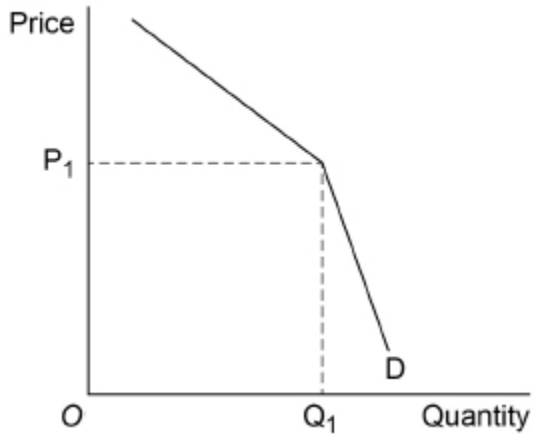
25. During 2015, the European Commission investigated allegations that people booking at Disneyland Paris, and on the cruises of some shipping lines, paid substantially different prices for the same holiday. British and German customers appear to have paid more than French customers.

Evaluate the view that price discrimination is always good for producers and bad for consumers, and should therefore be banned by regulators such as the EU Commission.

[25 marks]

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1. The diagram below shows the kinked demand curve (D) for a firm operating in a competitive oligopolistic market.



The kinked demand curve model provides an explanation of why the

A firm colludes with competitors to set the price of $0P_1$. ⬭

B firm's demand curve becomes more elastic as it lowers its price. ⬭

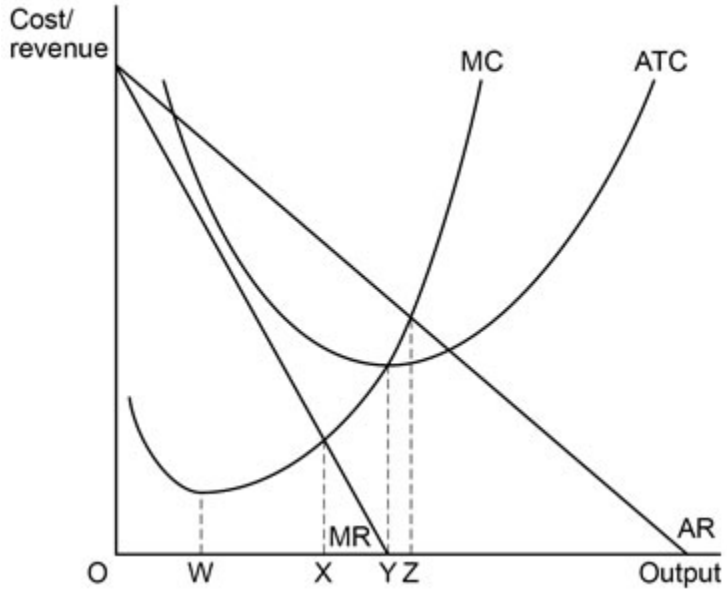
C firm's price changes depend on competitors' pricing behaviour. ⬭

D firm won't change its price from $0P_1$ even if competitors change their prices. ⬭

[1 mark]

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2. The diagram below shows the cost and revenue curves for a monopoly.



At which one of the following levels of output would the firm be productively efficient?

A OW ⬭

B OX ⬭

C OY ⬭

D OZ ⬭

[1 mark]

3. 'The UK government would be happy with state control of British railways "as long as it's not the British state"' (**Extract C**, lines 19 – 21).

Evaluate, using the data and your knowledge of economics, the case for and against the UK government privatising public services while allowing foreign ownership of these services.

[25 marks]

4. 'A third runway at Heathrow is essential for the success of the economy of London and the UK.'

'A third runway at Heathrow would be an environmental disaster and cause huge market failure.'

Explain how an investment project, such as airport expansion, can be commercially successful and yet produce market failure.

[15 marks]

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5. Which one of the following provides a reason for government intervention in a market?

A Firms in an oligopolistic market may limit price competition. ⬭

B Market failures can only be corrected by using regulations. ⬭

C Monopolistically competitive firms earn abnormal profits in the long run. ⬭

D Public goods are excludable and rival. ⬭

[1 mark]

6. Using a diagram, analyse how subsidised prices could affect firms in an industry, such as steel, which has a global market.

[9 marks]

7. Roughly £18bn is forecast to be spent in the UK on advertising in 2017. Much of this will be spent by monopolistically competitive firms or oligopolies seeking to differentiate the products they sell to consumers.

Explain how price and output are determined for a firm in a monopolistically competitive market, in both the short run and the long run.

[15 marks]

8. **Extract C** (line 2) states that 'Many competitors are using digital technology to drive innovation'.

Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition.

[25 marks]

9. Roughly £18bn is forecast to be spent in the UK on advertising in 2017. Much of this will be spent by monopolistically competitive firms or oligopolies seeking to differentiate the products they sell to consumers.

Evaluate the view that government regulation of monopolistically competitive markets is unnecessary, and that policies to encourage competition and prevent the abuse of monopoly power should focus entirely on oligopolies and monopolies.

[25 marks]

10. Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency.

[4 marks]

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11. Which one of the following is most likely to measure the degree of competition in an oligopolistic industry?

A The price elasticity of supply in the industry ⬭

B The profitability of the 10 largest firms in the industry ⬭

C The three firm concentration ratio ⬭

D The value of the Gini coefficient ⬭

[1 mark]

12. Using the data in **Extract A (Figure 1)**, calculate the three-firm concentration ratio in the UK parcels delivery market. Give your answer, as a percentage, to **one** decimal place.

[2 marks]

13. Globalisation can make some product markets more contestable.

Which one of the following characteristics of globalisation is the most likely explanation for such an increase in contestability?

A A reduction in protectionism ⬭

B Greater synchronisation of economic cycles between countries ⬭

C Higher levels of labour migration ⬭

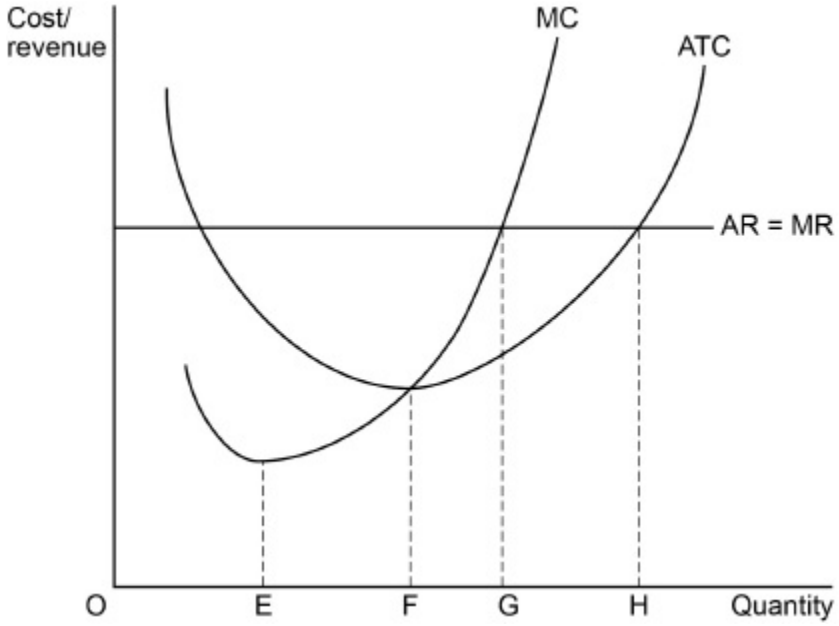
D The growth of employment in emerging market economies ⬭

[1 mark]

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14. The diagram below shows a firm operating in perfect competition in the short run.

Which quantity, **OE**, **OF**, **OG** or **OH**, indicates the output where profits are maximised?



A OE ⬭

B OF ⬭

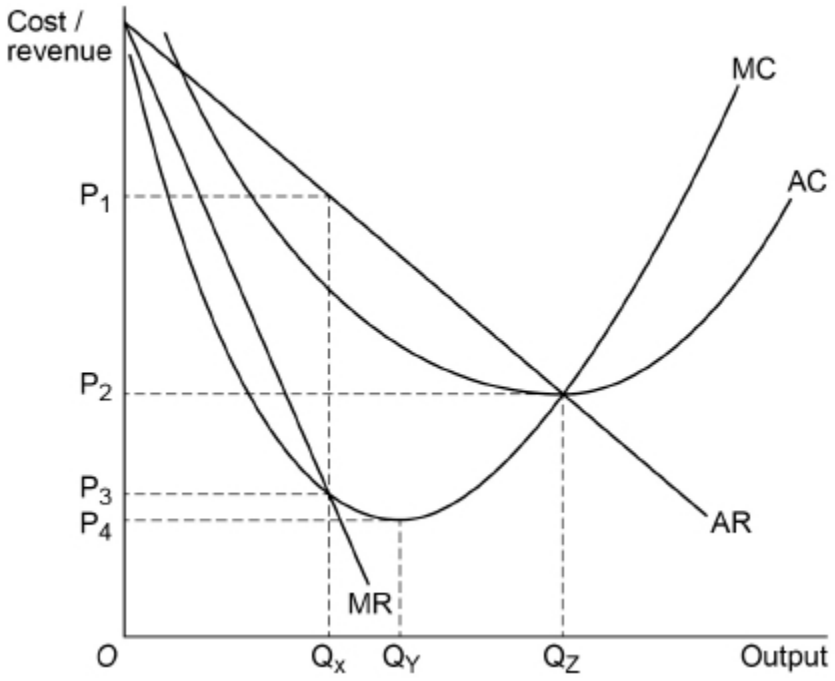
C OG ⬭

D OH ⬭

[1 mark]

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15. The diagram below shows the average revenue and marginal revenue (AR and MR) curves, and the average cost and marginal cost (AC and MC) curves, for the only firm in an industry.



If the market is highly contestable, in the long run, the firm is most likely to set its price at

A $0P_1$ ⬭

B $0P_2$ ⬭

C $0P_3$ ⬭

D $0P_4$ ⬭

[1 mark]

16. In the United States, corporate profits since 2010 have averaged 9% of GDP, compared to 5% in the 1990s. This is causing concern that the US economy is increasingly dominated by companies with monopoly power.

Evaluate the view that a firm making low profits must be inefficiently managed.

[25 marks]

17. **Extract E** (lines 14–16) states that 'The market economy is not going to create the jobs by itself for those workers who are most affected by the change.'

Extract F (lines 4–5) states that 'taxing productivity-enhancing tools like robots or machines makes no economic sense.'

Use the extracts and your own knowledge of economics to evaluate whether governments should allow markets to respond freely to the opportunities and challenges presented by technological progress, without any state intervention.

[25 marks]

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18. In the United States, corporate profits since 2010 have averaged 9% of GDP, compared to 5% in the 1990s. This is causing concern that the US economy is increasingly dominated by companies with monopoly power.

Explain the role of profit in a market economy.

[15 marks]

19. **Extract B** (lines 4-6) states that 'banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks.'

Use the extracts and your knowledge of economics to assess the view that the government should intervene further in the banking sector to promote greater competition.

[25 marks]

20. Explain how the data in **Extract D** show that workers employed in routine, repetitive work are at greater risk from automation.

[4 marks]

21. Explain how the data in **Extract A** show that the market power of the Big Four banks is weakening against competition from smaller rivals.

[4 marks]

22. **Extract C** (lines 10–11) states that 'There is ample opportunity for new players to enter the sector.'

With the help of a diagram, explain how the lowering of barriers to entry in the banking market might lead to lower prices and a situation in which banks make normal profit.

[9 marks]

23. Using **Extract A**, calculate the ratio of customers gained to customers lost by Nationwide. Give your answer correct to **one** decimal place.

[2 marks]

24. A monopolistically competitive firm's demand curve is

A also the market demand curve. ⬭

B inelastic throughout its length. ⬭

C the firm's average revenue curve. ⬭

D the same as its marginal revenue curve. ⬭

[1 mark]

25. Several loss-making retailers including Homebase, House of Fraser and Poundworld have had to decide whether to shut down operations or carry on while making losses. In contrast, the music-streaming firm Spotify was valued at $27 billion in 2018, despite never having made a profit in any year since it was founded. Spotify has been more focused on expanding market share.

Discuss the validity of the traditional economic assumption that the main objective of firms is to maximise profits.

[25 marks]

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