Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

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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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 Disney+ is a streaming service that distributes films and television series produced by the Walt Disney Studios.

	Disney+ subscribers (million)
November 2019	10
December 2019	26.5
February 2020	28.6
April 2020	50

(Source adapted from: https://www.businessofapps.com/data/disney-plus-statistics/)

(a) *Ceteris paribus*, the most likely consequence of the above data is that Disney+ will experience an increase in its:

(1)

☒ **A** fixed costs

☒ **B** income elasticity of demand

☒ **C** price elasticity of demand

☒ **D** revenue

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(b) Draw a supply and demand diagram to show the likely effect of the change in the number of subscribers on the market equilibrium for Disney+ services.

(4)



(Total for Question 1 = 5 marks)

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2 The table below shows data on the drinks market in Chile in 2017.

Price elasticity of demand for sweetened drinks	–1.37
Cross price elasticity of demand for bottled water in response to a price change in sweetened drinks	+0.63

(Source: adapted from https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-017-4098-x)

(a) The price of sweetened drinks increases by 5%. *Ceteris paribus*, calculate the percentage change in the quantity demanded for sweetened drinks. You are advised to show your working.

(2)

(b) The price of sweetened drinks increases by 5%. *Ceteris paribus*, calculate the percentage change in the quantity demanded for bottled water. You are advised to show your working.

(2)

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(c) Using the data on page 4, which **one** of the following is most likely?

(1)

		A decrease in the price of sweetened drinks will have the following effect on revenue:	Sweetened drinks and bottled water are:
☒	**A**	Decrease	Complements
☒	**B**	Decrease	Substitutes
☒	**C**	Increase	Complements
☒	**D**	Increase	Substitutes

(Total for Question 2 = 5 marks)

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3 A company that provides drinking water and treats waste water has been fined £180 000 after an incident that killed about 2 500 fish. The charges relate to an illegal discharge of sewage from the waste water treatment plant that polluted nine kilometres of the River Severn, a popular tourist destination.

(Source: adapted from https://www.leaderlive.co.uk/news/wrexham/19393552.water-company-fined-today-sewage-leaked-wrexham-river-killing-2-500-fish/)

(a) Draw an externalities diagram to show the likely impact of the sewage discharge on the local tourist industry.

(4)



(b) Which **one** of the following is the most likely effect of the £180 000 fine?

(1)

To:

- ☒ **A** increase market failure
- ☒ **B** increase profits for the water company
- ☒ **C** reduce external costs
- ☒ **D** reduce government failure

(Total for Question 3 = 5 marks)

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QUESTION 4 BEGINS ON THE NEXT PAGE.

4 Pilgrim's Pride is the second-largest chicken supplier in the US. It will pay a $107.9 million fine for price fixing with Tyson Foods and other chicken suppliers. The firms limited production to force prices higher and harm major customers, including KFC. Pilgrim's Pride is thought to have gained at least $361 million in total revenue from the collusion.

(Source: adapted from https://www.drovers.com/news/industry/pilgrims-pride-agrees-price-fixing-fine)

(a) Draw a simple two firm/two outcome game theory model to show why the chicken suppliers may have colluded.

(4)

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(b) Which **one** of the following is most closely associated with tacit collusion?

(1)

- ☒ **A** Overt sharing of information
- ☒ **B** Predatory pricing
- ☒ **C** Price wars
- ☒ **D** Unspoken agreements

(Total for Question 4 = 5 marks)

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5 The makers of Fiat cars merged with the makers of Vauxhall cars in 2021.
Fiat management had aggressively sought a merger to achieve economies of scale.
The competition authorities in the EU investigated the merger.

(Source: adapted from https://www.thedrive.com/news/34856/the-merged-fiat-chrysler-and-peugeot-group-will-be-called-stellantis)

(a) Which **one** of the following best describes the merger of the makers of Fiat cars and Vauxhall cars?

(1)

- ☒ **A** Backward vertical integration
- ☒ **B** Forward vertical integration
- ☒ **C** Horizontal integration
- ☒ **D** Organic growth

(b) Explain **one** type of internal economies of scale that the newly merged car company may achieve.

(2)

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(c) Explain **one** likely concern the EU competition authorities may have had about the merger.

(2)

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(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 and B before answering Question 6.

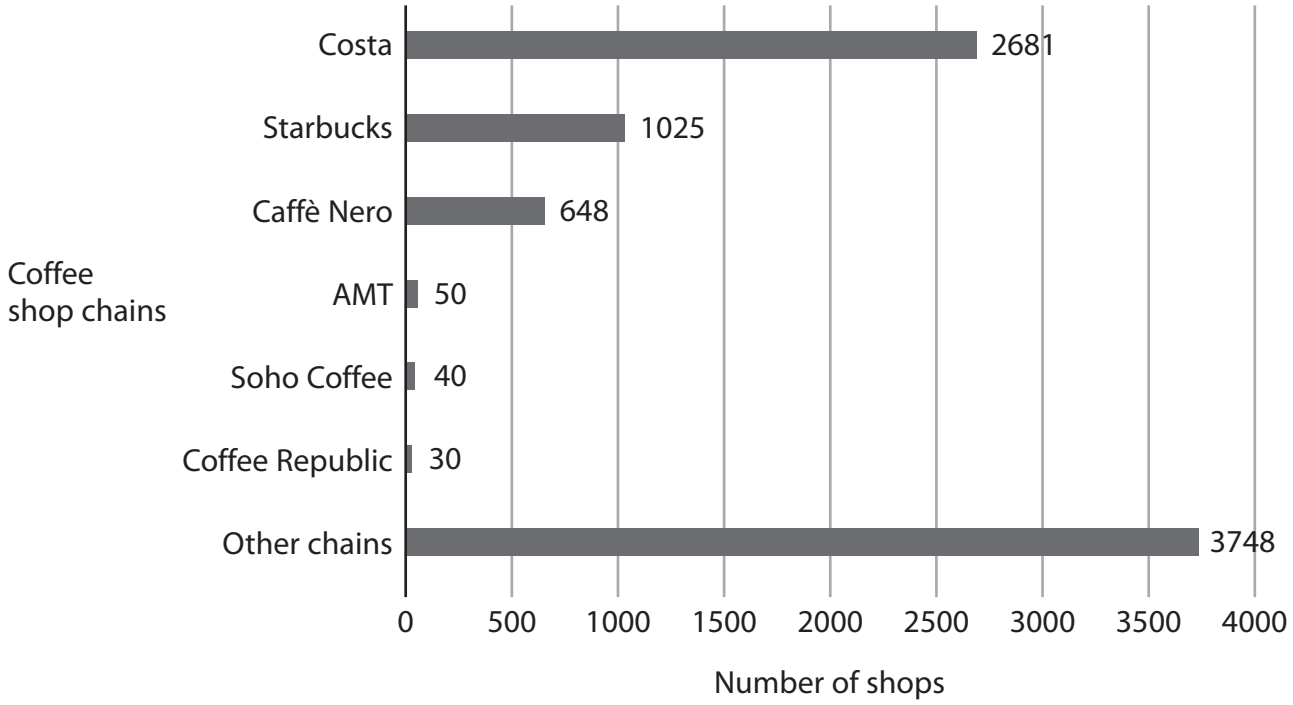
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK branded coffee shop chains market

Figure 1: Branded coffee shops by number of shops in the UK in 2021



(Source: adapted from https://www.statista.com/statistics/297863/leading-coffee-shop-chains-in-the-united-kingdom-uk-store-number/)

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Figure 2: International coffee price (Arabica bean), US dollars per kilogram

Month	Price	Change
Jan 2020	3.13	–
Feb 2020	2.99	–4.47%
Mar 2020	3.27	9.36%
Apr 2020	3.41	4.28%
May 2020	3.30	–3.23%
Jun 2020	3.12	–5.45%
Jul 2020	3.24	3.85%
Aug 2020	3.60	11.11%
Sep 2020	3.67	1.94%
Oct 2020	3.35	–8.72%
Nov 2020	3.31	–1.19%
Dec 2020	3.48	5.14%

(Source: adapted from https://www.indexmundi.com/commodities/?commodity=other-mild-arabicas-coffee&months=12)

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Extract A

Tough market conditions for coffee shops – but coffee quality is king

UK coffee shop chains have experienced slow growth opportunities and rising costs. In 2019 the UK market leader, Costa Coffee, opened over 60% fewer stores than in 2018, while Starbucks opened just three new stores overall in 2019.

By 2020, many costs were rising: staff shortages meant rising wages for baristas (trained coffeemakers), a 6.2% National Minimum Wage increase for over 25-year-olds and rising rents.

In a challenging UK economy, consumers placed coffee quality ahead of convenient location when choosing a coffee shop. This demonstrates the need for coffee shops to match rising expectations in the UK's increasingly crowded coffee shop market in order to stay competitive. Independent coffee shops (total 25 892 shops in 2020) remain a threat to the branded coffee shops as they pursue a unique luxury experience for customers. This will often focus on the atmosphere and customer service, luxury food and drink ranges and being a part of the local community. Independent coffee shops run on average profit as low as 2% of revenue, and many go out of business as new chains arrive in a locality.

In January 2020, Coca-Cola finalised its £3.9 billion takeover of market leader, Costa Coffee. The Coca-Cola company's stated aims are to maximise long-term returns to shareholders while being mindful of overall responsibilities such as supporting sustainable communities. Major brands, such as Costa, continue to lead coffee shop expansion in 2020 as competition intensifies.

(Source: adapted from https://www.worldcoffeeportal.com/Latest/InsightAnalysis/2020/February/5-UK-coffee-shop-market-dynamics-to-watch-in-2020)

Extract B

Greggs aiming for 'coffee shop experience'

Greggs is looking to increase its branded coffee shop market share after the British bakery chain achieved record profits and overtook Starbucks in the amount of coffee it served in the UK. Although Greggs will continue to focus on the food-to-go market, it will be investing in better coffee machines and providing WiFi. It wants one in three new outlets to have more seating. The company believes that it has the ability to take market share in two ways, by expanding its coffee range and at the same time enhancing the coffee shop experience. Greggs is modelling its plan on rival chain Pret A Manger, which has changed from focusing on food-to-go sales to mainly eating in. Greggs has transformed itself from an unremarkable seller of bread and pastries into one of the UK's most popular food-on-the-go chains, in part thanks to its embrace of vegan, gluten-free and healthy options as well as clever marketing that have changed its image.

(Source: adapted from Financial Times, 3 March 2020 https://www.ft.com/content/6fb6d73a-5d24-11ea-8033-fa40a0d65a98)

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6 (a) With reference to Figure 1, calculate the three-firm concentration ratio for branded coffee shop chains.

(5)

(b) With reference to Figure 2 and your understanding of price elasticity, examine **two** factors that may cause significant changes in the international price of coffee beans.

(8)

(c) Profit maximisation is assumed to be the business objective of most firms. With reference to Extract A, assess whether this is the case for coffee shop owners.

(10)

(d) Using a cost and revenue diagram, discuss the likely impact of 'rising costs' for coffee shops on their profitability (Extract A, line 2).

(12)

(e) With reference to the information provided, discuss whether the coffee shop market is contestable.

(15)

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6 (a) With reference to Figure 1, calculate the three-firm concentration ratio for branded coffee shop chains.

(5)

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(b) With reference to Figure 2 and your understanding of price elasticity, examine **two** factors that may cause significant changes in the international price of coffee beans.

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(c) Profit maximisation is assumed to be the business objective of most firms.
With reference to Extract A, assess whether this is the case for coffee shop owners.

(10)

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(d) Using a cost and revenue diagram, discuss the likely impact of 'rising costs' for coffee shops on their profitability (Extract A, line 2).

(12)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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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 Tesla held an 82% market share of the electric vehicle market in the United States during the first half of 2020.

(Source: adapted from https://electrek.co/2020/08/21/tesla-holds-us-ev-market-losing-federal-tax-credit/)

Evaluate whether a monopoly is likely to operate efficiently. Refer to at least one monopoly of your choice.

(Total for Question 7 = 25 marks)

OR

8 Some occupations in the UK are facing large labour shortages. Hard-to-fill vacancies include qualified chefs, software engineers, construction workers and qualified nurses.

(Source: adapted from https://www.ft.com/content/36baacce-ddd0-11e8-9f04-38d397e6661c)

Evaluate the factors that might influence the supply of labour in an occupation of your choice.

(Total for Question 8 = 25 marks)

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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** ☒

Write your answer here:

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

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