Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number	Candidate Number

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.
- Good luck with your examination.

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 Statement 1: Since Poland joined the European Union (EU) in 2004, over one million of its workforce have migrated to other countries in the EU.

Statement 2: Many engineers have left Poland for higher paid jobs in other countries in the EU.

(Source: https://www.forbes.com/sites/freylindsay/2019/08/09/polands-emigration-rate-is-falling-but-people-are-still-worried-about-the-brain-drain-bogeyman/#9550525792e6)

(a) Which **one** of the following best describes the two statements above?

(1)

		Statement 1	Statement 2
☒	**A**	Normative	Normative
☒	**B**	Normative	Positive
☒	**C**	Positive	Normative
☒	**D**	Positive	Positive

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(b) Explain the likely impact of migration on the wage level of engineers in Poland.

(4)

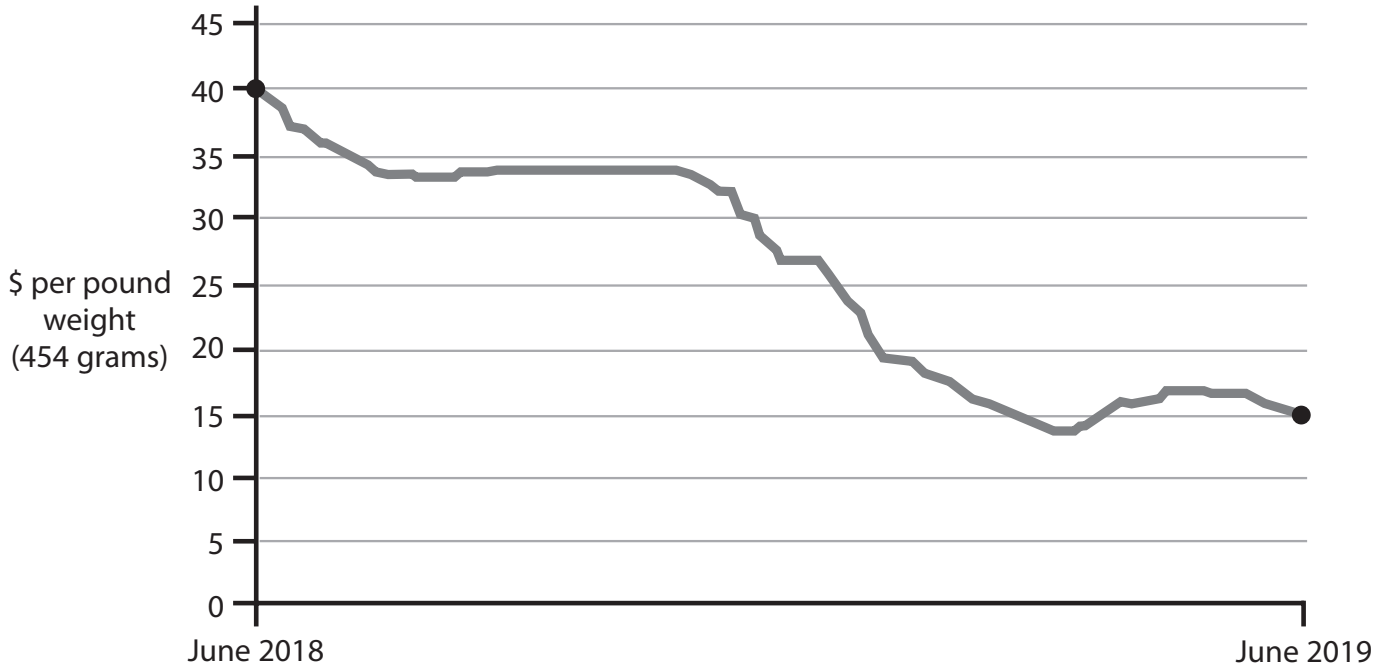
(Total for Question 1 = 5 marks)

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2 Cobalt is a key metal used in the batteries of electric cars. China is the world's largest producer of electric cars but has recently cut subsidies to its manufacturers.

The Democratic Republic of the Congo (DRC) produces more than 60% of the world's supply of cobalt, from its small-scale mines. Many new small mines opened in 2018 as a result of improved expectations of profit.

The following graph shows the price of cobalt between June 2018 and June 2019.



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(a) With reference to the information provided, draw a supply and demand diagram to show why the price of cobalt fell between June 2018 and June 2019.

(4)



(b) Between June 2018 and June 2019 the price of cobalt fell by:

(1)

- ☒ **A** 25%
- ☒ **B** 37.5%
- ☒ **C** 62.5%
- ☒ **D** 166.7%

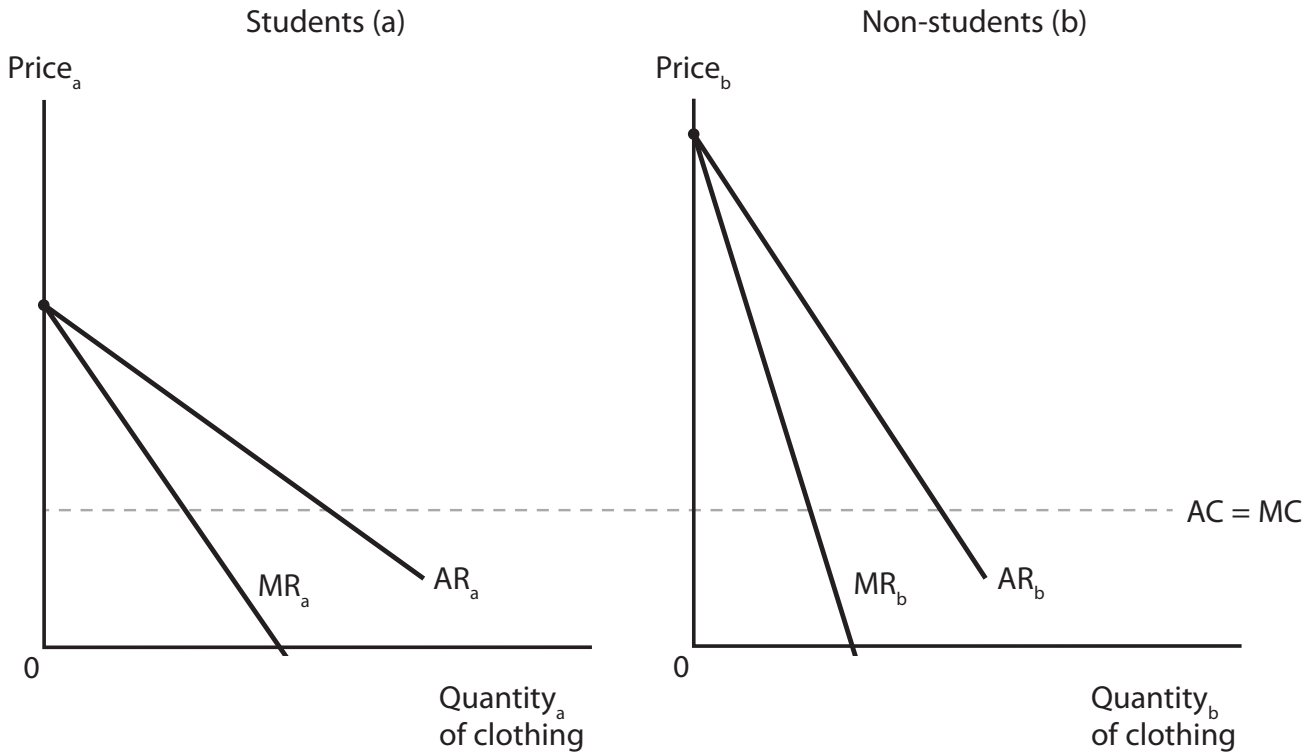
(Total for Question 2 = 5 marks)

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3 River Island is a clothing retailer. Students are offered a River Island student discount code to benefit from a 10% price reduction as an attempt by the firm to increase profit.

(a) Complete the third-degree price discrimination diagram below. Draw the impact on each sub-market by showing the price and profit.

(4)



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(b) Which **one** of the following is necessary for a firm to be able to practise price discrimination?

(1)

- ☒ **A** It has some degree of market power
- ☒ **B** It is able to store its product
- ☒ **C** Its product has different features in different markets
- ☒ **D** The costs of supplying some customers are higher

(Total for Question 3 = 5 marks)

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4 Patrick Street Productions produces musicals. Its latest production is 'It's a Wonderful Life' and the total cost of this production is $200 000. The ticket price is $40. The theatre has a capacity of 300 seats. The company aims for revenue maximisation. If this is achieved, revenue from ticket sales will cover 30% of total costs. Charitable donations contribute 12.5% towards total cost and a government subsidy ensures the production covers all of its costs.

(Source adapted from: https://www.cbc.ca/news/canada/british-columbia/a-bit-of-a-desperate-time-as-costs-rise-professional-theatre-companies-survive-rather-than-thrive-1.5489733)

(a) Calculate the total revenue from ticket sales for 'It's a Wonderful Life', assuming it is shown only five times, all at full capacity. You are advised to show your working.

(2)

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(b) Calculate the value of the government subsidy necessary for this production to cover all of its costs.

(2)

(c) Which **one** of the following conditions is necessary for revenue maximisation to occur?

(1)

- ☒ **A** Average revenue equals average cost
- ☒ **B** Average revenue equals marginal cost
- ☒ **C** Marginal revenue equals average revenue
- ☒ **D** Marginal revenue equals zero

(Total for Question 4 = 5 marks)

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5 In Sicily, many households can grow lemons of the same quality as each other. Chiara decides to sell lemons at her local market, expecting to make a normal profit. She notices that all of the many lemon sellers are charging exactly the same price.

(a) Draw diagrams showing the equilibrium positions for both the lemon market and a typical firm in the long run.

(4)

Market



Firm



(b) Which **one** of the following will exist in the **short run** if Chiara makes a loss?

(1)

☒ **A** Allocative efficiency and productive efficiency

☒ **B** Allocative efficiency and productive inefficiency

☒ **C** Allocative inefficiency and productive efficiency

☒ **D** Allocative inefficiency and productive inefficiency

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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SECTION B BEGINS ON THE NEXT PAGE.

SECTION B

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

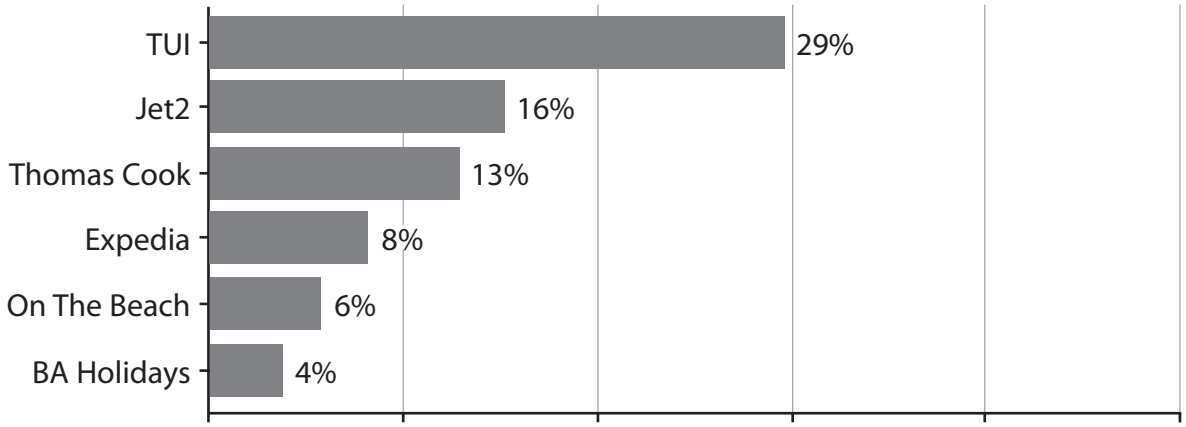
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The travel and tourism industry

Figure 1: Package holiday market share of the six largest providers, booked by UK residents, 2019



(Source adapted from: https://knowledge.sharescope.co.uk/2019/10/16/finding-companies-that-control-their-own-destinies/The Times/ATOL)

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Figure 2: Jet2 package holiday prices to Sorrento

Price before Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- Half Board
- 1 x Premium Double or Twin room
- Return flights from Edinburgh
  View flight times
- 22 kg Bag Allowance
- 10 kg Hand Baggage
- ATOL Protected
- Coach Transfers

Holiday price from **£1,576** Per person price **£788**

Price 12 hours after Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- Half Board
- 1 x Premium Double or Twin room
- Return flights from Edinburgh
  View flight times
- 22 kg Bag Allowance
- 10 kg Hand Baggage
- ATOL Protected
- Coach Transfers

Holiday price from **£1,648** Per person price **£824**

Data accessed: 22nd and 23rd September 2019

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Extract A

Marginal productivity of cabin crew

Cabin crew are responsible for loading passengers and providing in-flight meals. United Airlines is planning to reduce the number of its cabin crew members onboard international flights. The airline currently operates its planes with one more cabin crew member than its competitors. The marginal productivity of this additional crew member may be low. By reducing the number of its cabin crew members United Airlines will be able to operate more efficiently and compete more effectively.

(Source adapted from: https://simpleflying.com/united-airlines-to-reduce-number-of-crew-on-international-flights/)

Extract B

Thomas Cook's environmental impact

Thomas Cook Group plc's operations included its airline and 560 high street travel agents providing flights, hotels and package holidays.

The environmental impact of the travel industry is significant. It accounts for 8% of all global carbon emissions. Thomas Cook recognised the risks presented by climate change and actively engaged in reducing their airline emissions. Its plans included using more efficient aircraft and using lower-carbon fuel. In 2018, Thomas Cook was included in the top 10 of the world's most fuel-efficient airlines.

(Source adapted from: https://www.thomascookgroup.com/investors/insight_external_assest/Thomas+Cook+Sustainability+Report+2018.pdf)

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Extract C

Why did Thomas Cook shut down?

Thomas Cook Group plc ceased trading on 23 September 2019. The collapse of Thomas Cook left 600 000 travellers stranded overseas and approximately 21 000 worldwide employees were left without a job.

Thomas Cook's management said that the failure of rescue talks between banks, shareholders and the UK Government meant it had no choice but to shut down the business.

But in truth the tour operator's problems go back much further. A disastrous merger in 2007, increased debts, the internet revolution in holiday booking and Brexit uncertainty all contributed to the failure of the business.

In 2007 it merged with MyTravel. Thomas Cook directors had an objective of rapid company growth over short-term profitability. The merger was supposed to create a European giant, promising £75 million-a-year cost savings and a springboard to challenge emerging internet rivals. In reality, Thomas Cook was merging with a company that had only made a profit once in the previous six years, and the deal left the Group with huge debts. In May 2019, the firm reported a £1.5 billion loss.

The role of the management in Thomas Cook's collapse is being investigated by the UK Government. Thomas Cook executives' salaries and bonuses have been questioned. Directors received salaries totalling £20 million in the five years before its collapse. The Chief Executive Officer (CEO) earned a £500 000 cash bonus in 2017 and about £8.5 million in his five years with the company. It seems that around £4 million of this was in the form of shares. The share price reached £1.46 in 2018, but each share is now worthless.

The CEO said that the directors had worked "exhaustively" to rescue Thomas Cook and create a long-term turnaround strategy. "It is a matter of profound regret to me and the rest of the board that we were not successful."

The UK prime minister admitted that the government refused to grant £150 million as a subsidy to help rescue Thomas Cook in the short run. The UK prime minister stated: "Clearly, that is a lot of taxpayers' money and sets up, as people will appreciate, a moral hazard in the case of future such commercial difficulties that companies face. I have questions about whether it's right that the directors, or whoever, the board, should pay themselves large sums when businesses can go down the tubes like that. One is driven to reflect on whether the directors of these companies are properly incentivised to sort such matters out".

(Source adapted from: https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator

and https://www.ft.com/content/a7dd2554-de23-11e9-b112-9624ec9edc59)

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6 (a) Explain the likely impact of diminishing marginal productivity of labour on cabin crew staffing levels. Refer to Extract A in your answer.

(5)

(b) Examine the likely impact of Thomas Cook's plan 'to reduce their airline emissions' (Extract B, line 6) on the social optimum position. Use an appropriate externalities diagram in your answer.

(8)

(c) With reference to Extract C, assess whether Thomas Cook's failure was caused by the principal-agent problem.

(10)

(d) With reference to Extract C, discuss the proposed government subsidy to prevent Thomas Cook from reaching its shut-down point.

(12)

(e) With reference to the information provided, discuss the decision by Jet2 to increase its package holiday prices.

(15)

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(c) With reference to Extract C, assess whether Thomas Cook's failure was caused by the principal-agent problem.

(10)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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 The national living wage, the minimum wage for 25-year-olds and over, is expected to rise to more than £10.50 an hour in 2024 compared with £8.72 in 2020. The wage does not apply to the UK's self-employed and 'gig economy' workers.

Some economists said the increase was ambitious. Business groups warned that employers in sectors such as social care could be hit hard. In large parts of the north of England the living wage has already reached two-thirds of local median earnings, said Professor Shackleton.

(Source adapted from: https://www.theguardian.com/uk-news/2020/mar/11/budget-2020-national-living-wage-national-insurance)

Evaluate the disadvantages of a significant increase in the national living wage on a specific labour market, such as that for social care workers.

(Total for Question 7 = 25 marks)

OR

8 In many industries, such as banking, health insurance, internet search engines, pharmaceuticals, social media and telecommunications, there have been increases in market concentration.

Evaluate the possible consequences for business decision making of increased market concentration. Refer to industries of your choice in your answer.

(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** ☒

Write your answer here:

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

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