Rewarding Learning

**ADVANCED**

**General Certificate of Education**

# Economics

## Assessment Unit A2 1
*assessing*
Business Economics

AEC11

## [AEC11]
## Assessment

**Assessment Level of Control:**
**Tick the relevant box (✓)**

| | |
|---|---|
| Controlled Conditions | |
| Other | |

**TIME**

2 hours.

**INSTRUCTIONS TO CANDIDATES**

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Section **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

**INFORMATION FOR CANDIDATES**

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

**ADVICE TO CANDIDATES**

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **4, 5(b)**, **(c)** and **(d)**, **6** and **7**. Quantitative skills will be assessed where appropriate.

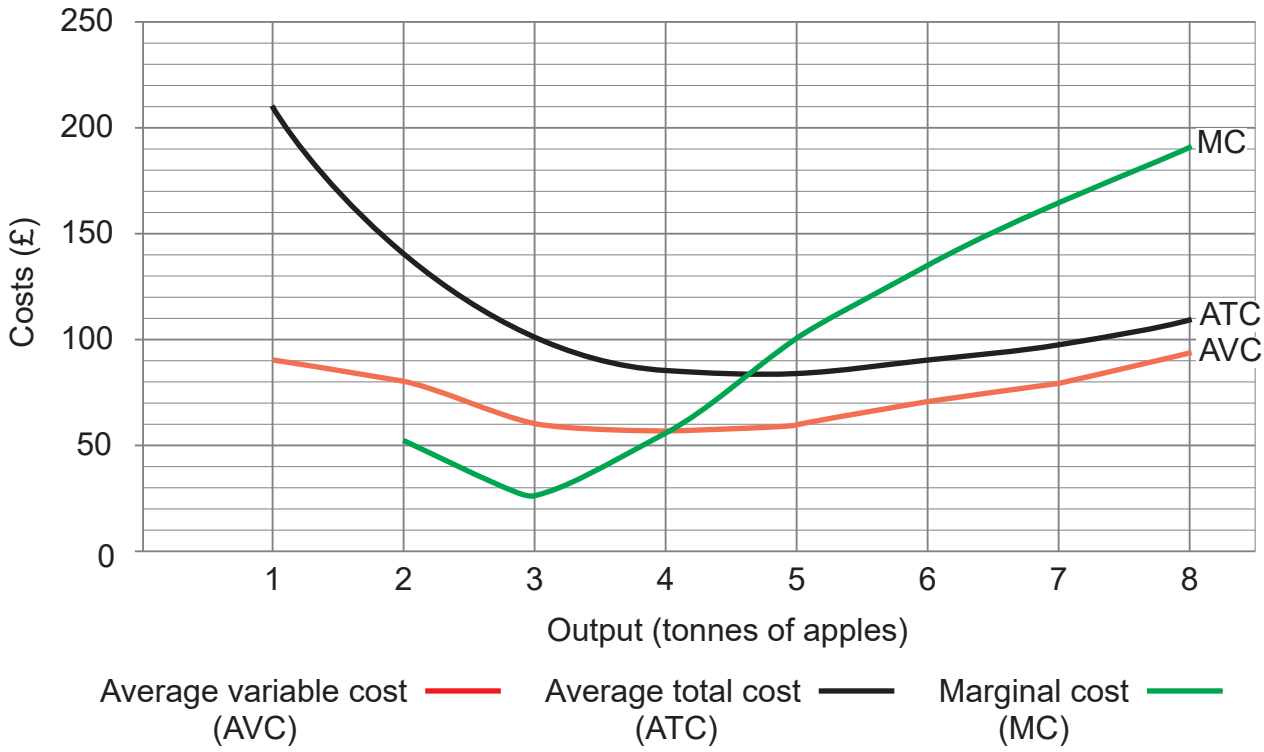
## Section A (20 marks)

### Answer all questions

**1** A proposed £51 billion pound merger between Asda and Sainsbury's was blocked in April 2019 by the Competition and Markets Authority. Had it gone ahead the merged company would have had a 31.8% share of the UK grocery market. In October 2017, craft brewer Galway Bay Brewery bought a bar on Belfast's Ormeau Road. This was one of a number of bars the company has bought in the last nine years.

Using the information above explain the difference between vertical and horizontal integration. [3]

**2** The graph below shows selected costs for an apple farmer operating in a perfectly competitive market.




**(a)** From the information in the graph calculate the firm's Total Fixed Costs. [3]

**(b)** Explain whether the firm should continue to produce in the short run if the market price of apples was £70.00 per tonne. [4]

**3** The profit payoff matrix below refers to two pharmaceutical companies, Eazee Drug and BR Laboratories. It illustrates the impact on their profit depending on whether or not each firm decides to invest in the production of a new drug.



| | | BR Laboratories | |
|---|---|---|---|
| | | Invest | Don't invest |
| Eazee Drug  | Invest | £10 million / £10 million | −£5 million / £60 million |
| | Don't invest | £60 million / −£5 million | £3 million / £3 million |

Using the information in the profit payoff matrix above, explain the best investment strategy for Eazee Drug regardless of the decision of BR Laboratories. [4]

**4** Looking Glass Windows is a double glazing company owned by Susan Donnelly. She is the sole shareholder and retains all the profit made by the company.

She employs Eric Magee as the sole sales representative. His earnings are calculated as 15% of sales revenue.

Using an appropriate diagram, explain why Susan and Eric might disagree over the appropriate price at which to sell the windows. [6]

## Section B: Case Study (40 marks)

### Answer all questions

The following passages were adapted from various sources in August 2018. Read the articles carefully and answer the questions which follow.

**5 Case study: "Britain's broken railways"**

**Source 1: "Unjustifiable" fare hike met with protests from commuters and unions**

Transport Secretary Chris Grayling has dismissed calls for a freeze on rail fares, as it emerged the prices of many tickets are likely to increase by 3.2% next year. Mr Grayling conceded that recent services had been "unacceptable" and he was "hugely frustrated" by it all, but cautioned that introducing a freeze on ticket price increases would only result in "cuts in investment".

**How do train fares compare to inflation?**

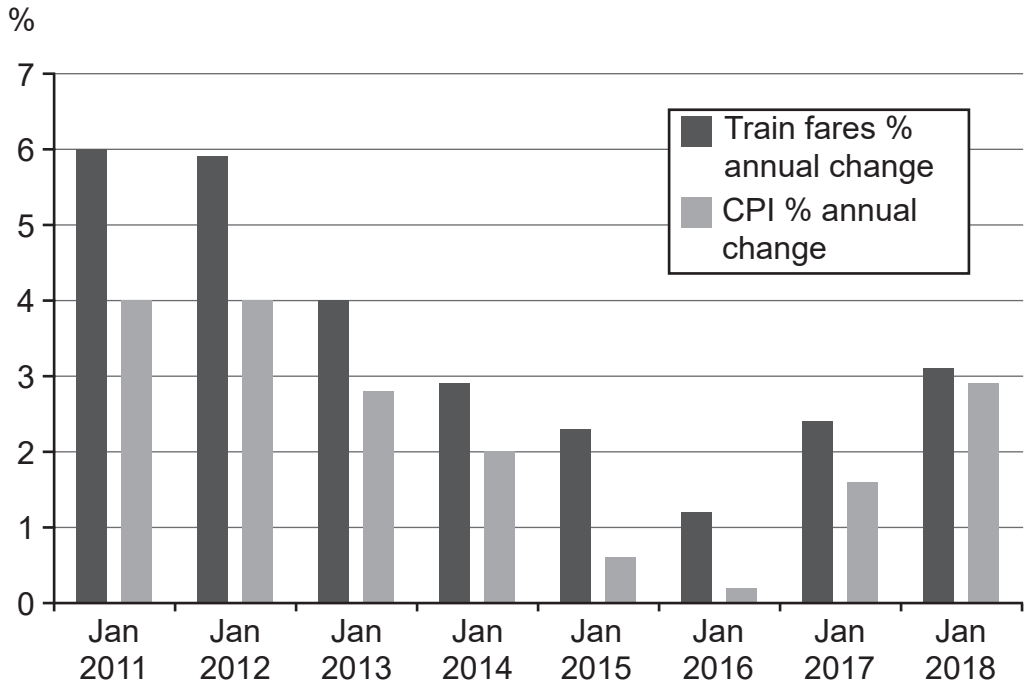



**Fig. 1: Changes in train fares and Consumer Prices Index (CPI) inflation 2011–2018**

Paul Plummer, Chief Executive of the Rail Delivery Group, which represents the railway industry, said: "Fares are underpinning a once-in-a-generation investment plan to improve the railway and it is politicians who effectively determine that season ticket prices should change in line with other day-to-day costs to help fund this." Mr Plummer went on to claim that 98p of every pound was invested back into the railways. However, many experts question the accuracy of this and other statistics quoted in the railway debate!

**Source 2: The structure of Britain's railways**

The railways in Britain comprise a number of components.

Network Rail owns, operates and develops Britain's railway infrastructure; that's 20 000 miles of track, 30 000 bridges, tunnels and viaducts and the thousands of signals, level crossings and stations. All of this infrastructure leads to high fixed costs for Network Rail. Network Rail is a public sector arms-length body. Any profit made is reinvested in the rail network.

Train operating companies run passenger services, leasing and operating stations from Network Rail. They apply to the Department of Transport for franchises to run services on specific routes. For example, Southern runs services to the South of London, including Gatwick Airport. With the exception of LNER, which came under government control in 2018, the train operating companies are privately owned companies.

The Office of Rail and Road is responsible for regulating the railways. It promotes competition and ensures consumer rights are upheld.

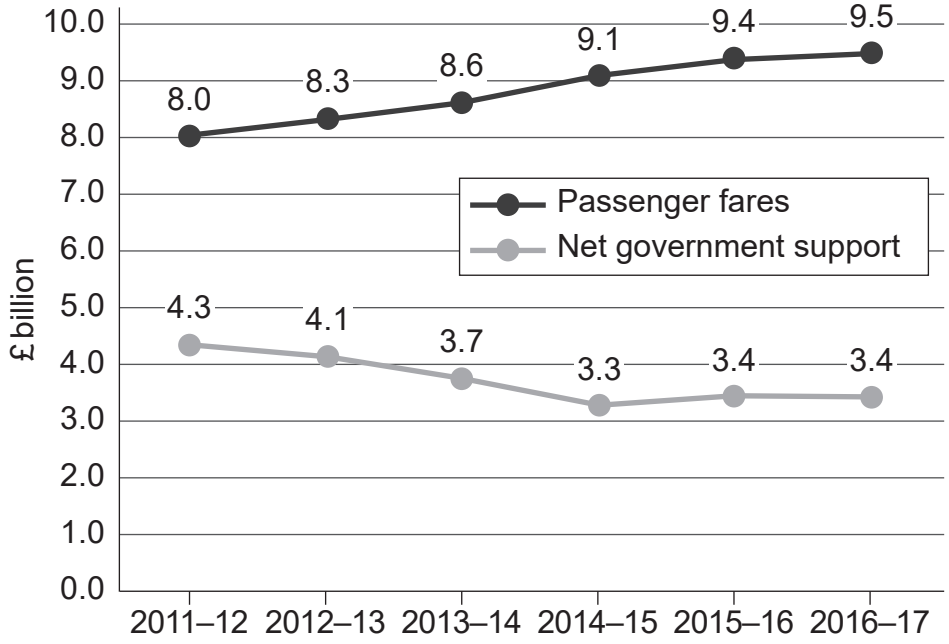



**Fig. 2: Revenue from fares and net government support to train operating companies 2011–2017**

Britain's privatised railways have been getting billions of pounds in government support over the last few years. Government support for the rail industry isn't the same thing as total public spending on rail. In 2016/17 about £15 billion was spent on railways in total. Part of that went to the government-owned Network Rail. However, as can be seen from **Fig. 2** above, the train operating companies are now receiving more of their income from passenger fares and less from government subsidy. In part this is due to a rise in passenger numbers, but the government has also reduced the amount of subsidy paid.

**Source 3: Who should run the railways?**

Critics argue that fare increases are only one aspect of the current failure in the rail industry. In 2018, following the failure of the franchise, the government took the East Coast mainline back into public ownership, renaming it LNER. The line had previously been renationalised in 2009 and only returned to private ownership in 2015. All of the railways receive a significant amount of government support.

Labour leader Jeremy Corbyn said of the train fare increase: "Today's train fare increases are an insult to everyone who has suffered from the chaos on Britain's railways. The Government's shambolic mismanagement of our railways has been a national embarrassment and they must now step in to freeze fares charged on the worst performing routes." He asserted that Labour would go even further by "bringing the railways into public ownership so they are run in the interests of passengers, not private profit".

However, not everyone is in favour of renationalisation. Eve Smith of the think tank Market First argued that: "People forget that the nationalised British Rail ran a poor service of filthy, outdated, late-running trains. More people than ever now travel by train and rail travel has never been safer. Competition on some lines, for example between Yorkshire and the North East of England, has helped to drive fares down. Nationalisation would lead to a poor service for consumers, a lack of investment in new trains and less well-off taxpayers in the North of England footing the bill to subsidise wealthy commuters in the South East."

**(a)** Using the information in **Fig. 1**, explain what happened to the price of train fares in real terms between 2011 and 2018. [4]

**(b)** Explain why Network Rail could be considered a natural monopoly. [9]

**(c)** With the aid of an appropriate diagram, examine the impact of a maximum price for train fares on **both** consumers **and** the train operating companies. [12]

**(d)** Critically examine whether the Labour Party policy of renationalising the railways would benefit the economy. [15]

## Section C (30 marks)

### Answer one question

**6** Almost everyone wears glasses at some point in their lives. Just two companies have risen above all the rest to dominate the industry. Essilor, a French multinational, controls almost half of the world's prescription lens business. Luxxotica, controlling brands such as Ray-Ban, Prada and Sunglass Hut, makes 25% of the world's frames. Despite this high degree of concentration, regulators in the EU and USA decided that the merger of the two companies was in the public interest and permitted it to go ahead.

Critically examine the view that the merger of large companies can never be in the public interest. [30]

**7** The UK burger business is now worth £3.3 billion in annual sales. It has many of the characteristics of monopolistic competition. Because you just need a grill and meat, market entry is easy. But to be successful and have some price making power you need something unique – the monopolistic part. Recent years have seen a growth of smaller companies with more expensive burgers. Some companies emphasise the quality of their ingredients, perhaps using organic beef. Others may rely on a strong brand image with loud music and quirky designs.

Critically examine the view that monopolistic competition is preferable to any other form of market structure. [30]

**THIS IS THE END OF THE QUESTION PAPER**

## Sources

**Section A,Q1**.....Adapted from "Sainsbury's-Asda merger blocked by regulator", 25 April 2019 © BBC News
and Adapted from "Galway brewery taking over Belfast Brewbot bar on Ormeau Road" by John Mulgrew, 10 October 2017
© Belfast Telegraph
**Section A, Q3**.....© Getty Images x 2
**Section B, Q5 Text**.....Adapted from "Transport Secretary Chris Grayling dismisses calls for rail fares freeze with prices likely to rise 3.2% next year" by Chris Choi. 15 August 2018 © ITV News / Adapted from "UK rail fares could rise by 3.2% as commuters voice frustration" by Gwyn Topham, 15 August 2018 © The Guardian / Adapted from "Anger as rail fares increase by 3.2% after months of commuter hell" by Andrew Gregory, 16 August 2018. Published by The Mirror
**Section A, Q5, Fig.1**.....© Office for National Statistics. Contains public sector information licensed under the Open Government Licence v3.0.
**Section B, Q5, Fig2**.....© Copyright 2022 Office of Rail and Road
© Crown Copyright  Contains public sector information licensed under the Open Government Licence v3.0"

Permission to reproduce all copyright material has been applied for.
In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA
will be happy to rectify any omissions of acknowledgement in future if notified.

12446.05 **R**