Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number	Candidate Number

Monday 20 May 2019

Morning (Time: 2 hours)	Paper Reference **9EC0/01**

Economics A

Advanced
Paper 1: Markets and Business Behaviour

You do not need any other materials.	Total Marks

Instructions

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

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

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

Turn over ▶

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Pearson

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Between 2016 and 2017 the average price of new build houses in the UK rose by an estimated 5.4%.

Year	Quantity of UK new house builds
2016	134 612
2017	162 880

(Source: http://www.telegraph.co.uk/business/2017/05/25/number-new-homes-built-hits-highest-level-since-financial-crisis/)

(a) With reference to the data provided, calculate the price elasticity of supply for new house builds between 2016 and 2017. You are advised to show your workings.

(2)

(b) A 2.5% increase in new build house prices in one region of the UK causes a 10% increase in the number of houses built. Ceteris paribus, this suggests that supply of new house builds is:

(1)

- ☒ **A** perfectly price elastic
- ☒ **B** perfectly price inelastic
- ☒ **C** relatively price elastic
- ☒ **D** relatively price inelastic

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(c) Explain **one** factor that is likely to determine the price elasticity of supply of new house builds.

(2)

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(Total for Question 1 = 5 marks)

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2 In August 2017 Hurricane Harvey caused the closure of nearly a quarter of the oil production capacity in the United States.

(a) Draw a supply and demand diagram to show the likely microeconomic effects of the hurricane on the US oil market.

(4)

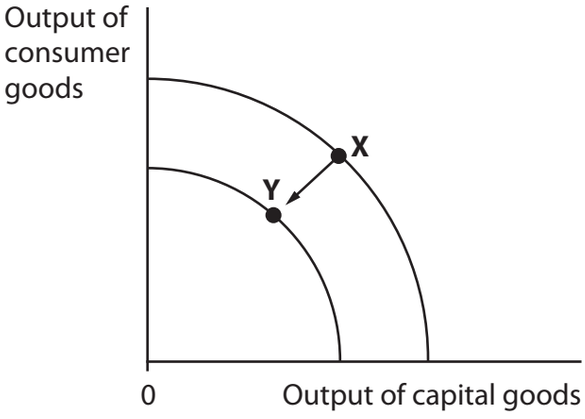


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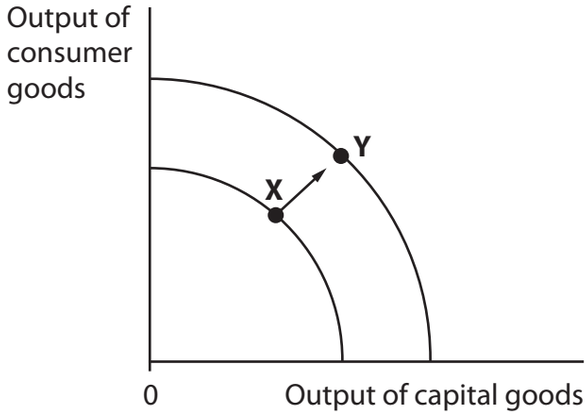
(b) The diagrams show movements from position X to Y on production possibility frontiers. In which **one** of the diagrams does the movement from X to Y illustrate the most likely impact on the US economy of a natural disaster such as Hurricane Harvey?

(1)

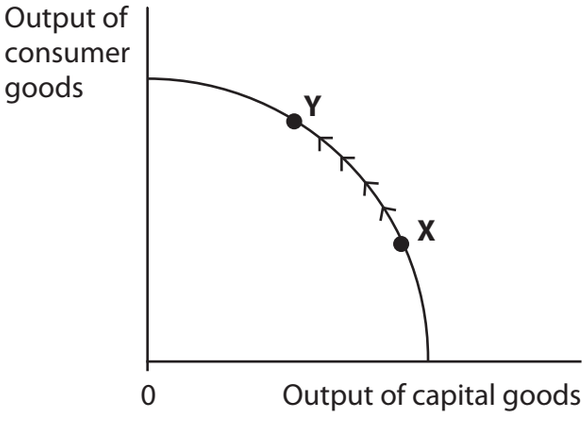
☒ **A**



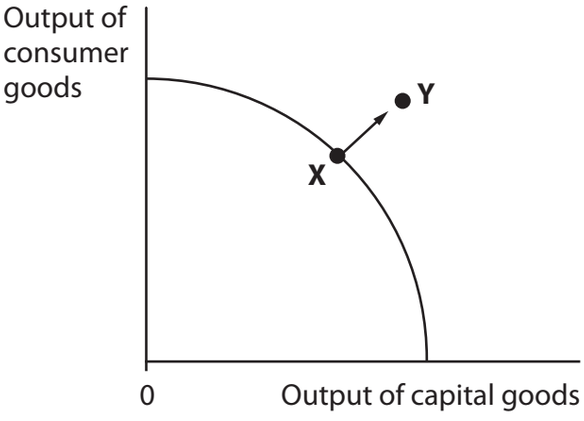
☒ **B**



☒ **C**



☒ **D**



(Total for Question 2 = 5 marks)

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3 According to the Royal Mail, more hair and beauty salons opened on UK high streets last year than any other type of independent business, with a net increase of 10%, representing 626 new salons.

(Source: adapted from https://www.theguardian.com/small-business-network/2016/nov/18/beauty-boom-or-bust-uk-too-many-salons)

(a) The UK hair and beauty industry is an example of monopolistic competition because:

(1)

- ☒ **A** firms spend nothing on advertising and research
- ☒ **B** the industry is dominated by a few large firms
- ☒ **C** the products are homogenous
- ☒ **D** there are low barriers to entry and exit

(b) Draw a cost and revenue diagram to show the **long-run** equilibrium of a firm in monopolistic competition.

(4)



(Total for Question 3 = 5 marks)

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4 In 2016, the insurance group Esure undertook a demerger with its GoCompare price comparison website.

(a) The most likely reason for this demerger was to:

(1)

- ☒ **A** benefit from external economies of scale
- ☒ **B** benefit from internal economies of scale
- ☒ **C** focus more on its core business
- ☒ **D** increase its market share

Following the demerger, GoCompare announced in 2017 a profit of £17.5 million, up 21.5% on 2016. Total revenue in 2017 was £75.8 million, up 4.1% on 2016.

(Source: adapted from https://www.insuranceage.co.uk/insurer/3107496/profits-up-at-go-compare)

(b) Calculate, using the information provided, the total costs of GoCompare in **2016**.

(4)

(Total for Question 4 = 5 marks)

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5 Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(a) Explain how resources are allocated in a free market economy.

(2)

(b) Which **one** of the following statements is true?

(1)

- ☒ **A** Friedrich Hayek believed that the government should subsidise inefficient firms
- ☒ **B** Friedrich Hayek was a key advocate of command economies as a way of allocating resources
- ☒ **C** Karl Marx advocated allocating resources via the free market
- ☒ **D** Karl Marx criticised the private ownership of factors of production

Adam Smith described the benefits of specialisation and the division of labour.

(c) Explain **one** advantage to a firm of using division of labour when organising its production process.

(2)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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QUESTION 6 BEGINS ON THE NEXT PAGE.

SECTION B

Read Figures 1 and 2 and extracts (A to C) before answering Question 6.

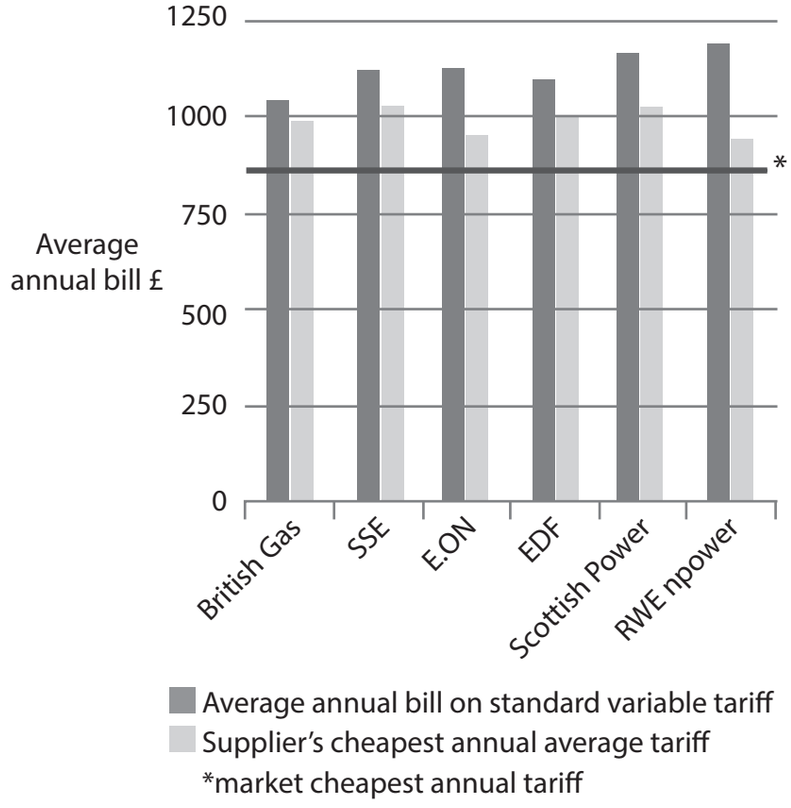
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Energy and telecommunication markets in the UK

Figure 1: Average annual household bill from the Big Six UK energy suppliers, 2017



(Source: https://www.lovemoney.com/news/67298/standard-variable-tariff-compared-cheapest-deal-provider-savings)

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Extract A

Energy price cap to fix 'broken' market in UK

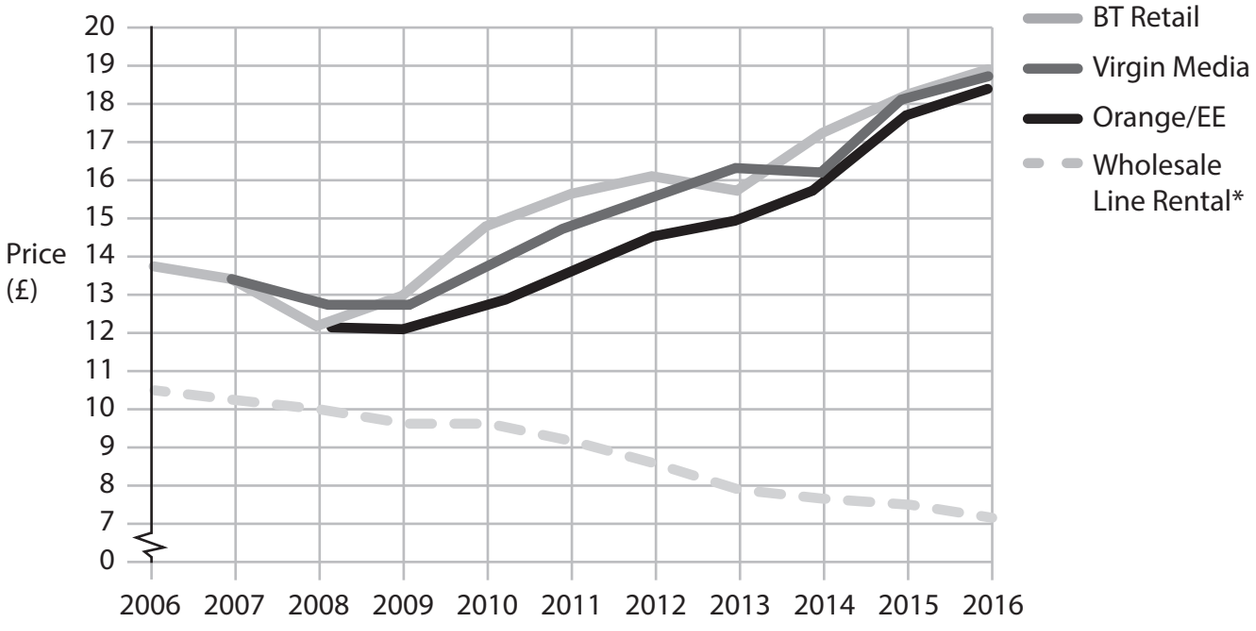
The Prime Minister recently said that the regulator Ofgem (Office of Gas and Electricity Markets) should limit electricity and gas suppliers' most expensive tariffs.

Under the planned new legislation, the energy bills of 11 million households will be capped for as long as five years. The government claimed this cap could save households up to £100 a year. This legislation would force Ofgem to change the licence conditions for energy suppliers so that they are required to cap electricity and gas prices. The measure will apply to anyone on a standard variable tariff, the expensive plans that customers are moved to when cheaper, fixed-price deals end. Ofgem will need to consult energy companies on how the cap is calculated, the government said. The Prime Minister repeated her claim that she had to act because the 'market is broken', a charge the big energy companies reject. "I have been clear that our broken energy market has to change – it has to offer fairer prices for millions of loyal customers who have been paying hundreds of pounds too much," she said.

However, Michael Lewis, chief executive of E.ON said "the government must guard against any unintended consequences that undermine customer service and push up prices as a whole. A price cap will not be good for customers. It will reduce competition and innovation". Smaller suppliers such as First Utility said the Big Six had only themselves to blame for the cap, because they had kept millions of people on standard variable tariffs.

(Source: adapted from 'UK puts energy efficiency at heart of climate change strategy', Adam Vaughan, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/money/2017/oct/12/may-energy-price-cap-ofgem-electricity-gas-tariffs)

Figure 2: The monthly rental cost of a telephone landline



*Wholesale line rental – the rental price BT Openreach charges telephone service providers

(Source: https://www.ofcom.org.uk/about-ofcom/latest/features-and-news/landline-prices-review)

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Extract B

BT profit rises

BT Group, which includes BT Openreach and BT Retail, reported a rise in profit as revenue increased following the integration of the consumer mobile business, EE. BT finalised the takeover of EE in August 2016, and the integration has resulted in BT controlling 35% of the mobile consumer market. The profit of the UK-based telecommunication group in its second quarter 2017 rose to £566 million.

BT Group chief executive Gavin Patterson said: "We will operate a multi-brand strategy with UK customers being able to choose a mix of BT, EE or Plusnet services, depending on which suits them best. The acquisition enables us to offer great value bundles of services and customers are set to be the winners as we compete for their business".

(Source: adapted from www.marketwatch.com (Oct 27 – 2016) and http://home.bt.com/news/bt-life/bt-to-retain-ee-brand-as-acquisition-confirmed-11364037422234)

Extract C

BT to slash landline charges for 1 million customers

Rental charges for landline-only customers – households with a telephone-only contract but no BT broadband – will fall from £18.99 to £11.99 per month after the regulator attacked existing deals as 'poor value for money'. This rental reduction will save a million landline-only customers £84 a year.

The regulator Ofcom (Office of Communications) said it stepped in because these bills for landline-only customers – nearly two-thirds of whom are over 65 – have "soared" in recent years. This is despite BT and other landline providers benefiting from significant cuts in the wholesale line rental cost of providing the service by BT Openreach. Many landline-only customers are elderly, and have been with BT for decades. Ofcom has focused on BT because it accounts for two-thirds of the UK's 1.5m landline-only customers.

A spokesperson for Ofcom said "This position [of dominance] has allowed BT to increase prices without much risk of losing customers, and other providers have followed BT's pricing lead. We expect BT's price cut to mean other providers will follow suit". Ofcom said that over three-quarters of BT's landline-only customers have never switched provider, which has left them a prime target for price rises. The regulator said that all major landline providers have increased their line rental charges by between 23% and 47% in recent years, while their own costs for providing the service have fallen about 27%. Ofcom said it is also looking at measures to help people shop around for better deals with more confidence.

(Source: adapted from 'BT to slash landline charges for 1m customers', Mark Sweney, Copyright Guardian News & Media Ltd 2017 https://www.theguardian.com/business/2017/oct/26/bt-to-slash-landline-charges-for-1m-customers)

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6 (a) With reference to Extract A, explain the difference between a positive statement and a normative statement.

(5)

(b) With reference to Extract B, examine the likely benefits to consumers of the integration between BT and EE.

(8)

(c) With reference to Extract C, assess possible reasons why many 'landline-only' customers do not switch to a cheaper telephone provider.

(10)

(d) Discuss **one** likely reason for the rise in BT's profit (Figure 2, Extracts B and C). Use a cost and revenue diagram to support your answer.

(12)

(e) Discuss methods of government intervention to protect consumers within the utilities markets, such as energy and telecommunications.

(15)

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(a) With reference to Extract A, explain the difference between a positive statement and a normative statement.

(5)

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(b) With reference to Extract B, examine the likely benefits to consumers of the integration between BT and EE.

(8)

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(c) With reference to Extract C, assess possible reasons why many 'landline-only' customers do not switch to a cheaper telephone provider.

(10)

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(d) Discuss **one** likely reason for the rise in BT's profit (Figure 2, Extracts B and C). Use a cost and revenue diagram to support your answer.

(12)

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(15)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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SECTION C BEGINS ON THE NEXT PAGE.

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In July 2017 it was announced that only a third of the BBC's 96 top earning presenters were women and that its seven highest-paid presenters were all men.

According to the High Pay Centre, in 2018, UK chief executives can earn 120 times more than the average full-time worker earning £28 758.

With reference to an industry of your choice, evaluate why wage differences exist within the UK labour market.

(Total for Question 7 = 25 marks)

OR

8 In October 2017 Scania, the Volkswagen-owned truck maker, was fined €880 million (£771 million) by the European Commission for colluding with five other truck manufacturers over a 14-year period. The firms had agreed to coordinate prices after experiencing additional costs of meeting emission regulations.

With reference to an industry of your choice, evaluate why some firms engage in collusive behaviour.

(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☐ **Question 8** ☐

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TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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