A-level
ECONOMICS

Paper 1 Markets and market failure

Tuesday 6 June 2017 Afternoon Time allowed: 2 hours

Materials
For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is 7136/1.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1 **Total for this context: 40 marks**

Privatisation of Royal Mail

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A: UK parcels delivery market

Figure 1: UK parcels delivery market shares by revenue, 2015

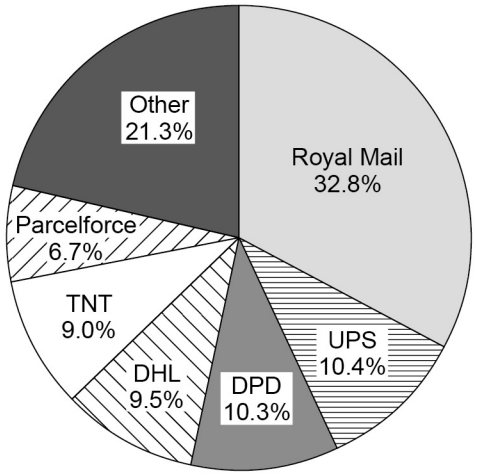
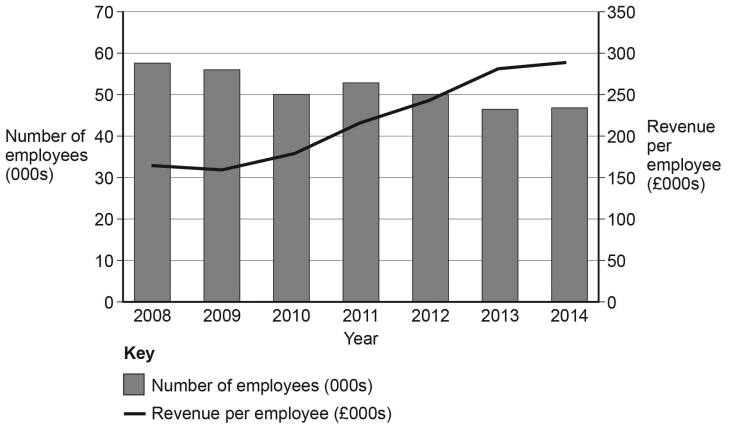


Figure 2: Employees and revenue per employee in the UK parcels delivery market



Source: Apex Insight Industry Report, 2015

Extract B: The privatisation of Royal Mail

Royal Mail has started a new chapter after the government ended 499 years of public ownership by selling off its remaining stake. Although critics have suggested that the government undervalued the company, total proceeds of the sale amount to £3.3 bn. The newly privatised company will have to cope with structural decline in the number of letters sent in the UK (Royal Mail has a near monopoly in this market), as well as fierce competition in the parcels delivery market, which is rapidly growing because of the growth of online shopping.

A review of Royal Mail is under way by the regulator Ofcom, triggered by concerns that the withdrawal of Whistl, a smaller rival in the door-to-door letters delivery market, means the postal operator has no competitive pressure to improve services and become more efficient. Ofcom is considering whether the price Royal Mail charges competing courier companies, such as Whistl or Amazon, to access its own delivery network are fair. It is also examining whether Royal Mail's Universal Postal Service obligations are reasonable. The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week, unlike its competitors. Some consumer organisations have claimed that increased competition in the parcel market has led to a worsening service for rural and remote consumers, including problems such as non-deliveries and lengthy journeys to collect undelivered items.

Competitive pressures on Royal Mail's profits may require the firm to cut costs. Pay negotiations with workforce representatives are set to begin but the powerful Communication Workers Union is likely to fight any redundancies. Analysts say that this could make it harder for management to find cash for investments to boost competitiveness.

Source: News reports, October 2015

Extract C: Technological innovation in the postal market

Parcel operators compete with Royal Mail both on price, and technological and service innovations. Many competitors are using digital technology to drive innovation, such as notifying customers within a 15-minute window of delivery or interactive services to redirect deliveries. The parcel delivery firm DPD has recently built Europe's largest parcel distribution centre, a £100 million facility in Leicestershire that hints at a future where technology largely replaces labour. In the main, people are only involved in unloading and loading, as well as monitoring operations. This investment reveals the transformation under way in the UK's £8.3 bn parcel delivery market, which is rapidly expanding in response to the sharp growth in online shopping. Three conveyor belts loop its warehouse, where a parcel can enter the system, be scanned and sent to one of 172 possible exit doors within 90 seconds. Once running at full capacity, the facility will be capable of sorting 70 000 items an hour and the company expects to process more than 1 million parcels on its busiest nights.

By contrast, at Royal Mail's national distribution centre, workers wait for metal cages to be filled with parcels before rolling them across the warehouse floor. However, changes are afoot as Royal Mail clings to its dominant share of the parcel market, with some distribution centres accepting dispatches from retailers on Sundays. Royal Mail is also introducing equipment such as 'finger scanners' that allow workers to pick up and scan parcels more efficiently, as well as handheld smart devices for 76 000 frontline staff at a cost of £130 million.

Source: News reports, December 2015

0 1 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]

0 2 Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency.

[4 marks]

0 3 **Extract B** (lines 12–14) states that 'The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week'.

With the help of a monopoly diagram, explain how the Universal Postal Service obligations are likely to affect Royal Mail's costs **and** profits.

[9 marks]

0 4 **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]

Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2 **Total for this context: 40 marks**

The gender pay gap

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

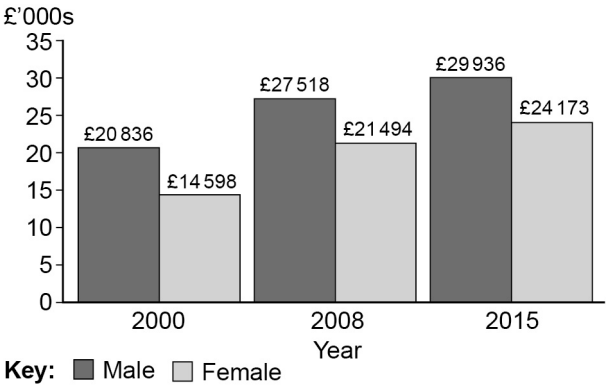
Extract D

Figure 3: Differences between male and female wages and employment in selected countries

Selected countries	Wage gap (%)	Female labour force participation rate (%)	Male labour force participation rate (%)
Japan	27	66	85
Norway	15	76	80
Slovenia	3	67	74
UK	18	72	83
USA	17	67	78
OECD* average	17	68	80

Source: Official statistics, 2016

Figure 4: Full-time annual earnings before tax, UK, 2000 to 2015



Source: Official statistics, 2016

*The OECD is the Organisation for Economic Co-operation and Development.

Extract E: Causes of the gender pay gap

Since the Equal Pay Act 1970, it has been illegal to pay men and women differently for the same work. Despite this, the overall pay gap is 19.2%, according to the Office of National Statistics. The pay gap for full-time workers is lower, at 9.4%, and the gap for part-time workers is actually negative, at -6.5%. In the UK, 41% of female workers are part-time, compared to only 11% of males.

Prior to the Equal Pay Act, it was common to find firms paying women less than men for comparable work, but since then discriminatory attitudes have lessened to the extent that some economists deny that the wage gap is a problem at all. A recent report found that women working in the same job, and at the same level, are paid just 0.8% less than their male equivalents. Certainly, the pay gap has been shrinking, partly due to demographic and social changes. In earlier times, most senior, highly paid jobs were held by men, while women of the same generation stayed at home. The Government claims that 2.2 million women who are not working want to work. They believe that increasing the female labour force participation rate could add 10% to the size of our economy by 2030, as well as benefiting women directly.

Interestingly, women in their twenties currently out-earn men and it is only when they reach their thirties, and perhaps start a family, that the pay gap starts to emerge. Is this due to employers undervaluing female staff once they have had a baby, or to outdated social conventions that women should be the main childcarers? Most of the highest paid jobs in

finance, engineering, science and technology are predominantly populated by men, while most of the lowest paid jobs, like caring and hospitality, are largely done by women. 80% of those working in the low paid care and leisure sector are women, compared to only 10% in the better paid skilled trades. The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination.

Source: News reports, April 2016

Extract F: Tackling the gender pay gap

In 2016, the UK Government unveiled plans for a league table ranking firms by their gender pay gap. Companies with more than 250 employees will have to disclose how the salaries of their male and female staff differ. The Government hopes that this league table, of around 8 000 firms, will draw attention to the worst culprits. The Chartered Management Institute commented that shining a light on what men and women are paid at every level…is proven to speed up progress and would boost business productivity. But the Confederation of British Industry have warned that rankings unfairly name and shame firms as data will only be able to present a partial picture, given factors such as the mix of part-time and full-time working.

Trade unions have also questioned whether information alone is sufficient to bring about change. Unions have a role in supporting women to achieve promotions, negotiate better pay and obtain flexible working practices, such as part-time work, homeworking, paternity leave and on-site crèches. Should the government policy be to encourage women to join trade unions? Some economists suggest that the gender pay gap is halved for women who are union members compared to those who are not. Other suggestions include raising National Minimum Wage rates to increase the incomes of low-paid women and to encourage firms to appoint women to company boards. Women hold only 23.2% of posts on the boards of directors of large British firms, whereas Norway requires that large companies fill 40% of board positions with women. The UK Government recognises the need to raise aspirations and attainment for girls. The last decade has seen successful initiatives promoting traditionally male academic courses and careers to girls and young women.

Source: News reports, February 2016

0 5 Using the data in **Extract D (Figure 3)**, calculate the mean female labour force participation rate for the five countries listed. Give your answer to **one** decimal place.

[2 marks]

0 6 Explain how the data in **Extract D (Figure 4)** show that the degree of inequality between the pay of male and female workers is falling.

[4 marks]

0 7 **Extract E** (lines 22–23) states that 'The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination'.

With the help of a diagram, explain how the difference between the marginal revenue product of male and female workers might account for the lower average earnings of women.

[9 marks]

0 8 **Extract F** (lines 19–20) notes that 'The UK Government recognises the need to raise aspirations and attainment for girls'.

Use the extracts and your knowledge of economics to evaluate the policies that government might use to reduce the gender pay gap.

[25 marks]

Section B

Answer **ONE** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

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.

0 9 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]

1 0 Evaluate the view that government regulation of monopolistically competitive markets is unnecessary, and that polices to encourage competition and prevent the abuse of monopoly power should focus entirely on oligopolies and monopolies.

[25 marks]

OR

Essay 2

Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

1 1 Explain the main causes of poverty in the UK.

[15 marks]

1 2 To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

OR

Essay 3

In 2018, the UK Government will impose a new tax on sugary drinks, aimed at tackling obesity. Behavioural economists believe that taxation alone is unlikely to be very effective in reducing consumption. By 2050, obesity is predicted to affect 60% of adult men, 50% of adult women and 25% of children. It is associated with a range of health problems including type 2 diabetes, cardiovascular disease and cancer.

1 3 Explain why, in a free market, sugary drinks may be overconsumed.

[15 marks]

1 4 Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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