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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Business Growth (3.1)

A Level Economics Theme 3

21 questions · 174 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.

Click any row below to jump straight to that sub-topic or question.

On every question page, click ANSWER in the top-right corner to jump to its mark scheme.

Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

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QUESTIONS

21 questions · 174 marks · 3 sub-topics

SUB-TOPIC 3.1.1

SIZES AND TYPES OF FIRMS

Sub-topic 3.1.1 · 6 questions · 60 marks · lowest tariff first



- 5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (a) Explain **one** likely reason why this business has remained small.

(2)

(Total for Question 5(a) = 2 marks)



- 5** 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

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- (a) Explain **one** likely reason why this business has remained small.

(2)

- (b) Explain why the previous expansion of this business could be described as 'organic growth'.

(2)

- (c) Assume 'Bettys' merges with a major tea leaf supplier. Which **one** of the following is most likely to be an advantage as a result of this merger?

(1)

- ☐ **A** External economies of scale will increase efficiency
- ☐ **B** Greater control to lower prices of tea
- ☐ **C** Industrial diversification increases risks
- ☐ **D** Lower monopoly power in the café market

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS



SECTION B

Read Figures 2, 3 and the following extracts (D to F) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	21.75%	18.0%
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

5

10

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

15

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(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 <https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399>)



Extract E**Mozambique's economic stability is being put to the test**

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line. 5

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. 10
In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1. 15

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability. 20
25

(Source: adapted from <http://www.africaneconomicoutlook.org/en/country-notes/mozambique> and <https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test> 6 October 2017 Dr Alex Vines OBE)

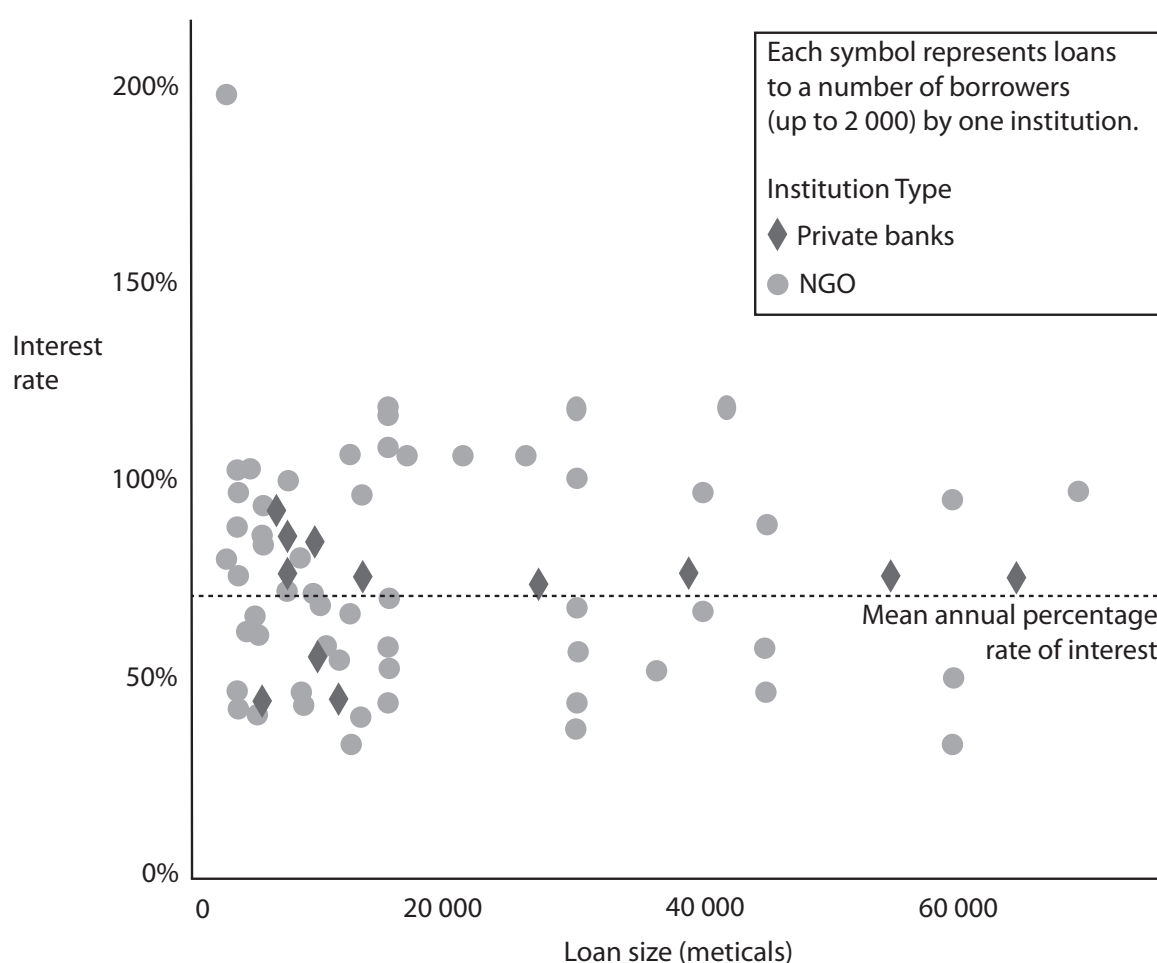


Extract F**Microfinance in Mozambique**

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

5

(Source: adapted from <http://www.mftransparency.org/microfinance-pricing/mozambique/>)

Figure 3: The cost of microfinance loans in Mozambique, 2015

(8)



Area for writing the answer to Q2(b).

SECTION B

Read Figures 3 and 4 and the extracts (C to E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

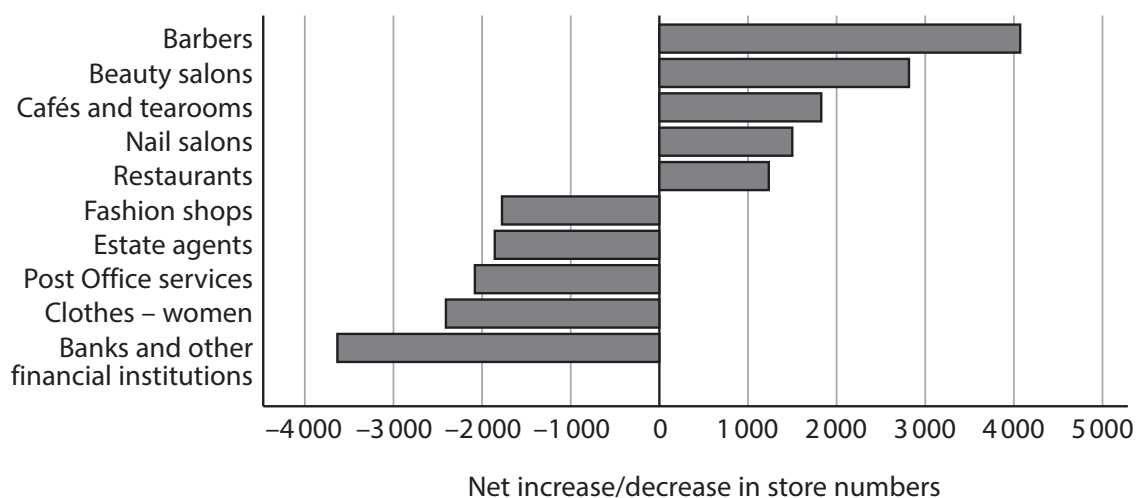
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Changes in the nature of UK towns and cities

Figure 3: Growing and declining high street firms – net change in store numbers, 2013–2022



(Source: adapted from <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)

Figure 4: House price changes in the UK (%), 2005 to 2022



(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)



Extract C**What next for the high street?**

A high street is typically found in all UK towns and cities. Shops normally encountered in a typical UK high street can include successful small firms such as independent food retailers, cafés, nail and beauty salons, restaurants and charity shops. They differ from out-of-town shopping centres by being more diverse, family-run and offering local or personalised services. Customers are often very loyal. However, the high street may often have limited access by car or expensive parking facilities. 5

The rise of online retailers such as Amazon and eBay have placed huge pressures on UK high streets, with many well-known shops – and even successful retail chains – forced to close due to lost business. Many high street firms cannot compete on price with online retailers who – because they frequently have very low fixed costs – can significantly undercut the high street shops on price. 10

Even before online shopping, competition was eroding high street activity, with out-of-town retail parks that were not necessarily cheaper but provide a larger range of shops and offer plentiful parking. They offer a shopping experience that other retailing cannot match – pleasant, safe pedestrian shopping, a clean environment, fun activities for children and spend-the-day-there potential. 15

While the list of retail and leisure failures might suggest that the high street does not have a future, some analysts argue the opposite. Many believe that the high street is ideally placed to reinvent itself in response to the structural shift in working and shopping patterns that has resulted from the global health crisis 2020–22. The perceived weaknesses of the high street model – its fragmented ownership, lack of centralised coordination and high vacancy rates – become strengths as they lower the barriers to entry for new concepts and operators. They also enable risk taking and innovation that will ultimately lead to a more flourishing and diverse environment on our local high streets. 20 25

It should be possible for small firms to flourish even when staff shortages are pushing up wages in the high street, and house price falls damage consumer confidence and spending on perceived luxuries.

(Source: adapted from <https://www.designingbuildings.co.uk/> and <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)

Extract D**UK house prices may fall up to 20%**

Turmoil on the UK financial markets has prompted analysts to predict that house prices could fall dramatically, and many lenders in the mortgage sector are withdrawing deals. People coming to the end of their fixed-rate mortgages are seeing rises from 2% to over 5.5%, with increases in the cost of borrowing of over £5 200 a year by 2024 for the average mortgage in the UK. Many people think UK house prices will never fall, but analysts say the fall could be between 10% and 20%.

5

One mortgage lender said that a lack of housing supply will not keep house prices up when mortgage interest rates are somewhere between 5% and 7%. He claimed that 'the decade-long property bubble is about to burst [...] It's a buyer's market now'. The greatest impact will be seen in the southeast of England.

10

(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)

Extract E**UK job vacancies hit record 1.1 million as labour shortages increase**

The ratio of jobless people to vacancies is 1.45 to 1, lower than at any point in the last 40 years. Social care for example has 300 000 current unfilled posts.

'Today's figures show that labour shortages are now affecting the whole economy,' said one analyst. 'There are almost a million people fewer in the labour market, largely due to younger people staying in education and older people dropping out of the workforce.' The inactivity rate is 21.1%, and many people are not returning to work after the global health crisis. 'People seeking work do not have the skills or availability that employers need,' said Kitty Ussher, chief economist at the Institute of Directors. Firms offering higher wages does not solve the issue.

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(Source: adapted from <https://www.ft.com/content/463f4fbd-3a50-45b5-891c-5cb5ba623df8>)

(8)



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SECTION A

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

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

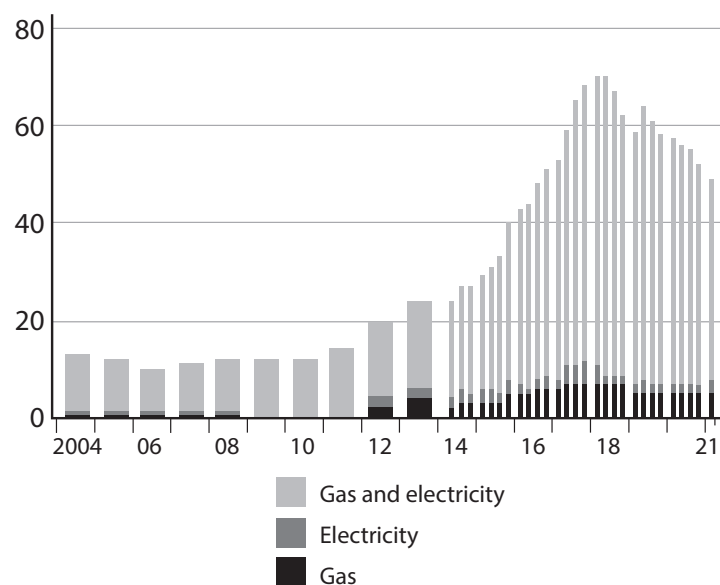
Question 1

The energy market

Figure 1: UK wholesale gas prices per therm, 2021, in pence



Figure 2: Number of firms supplying gas and electricity in the UK, 2004–2021



Extract A**Rising gas prices**

UK consumers are some of the biggest users of gas. 85% of homes use gas central heating, and gas generates a third of the country's electricity. North Sea gas is running out – and as Britain has replaced coal-fired energy production with wind power in order to reduce carbon emissions, it has become dependent on gas imports.

5

Almost all UK businesses face significant rises in fuel costs over the next few months, and there is no substitute for energy, at least in the short run – an almost perfect example of price inelastic demand.

(Source: adapted from <https://www.theecoexperts.co.uk/blog/reasons-for-uk-gas-price-increase>)

Extract B**The UK gas market is broken**

During the past decade the government has allowed new entrants into the retail energy market with business models that left them ill-prepared to achieve long term business growth. Now the UK must choose between letting its energy market collapse and offering large subsidies for energy retailers.

5

The problem began in the 1980s and 1990s, when privatisation created an oligopolistic energy market dominated by the “Big Six”, which paid their shareholders high dividends and their bosses excessive salaries. The government responded to anger over high energy bills with further liberalisation. Some of the new entrants were innovative, such as Bulb, which offered consumption-tracking apps, and Octopus, which discouraged consumption when demand was high with dynamic pricing. But most were under-capitalised and produced no energy, merely buying it on global wholesale markets and selling it on. Some paid little attention to ensuring continuity of supply or forward buying of gas.

10

The constraints on energy retailers worsened in 2017 with the closure of a big gas-storage facility, which left the UK able to store just 2% of its annual demand. Other big gas importing countries, by contrast, can store 20%–30%. The risks rose further in 2019, when the government capped consumer prices in response to continued complaints about high energy bills.

15

The perfect storm came in the summer of 2021. As economies opened up, global demand for energy rose. Gas supply in Russia, a big producer, was disrupted, and unusually calm weather reduced UK wind turbine energy production to 11% of capacity. In August Ofgem, the industry regulator, said that from October the firms would be able to raise prices for households by 54%. But since then the wholesale price of gas paid by UK energy firms has risen by more than 70%. The result is that UK energy firms are tied into contracts to supply gas to households at far less than they must pay to get it.

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(Source: adapted from <https://www.economist.com/britain/britains-gas-market-is-broken/>)

Extract C

The gender pay gap in the oil and gas industry

Despite best efforts to try to attract more women into the oil and gas industry, females are still hugely under-represented in science, technology, engineering and maths careers, whether school leavers, graduates or experienced workers. Women hold under 25% of careers in these areas, and typically hold more non-technical roles, which can attract lower salaries than technical disciplines.

5

There is an even smaller female representation in the offshore workforce (3.6%) e.g. working on rigs in the North Sea, an area that pays higher salaries than onshore work. Despite continued efforts there is still a lack of female applications. Only 5% of the applications to the technical apprentice programme were female, of which half withdrew their applications at the first stage of the recruitment process.

10

There is also a low representation of females in senior leadership roles within the oil and gas industry, especially in technical positions. Women also generally take up part-time positions which are typically lower paid. This has resulted in the oil and gas industry having an average gap in hourly pay of 25%.

15

In the majority of developed countries, women have made substantial progress in the labour market since the 1970s, with both wages and labour force participation increasing relative to that for men. Notwithstanding these large improvements, women still earn less than 'comparable' men in all developed countries and, since the 2000s, progress for women in the labour market seems to have slowed.

20

(Source: adapted from <https://www.harbourenergy.com/media/2a2nmavb/chr-18311-01-gender-pay-gap-2020-v6-final.pdf> and <https://ftp.iza.org/dp10975.pdf>)



(c) With reference to Figure 2 and Extract B, discuss the possible constraints on business growth for firms supplying energy to households in the UK.

(12)







SECTION A

Read extracts A and B before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Hand car wash (HCW) firms in the UK

Extract A

What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark

explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)



Extract B**Government intervention in the HCW industry**

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)



(25)



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Continue on separate paper if required.



SUB-TOPIC 3.1.2

BUSINESS GROWTH

Sub-topic 3.1.2 · 13 questions · 108 marks · lowest tariff first



- 5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (c) Assume 'Bettys' merges with a major tea leaf supplier. Which **one** of the following is most likely to be an advantage as a result of this merger?

(1)

- ☐ A External economies of scale will increase efficiency
- ☐ B Greater control to lower prices of tea
- ☐ C Industrial diversification increases risks
- ☐ D Lower monopoly power in the café market

(Total for Question 5(c) = 1 mark)



- 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

(Total for Question 5(a) = 1 mark)



- 5** 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (b) Explain why the previous expansion of this business could be described as 'organic growth'.
(2)

(Total for Question 5(b) = 2 marks)



- 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>)

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

(2)

(Total for Question 5(b) = 2 marks)



- 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>)

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

(2)

(Total for Question 5(c) = 2 marks)



- 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.

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- (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)

.....

.....

.....

.....

- (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



SECTION B

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

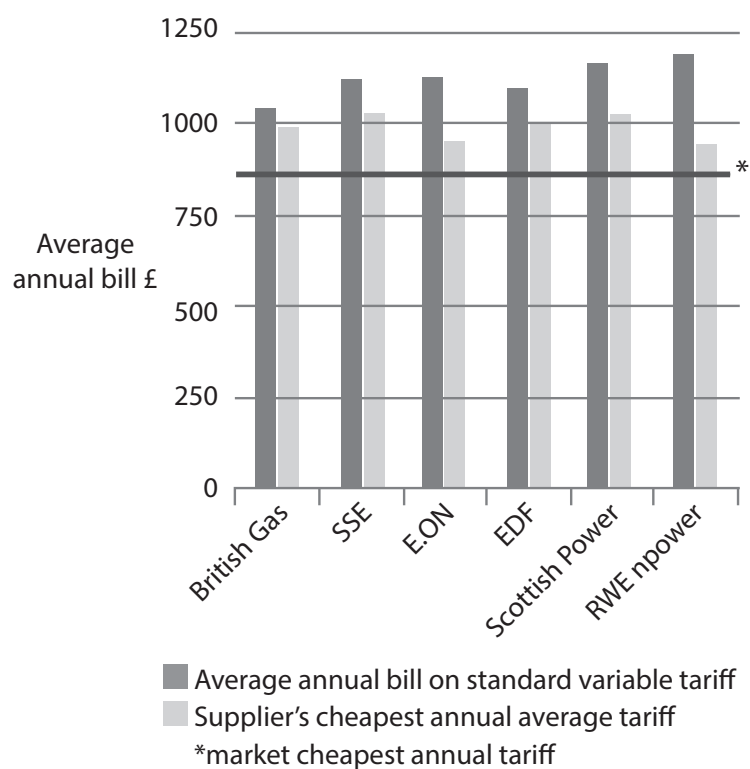
Write your answers in the spaces provided.

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>)



Extract A**Energy price cap to fix 'broken' market in UK**

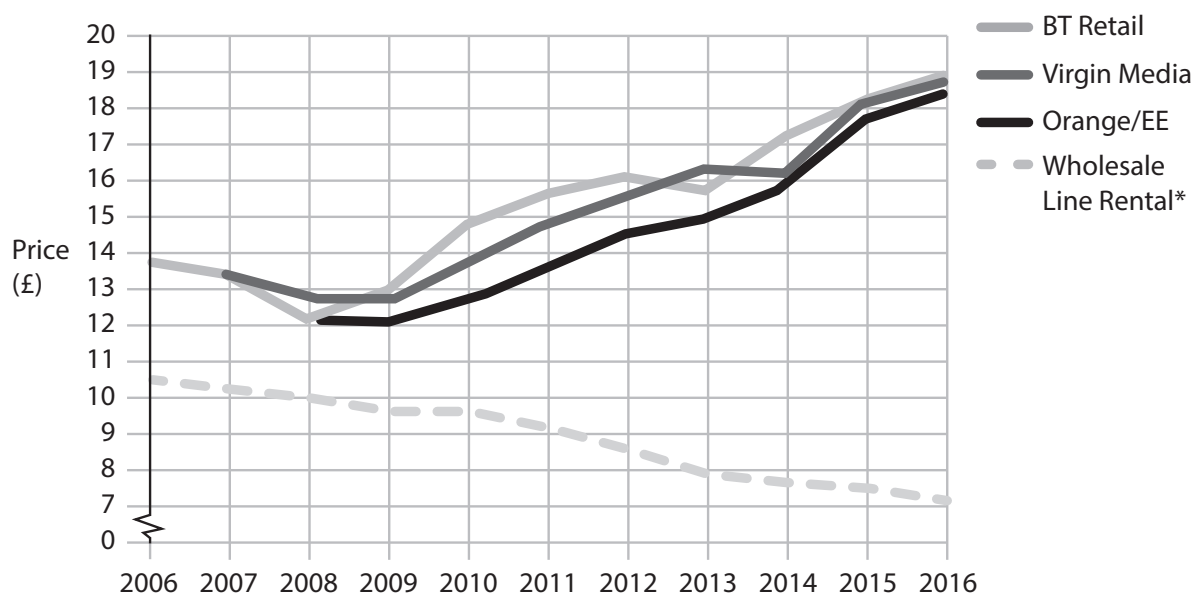
The Prime Minister recently said that the regulator Ofgem (Office of Gas and Electricity Markets) should limit electricity and gas suppliers' most expensive tariffs.

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>)



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. 5

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". 10

(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. 5

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. 10

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. 20

(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>)



(8)





Section B

Read Figure 3 and the extracts (D to F) before answering Question 2.
Answer ALL Questions 2 (a) to 2 (c), and EITHER Questions 2(d) OR 2(e).
Write your answers in the spaces provided.
You are advised to spend 1 hour on this section.

Question 2

Ghana – cocoa and chocolate production

Figure 3: World’s largest cocoa growers and chocolate producers

Cocoa growers	Chocolate producers
Ivory Coast 46%	Germany 17%
Ghana 18%	Belgium 11%
Indonesia 14%	Italy 7.4%
Nigeria 7%	US 7.2%

(Source: adapted from International Cocoa Association www.icco.org December 2021 and The Telegraph.co.uk accessed 24/2/22)

Extract D

From a managed to a floating exchange rate

Ghana’s currency, the cedi, has depreciated significantly against major currencies, especially the US dollar (US\$), since the adoption of the floating exchange rate system in 1992. From 1983 to 1992 it operated a managed exchange rate. Since the liberalisation of the foreign exchange market there have substantial swings and on average the cedi has depreciated 98% against the US dollar. The cedi to US dollar rate has been very volatile recently, causing macroeconomic instability and limiting economic growth.

(Source adapted from: <https://www.theigc.org/project/on-the-causes-and-effect-of-exchange-rate-volatility-on-economic-growth-evidence-from-ghana/> and <https://www.scrip.org/journal/paperinformation.aspx?paperid=95492>)



Extract E**There is a lot of money in chocolate but the growers of cocoa see very little of it.**

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world’s second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly \$1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere. 5

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate. 10 15

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. “You cannot grow a business when you have to service interest rates of 18%–20% or even more,” he says. 20

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. “It only makes sense that the most important commodity in our country, which is cocoa... should become the target for a major programme of industrialisation,” he says. 25

The ‘One District One Factory’ programme aims to kickstart industrialisation by providing the infrastructure for Ghana’s farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country’s enterprise zones – designated areas to encourage economic activity – in a bid to help them export. 30

(Source: adapted from <https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate> and <https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties> and <https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/> and <https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375>)

Extract F**A new trade bloc for Africa**

The African Continental Free Trade Agreement (AfCFTA) has been signed by all 55 member states of the African Union, including Ghana, Nigeria, and South Africa. This brings together 1.2 billion people with a combined gross domestic product (GDP) of more than \$2 trillion as of 2023.

5

The agreement commits countries to removing tariffs on 90% of goods, with other goods to be phased in later.

The agreement also liberalises services and aims to tackle non-tariff barriers which reduce trade between African countries, such as long delays at the borders.

(Source adapted from: <https://www.aljazeera.com/economy/2018/3/20/african-continental-free-trade-area-what-you-need-to-know>)



(8)





SECTION A

Read Figure 1 and the following extracts (A to C) before answering Question 1.

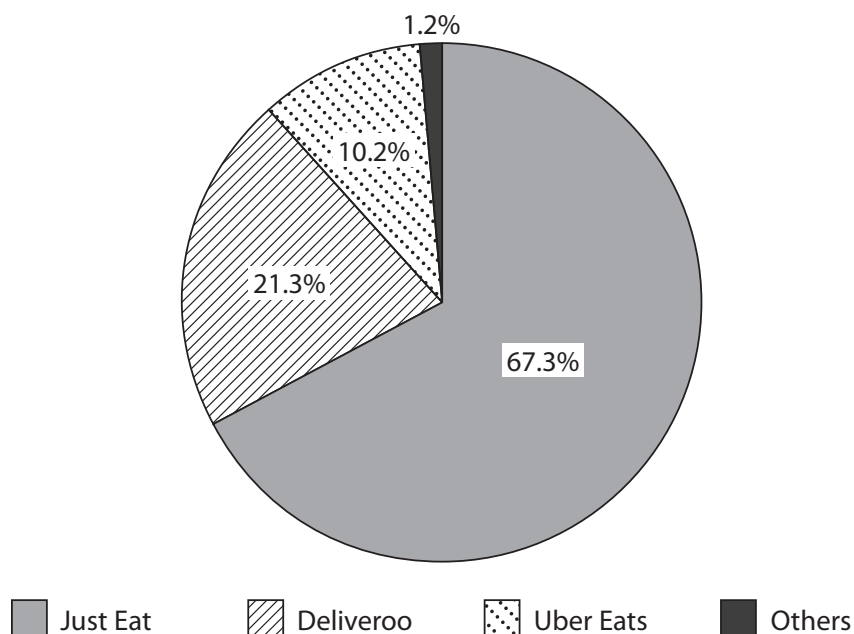
Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**The food delivery industry**

Figure 1: Market share for third-party food delivery services in the UK, 2019



(Source: adapted from <https://onefourzerogroup.com/the-takeaway-takeover/>)

Extract A**National Minimum Wage rises are more significant for 23 to 25-year-olds**

In 2021, the National Minimum Wage main rate, also known as the National Living Wage, rose by 2.2% to £8.91, following a 6.2% rise in 2020. By reducing the age at which people are eligible for the National Living Wage to 23 in 2021, it is estimated that an additional 7.5% of 23 to 25-year-olds could get a 71p an hour pay rise. This amounts to an 8.7% increase, which may cause further financial worries for employers. 5

(Source: adapted from https://www.ndna.org.uk/NDNA/News/Latest_news/2020/Minimum_wages_to_rise_by_inflation_in_April.aspx)

Extract B**What is the true cost of the food delivery service?**

The food delivery industry has boomed in recent years. Just Eat, Uber Eats and Deliveroo all offer very similar services – third-party food delivery firms that take up to 30% of the price of restaurant meals and deliver them to customers within a certain radius. The average spend per customer is around £15 with a £5 delivery fee, about five times more expensive than cooking at home and the same price as eating in the restaurant. Cash rich, time poor professionals increasingly turn to food delivery. 5

Food delivery comes with many layers of packaging. In the UK, there are 200 million meals annually with around 1.4 billion individual pieces of plastic for heat retention and protection when travelling, but does it really have to be plastic? People tend to order more food, often high in fat, sugar and salt, and don't even have to get up from their sofa. 10

But there are concerns that the delivery firms are exploiting employees who have no alternative. There is an issue of low pay and informal contracts. Delivery drivers are classed as 'independent contractors', and therefore not subject to some employment rights including a guaranteed minimum wage, sick pay, pensions or holiday pay. Drivers are paid either a flat hourly rate, or a fee per delivery. Factors such as delivery distance, speed, how busy it is and whether there are multiple drop-offs are all factored into how much a driver is paid. Deliveroo says its wages amount to around £10 per hour, but drivers say that during 2020 their pay has been as low as £1 per hour. Drivers are not paid extra for petrol or to maintain their vehicles. Many drivers are recent immigrants or students, who do not have property or savings to fall back on. 15 20

The government could address this with widening minimum pay legislation to contracted workers, by setting codes of practice, or by setting recommended wage targets. Furthermore, there are health and safety issues for workers. Vehicle safety checks, length of shifts and safety equipment are of concern. However, there are still people who take benefit from working flexibility. 25

(Source: adapted from <https://www.theguardian.com/australia-news/2020/oct/25/home-food-delivery-what-is-the-most-ethical-way-to-order-in> and https://digitalcommons.molloy.edu/cgi/viewcontent.cgi?article=1043&context=bus_fac)



Extract C**Integration in the third-party food delivery industry**

The Competition and Markets Authority (CMA) is watching carefully to prevent any one firm having complete control of the food delivery industry. Just Eat, the market leader, agreed to merge with successful Dutch firm Takeaway.com in 2020, creating a new European leader by revenues. It also bought Grubhub in the US, with 20 million active users. Just Eat uses an aggressive pricing strategy, undercutting delivery fees below the average cost of other firms in the market, that will force them to merge in order to gain some economies of scale. 5

Amazon, having failed with its own delivery company Amazon Restaurants in 2018, has bought 16% of Deliveroo. The CMA took over a year to agree to the partial integration, on the argument that Deliveroo would close down without external investment. Amazon has unique expertise in marketing, increasing customer share and, most importantly, efficiency in delivering things. Food delivery is often uneconomical because a single household puts in a single order from a single restaurant at any one time. Tech companies such as Amazon can improve the business: once a meal has been ordered, an app often moves that restaurant to the top of the rankings for that neighbourhood, in the hope of getting a second and third delivery. 10 15

So why do restaurants turn to these delivery firms? The sheer volume of customers these delivery firms can hold makes it a difficult deal to turn down. But resentment from small business restaurant owners, angry at being wholly dependent on tech companies, is growing. Most restaurants would prefer that customers come in and pick up their orders themselves because they do not have to pay the 30% commission. Restaurant profit margins are small, and the effects of a 20% fall in the external value of the pound since 2016 on food costs are significant, given that over half of their food and drink is sourced outside the UK. 20 25

(Source: adapted from <https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735>
<https://www.ft.com/content/edf8a144-a101-4ef8-80e3-7d2f1565d35c>
 and <https://www.thisismoney.co.uk/money/markets/article-8138703/Uber-set-sell-takeaway-division-rival-Deliveroo-two-years.html> and
<https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735> and
<https://www.ft.com/content/bed7c4d8-28c1-11ea-9a4f-963f0ec7e134> and
<https://www.economist.com/1843/2021/01/26/gulp-the-secret-economics-of-food-delivery>)



(12)







SECTION B

Read the following extracts (A to D) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6**The electronics industry****Extract A****Rising prices of electronics devices**

Computer chips act as the “brain” in all electronic devices. Makers of electronic devices face significant increases in the price of computer chips as they try to source enough components, including games consoles, computers and smartphones. The price of some computer chips has jumped from \$0.20 each to more than \$1. The prices of electronic devices have risen for a range of reasons, including higher material costs and the growing popularity of home entertainment.

5

(Source: adapted from <https://www.ft.com/content/8c718a74-cd95-4b2d-ac0e-de0682e4e3cd>)

Extract B**Labour shortages in the electronics industry**

Every year, highly skilled and experienced employees in the electronics industry retire. The current tight labour market has made an already difficult problem of hiring suitable engineering and computing graduates worse, especially since the nature of the industry is becoming increasingly technical. As production becomes more automated, electronics jobs are more likely to require problem solving and analysis than just assembling skills. However, artificial intelligence and other new technologies can help fill some of the skills gap. In addition, by giving hazardous, repetitive, grimy work to robots, human beings can focus on more creative, analytic tasks.

5

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(Source: adapted from <https://www.ericsson.com/en/blog/2021/12/manufacturing-problems-that-keep-ceos-awake-at-night>)



Extract C**Serious concerns over merger**

The Competition and Markets Authority (CMA) has said the takeover of the Cambridge-based computer chip designer Arm by its US rival Nvidia raises serious competition concerns. It has launched an in-depth investigation into the £29.5 billion deal. The CMA said the merger could reduce choice for firms reliant on computer chips, pushing up prices of products including cars, games consoles and mobile phones. In addition, severe global shortages of computer chips has disrupted the manufacture of a range of electronic goods pushing up costs for firms. 5

Despite this, large electronics firms benefit from economies of scale and are able to finance high-risk innovation and global advertising. 10

(Source adapted from: <https://www.theguardian.com/business/2021/aug/20/watchdog-expresses-concerns-over-nvidias-takeover-of-uk-chip-designer-arm>)

Extract D**The growing problem of electronic waste**

Electronic waste is the fastest growing element of the world's household waste problem. The problem in the UK is particularly bad. The country produces 24.9 kg a person a year – nearly 10 kg more than the EU average. In 2018, 1.2 million tonnes of electrical devices were sold in the UK, and 500 000 tonnes made it to recycling centres. Some appliances are more likely to be recycled than others. The recycling rate for big appliances, such as fridges and cookers, is about 80%. Of small appliances, barely one in five makes it to the recycling centre. As items such as toasters, hairdryers and headphones fit into household bins, they are not often taken to a recycling centre. This causes many problems, such as hazardous substances contaminating soil, water pollution and other external costs. 5 10

Policy makers have a long list of options to combat this problem including stricter regulation, environmental education, taxation and financial incentives. In some countries, for example, household rubbish is weighed and recycling initiatives are subsidised.

(Source adapted from: <https://www.ft.com/content/26e1aa74-2261-11ea-92da-f0c92e957a96>)

(12)







SECTION B

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

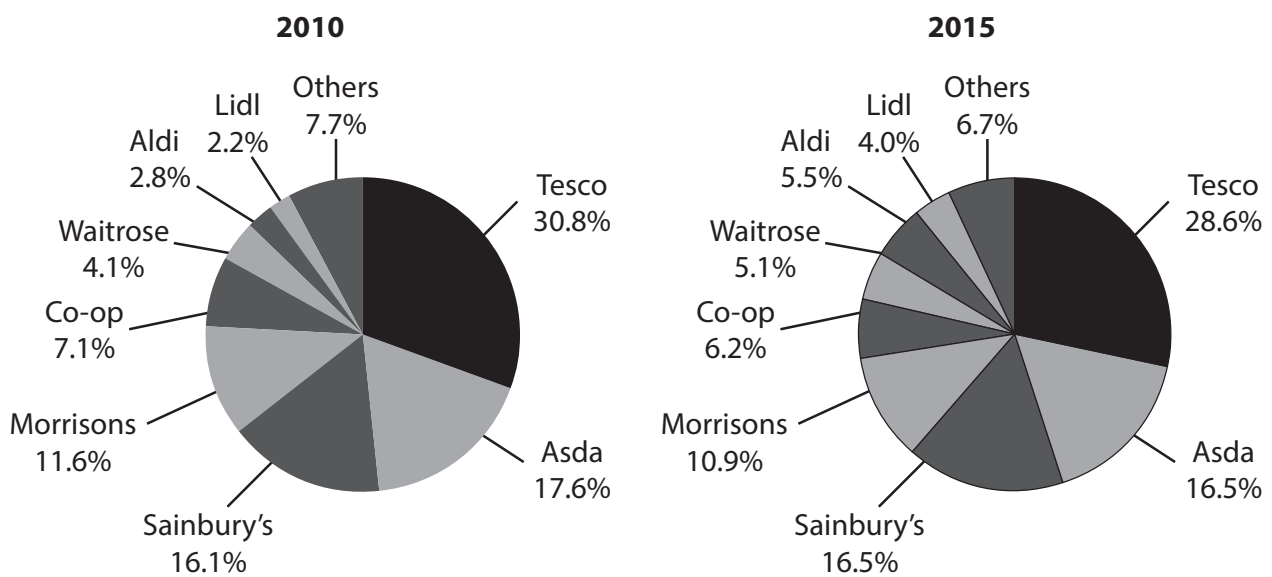
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Supermarket price war, food waste and possible mergers

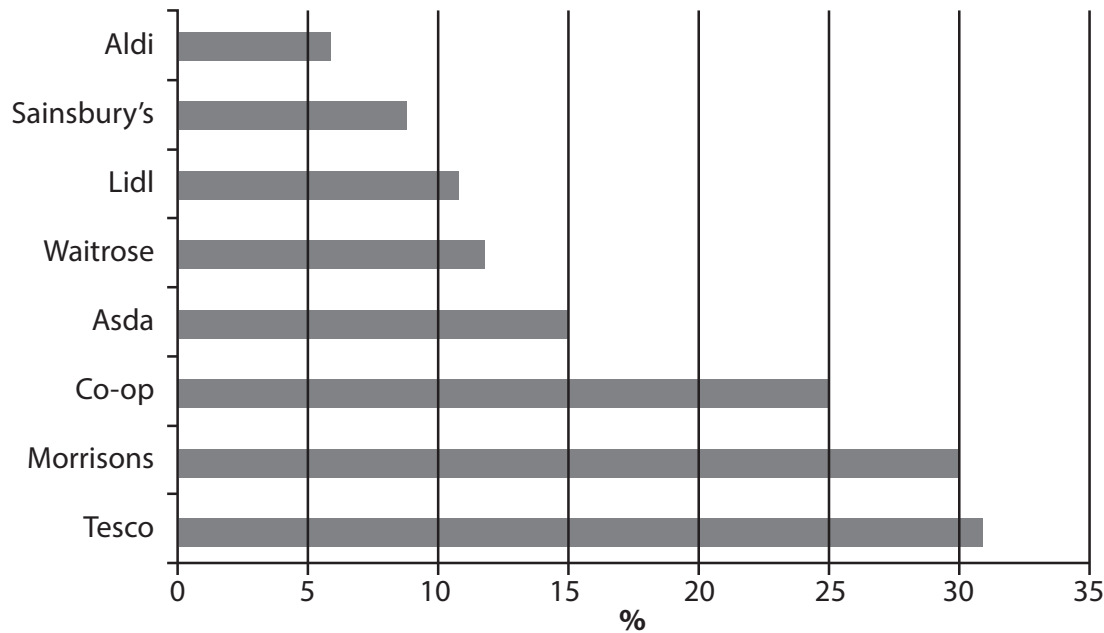
Figure 1: Market shares by total revenue in the UK supermarket sector, 2010 and 2015



(Source: Kantar worldpanel, <http://www.kantarworldpanel.com/en/grocery-market-share/great-britain/snapshot/11.10.15/>)



Figure 2: Proportion of food suppliers reporting that the following supermarkets fail to meet the Groceries Code of Conduct, 2015.



(Source: YouGov poll of more than 1100 food suppliers to supermarkets.
Reported in The Times, 23 June 2015)

Extract A

Supermarket price war puts pressure on their food suppliers

The number of food suppliers (to supermarkets) struggling to remain in business has increased by more than 50% over the past year as supermarkets engage in an intense price war. It has never been tougher for the UK's food suppliers according to a study by accountants Begbies Traynor. It blames aggressive price-cutting by the supermarkets and delays in payments to food suppliers as the main causes of the difficulties. Further problems include food suppliers being forced to pay excessive amounts for packaging specified by supermarkets and funding in-store promotions. Almost 90% of struggling food suppliers are small and medium-sized businesses.

The price war has contributed to food prices paid by consumers falling by 1.7% over the past two years.

The market shares of the big four supermarkets – Tesco, Asda, Sainsbury's and Morrisons – are under pressure as shopping habits change. Many consumers are switching from one main weekly shop to shopping more frequently at local discount stores such as Aldi and Lidl or purchasing goods online from other grocery retailers.

The big four supermarkets have responded by putting more pressure on their suppliers despite an investigation by the Groceries Code Adjudicator (GCA). The GCA has the power to fine supermarkets up to 1% of their annual sales revenue if they break the Groceries Code of Conduct. A YouGov study found considerable differences between the supermarkets in meeting the Code with Aldi performing well but Tesco badly. Despite the Groceries Code, many food suppliers are reluctant to complain for fear of losing contracts with the supermarkets.

(Source: adapted from 'Supermarket price war takes toll on UK food suppliers'. Rupert Jones, The Guardian, 20th July 2015)

Extract B**Food waste in the supply chain**

A report from the British Retail Consortium reveals that supermarkets are directly responsible for around 0.2 million tonnes of food waste every year. This is due to the expiry of use-by-dates and poor handling of stock.

However, 4.1 million tonnes of food waste occurs annually in the food supply chain before it even reaches the supermarkets, indicating the existence of information gaps. The supermarkets are cooperating with food suppliers and farmers to try to reduce this waste. This involves improving forecasts for supply and demand of food and increasing the reliability of transportation and storage. 5

Consumers, the final stage of the supply chain, waste a further 7 million tonnes of food each year. This suggests irrational behaviour. Supermarkets are also working with consumers to reduce the waste by providing advice on how to store and use leftover food. The development of packaging designs to keep food fresher for longer is one of the innovations under way to reduce waste. 10

(Source: adapted from 'Supermarkets tally up food waste bill'. Will Nicholls, in Businessgreen, 19th January 2015. <http://www.businessgreen.com/bg/news/2390792/supermarkets-tally-up-food-waste-bill>)

Extract C**Proposed merger activity in the supermarket sector**

Analysts at Société Générale, an investment bank, have recommended a merger between Sainsbury's and Morrisons. They claim it would lead to increased economies of scale and market power for the combined business. Such a merger between the third and fourth largest supermarkets in Britain would have been unrealistic a few years ago due to concerns of its impact in reducing competition. However, the chances of getting permission from the Competition and Markets Authority have increased following the growth of Aldi and Lidl. Giant mergers have been approved in other sectors such as Lloyds-HBOS (banking) and British Telecom-EE (telecommunications). 5

The suggested merger would have its challenges. There is considerable overlap between the locations of the stores and the enlarged company would require the rationalisation and co-ordination of hundreds of thousands of employees. A new expensive IT system is likely to be required and the underlying difficult market trends would remain in the food retailing industry. 10

(Source: adapted from 'Tesco-bury and AS-Morrisons. Could Britain's supermarkets be about to merge?' Graham Ruddick, in The Telegraph, 16th December, 2015. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11699724/Tesco-burys-and-AS-Morrisons.-Could-Britains-supermarkets-be-about-to-merge.html>)

(15)





TOTAL FOR SECTION B = 50 MARKS



Sources for use with SECTION B

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

Question 6**Digital markets****Figure 1: UK sales of selected best-selling video games, 2022**

Name of game	Game publisher	Sales (quantity)	Game price
FIFA 23	Electronic Arts (EA)	2 530 510	£59.99
COD: MW II	Activision	1 675 323	£59.99
Mario Kart 8	Nintendo	426 748	£39.99
Gran Turismo 7	Sony	356 630	£69.99
Minecraft	Microsoft	219 679	£14.99

(Source: adapted from <https://www.statista.com/statistics/274072/most-popular-games-in-the-united-kingdom-uk-by-unit-sales>)

Extract A**Digital markets**

Digital markets refer to firms producing and buying information technology services. Examples include digital banking, online retailing, computer games and mobile applications (apps). The emergence of digital markets has brought about increased competition across a wide range of products and services. They have also been beneficial for consumers who now have greater choice and access to higher-quality products at lower prices, for example, fashion clothing and language tuition. But while the digital revolution has enabled greater competition, it also presents some challenges for competition law enforcement.

(Source: adapted from <https://pearsonblog.campaignserver.co.uk/digital-markets-reform-of-competition-laws/>)



Extract B**Addictive video games**

When consumers want to play a new video game, there are three payment options to access the full gaming experience. There is the price for the game (see Figure 1), the subscription fee to play online with friends (e.g. £13.99 a month) and there are many in-game purchases. For example, a Spiderman 'skin' which costs £9.99 enhances the appearance of the player. The high prices do not seem to deter many new buyers, especially in markets such as sports and multi-player action games. 40% of the world's population are online gamers. Young players spend up to 10–16 hours a day on their games due to the addictive nature of the games. 5

The video games can take up to five years to develop and cost over £150 million to produce with 200 full time employees working on the software. Starting salaries for software developers can be £100 000. However, some simple video games and apps cost as little as £23 000 to develop and take about six months. 10

All the major firms – EA, Microsoft, Nintendo and Sony – offer subscriptions that give access to new game releases. The US technology company, Microsoft, is one of the dominant firms in the market for subscription services. In October 2023, it merged with the game designer, Activision, which already owns one of the world's most popular video games (see Figure 1). The £65 billion merger is the largest in the history of the video games industry. However, Sony is concerned that the Microsoft-Activision merger may restrict access to popular video games owned by Microsoft and therefore reduce competition. 15 20

(Source: adapted from <https://www.theguardian.com/technology/2023/apr/26/what-does-uks-ban-on-microsofts-activision-blizzard-takeover-mean-for-gaming?>)

Extract C**The growth of automation**

Automation is the use of technology to perform tasks previously carried out by humans. Automation has the potential to bring great economic benefits to both consumers and firms, contributing up to £12 trillion to global GDP by 2030. This extra income will also create demand for many new jobs. However, there are also concerns that it could displace many existing workers. 5

Financial services jobs are most at risk from automation in the shorter term and transport jobs, such as train drivers, in the longer run. For example, the growth of online banking has already led to the closure of many high street bank branches. By the mid-2030s, up to 30% of all jobs could be automated, with slightly more impact on men. 10

Another form of revenue for Microsoft is the artificial intelligence (AI) program ChatGPT. The growth of AI will require highly skilled workers such as trainers and engineers. Microsoft's annual gross profit for 2023 was £146 billion, a 7.69% increase on 2022.

(Source: adapted from <https://www.economist.com/business/2023/03/26/big-tech-and-the-pursuit-of-ai-dominance>)



(15)









SECTION A

Read Figures 1 to 3 and the following extracts (A, B and C) before answering Question 1.

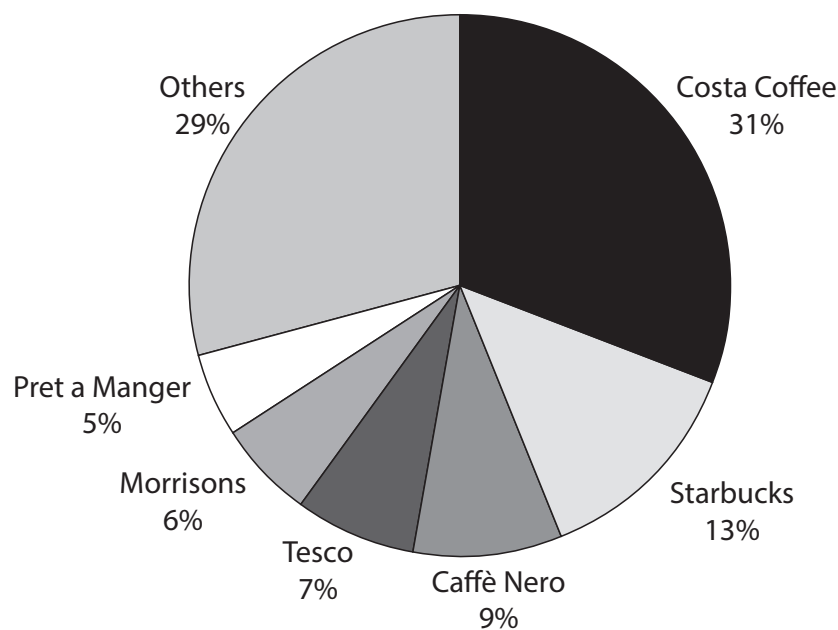
Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**Branded coffee shops**

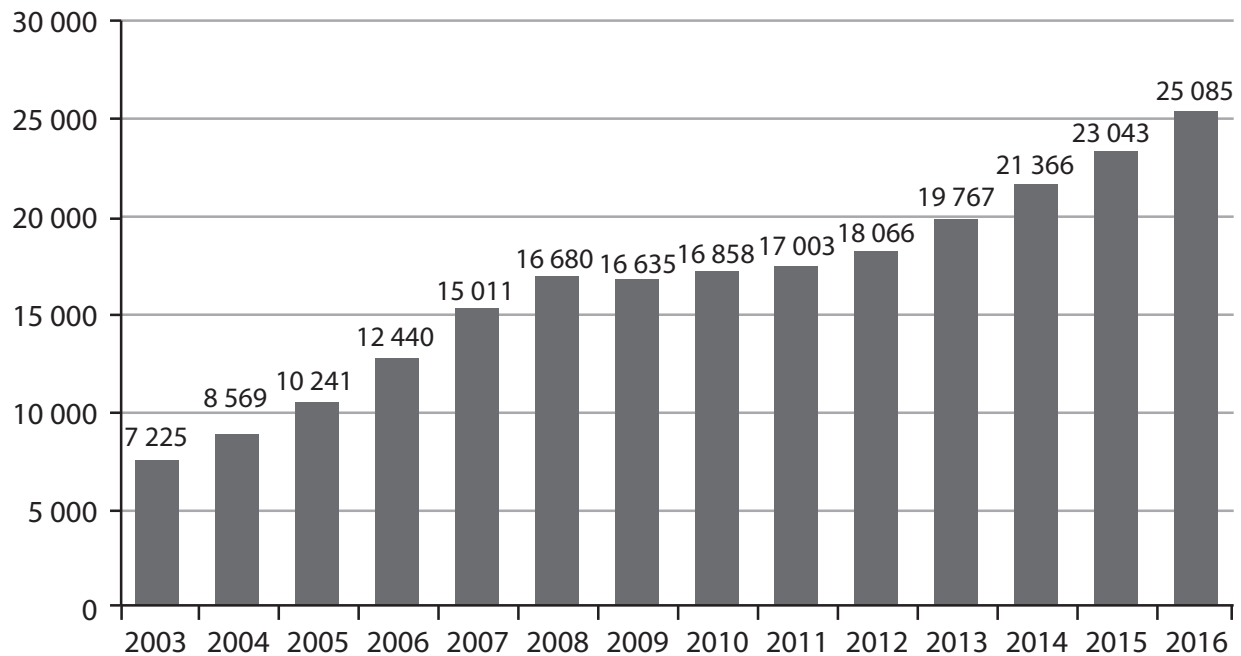
Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

Figure 2: Number of Starbucks coffee shops worldwide, 2003–2016

Number of
coffee shops



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)

Extract A**Starbucks in Britain – a loss-making business?**

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.

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However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.

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Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.

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These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.

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(Sources: adapted from *The Economist* 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax> and Starbucks company report 2016 and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)



Extract B**Tax on disposable coffee cups?**

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."

In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."

Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO₂ emissions of around 83 000 tonnes are generated every year for their production.

(Sources: adapted from <http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html> 05/09/16 and <https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups>)

Extract C**German city of Freiburg takes action on cutting the use of disposable coffee cups**

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.

One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.

(Source: adapted from <http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719>)



(25)

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

(Total for this part = 25 marks)



SUB-TOPIC 3.1.3

DEMERGERS

Sub-topic 3.1.3 · 2 questions · 6 marks · lowest tariff first



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>)

(Total for Question 4(a) = 1 mark)

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

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(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)

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(Total for Question 4 = 5 marks)

MARK SCHEMES

official mark schemes



Question Number	Answer	Mark
5 (a)	Knowledge 1, Analysis 1 Knowledge and Analysis : 1 mark for likely reason for staying small e.g. • Owners wish to maintain control (1) • Avoiding diseconomies of scale (1) • Bettys offers a more personal service (1) • Bettys act as a regional monopoly in Yorkshire (1) • Lack of finance for expansion (1) 1 mark for linked development e.g. • 2 million customers allows them to profit satisfice (1) • Managerial diseconomies may settle in with many tea rooms (1) • As a regional monopoly they can charge higher prices (1) • Cost of opening an additional café (1)	(2)

Question Number	Answer	Mark
5 (b)	Knowledge 2 Knowledge: (1+1) marks for likely reason growth can be described as organic e.g. • Growth is internal (1) opening new tea rooms (1) • There is no evidence that growth is external (1) through integration, merger or takeover (1) • Reinvesting profits from 2 million customers (1) to open new café (1) • Borrowing from banks (1) rather than finance from a takeover (1) • The business has grown naturally (1) without the need to takeover or merge (1)	(2)

Question Number	Answer	Mark
5 (c)	Application 1 The only correct answer is B <i>A is not correct because external economies occur outside a firm but within an industry</i> <i>C is not correct because this is associated with a conglomerate merger whereas this is a vertical backwards merger</i> <i>D is not correct because it could result in greater monopoly power</i>	(1)



Question Number	Answer	Mark
2(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/implicit understanding of two reasons why manufacturing firms stay small, (1+1) e.g. • Size of market/lack of access to export markets/low export earnings due to lack of demand • Absence of economies of scale, or insufficient incentive or ability to grow (apart from access to financial) • Problems of human capital, e.g. lack of educated workforce • Lack of infrastructure making expansion into new areas difficult, or small markets • Actions of foreign firms to foster dependency • Government or international actions to make it hard for firms to grow • Lack of TNC involvement in Mozambique/volatility of currency/capital flight • Firms want to remain close to customers- meet needs with specific goods. • Firms might be manufacturing niche products with inelastic demand and high-income elasticity • Small firms more able to manufacture and sell through selling online and have small assets. • Perfect / monopolistic competition characteristics, e.g. low barriers to entry • Non-economic factors, e.g. natural disasters, political tensions, drought • Cost of finance, cost of servicing loans, financial economies of scale and scope. Do not allow access to finance. Application (1+1 or 2): e.g. • Further depreciation of the metical (Extract E) • Lack of economic stability (Extract E line 26) • Slowdown in FDI (Extract E) • Depressed global demand (Extract E) • Low levels of employment in the sector (Extract E) may imply lack of skilled workers • High interest rates (Fig. 2 and Extract E line 14) • High import costs (Extract E line 15) • Needs urgently to improve its investment environment and confidence (Extract E line 17) • Large scale emigration (Extract E) • High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small • 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms.	



	Analysis (1+1) • Development of each point, up to 1 mark for each valid factor Evaluation (2 marks for any relevant point, two points 1+1): • The development of the gas fields (Extract E) will 'transform the economy' • Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing • may consider whether this is because of choice or lack of opportunity • Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded. NB Access to finance <i>may</i> be credited as part of the evaluation but not as KAA	(8)
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Question Number	Indicative content	Mark
2(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Knowledge: Identification of two reasons why firms remain small (1 + 1) e.g. • limited size of market e.g. niche/local • owner objectives • access to finance • regulation • behaviour of larger firms in the market • lack of economies of scale/avoid diseconomies of scale • tax benefits • enables more focus/improved customer service • more contestable / competition Application: (2 marks for any developed point, or two points 1 +1): e.g. • examples of small high street retailers e.g. - independent food retailers, nail & beauty salons, charity shops or own example as application • 'rise of online retailers such as Amazon and eBay' • 'cannot compete on price with online retailers' • 'forced to close due to lost business' • 'limited access by car & expensive parking facilities' • 'competition eroding high street activity' • 'more diverse & family-run' • 'they lower the barriers to entry' • 'offering local or personalised services' • 'They also enable risk taking and innovation' • 'small firms to flourish' e.g. cater for specific needs, reinvent themselves • 'fragmented ownership, lack of centralised coordination and high vacancy rates' Analysis (1+1) Development of points made e.g. • higher unit costs • large firms have power to set lower prices • higher fixed costs • constraints on growth e.g. unable to increase sales • unable to raise finance to fund purchase on new assets	



	• gain loyalty from customers who live local • owner wants to retain control of business Evaluation (2 marks for any relevant point, or two points 1 +1): e.g.	
	• short run / long run arguments e.g technological advances / infrastructure changes • combination of factors • discussion of whether it is their choice to remain small or whether there are constraints on their growth e.g. insufficient profits for growth external factors may change their decision e.g. recession even when • 'staff shortages are pushing up wages', wealth • effects of house prices falls, damaged consumer confidence, Ext. C last paragraph	(8)

	Application: (2 marks for two points 1 +1) e.g. • Britain has replaced coal-fired energy production with wind power to reduce carbon emissions • It has become dependent on gas imports • Calm weather reduced UK wind turbine energy production to 11% of capacity • Gas generates a third of UK electricity • 85% of homes use gas central heating • Burning gas generates heat • Carbon emissions from gas power stations • Greenhouse gases from gas power stations • Visual pollution from power stations Evaluation: (2 marks for any relevant point, or two points 1 +1) • Difficult to quantify/measure and give a monetary value to external costs • There may be external benefits e.g. the country reduces dependence on imports of electricity / create employment opportunities • Would need to do a full cost/benefit analysis to assess the full impact • Impact depends on the magnitude of the use of gas in generating electricity • Natural gas is less bad than burning coal • Short run vs long run: the problem may reduce as renewables become cheaper relative to fossil fuels • Depends on level of government intervention in the market	(8)
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Question Number	Indicative content	Mark
1(c)	Knowledge 2, Application 2, Analysis 4 • Use of data to show many new entrants but they then leave • Lack of economies of scale of new entrants • Lack of potential growth of the market • Lack of access to finance for capital spending or other physical constraints • Lack of innovation/dynamic efficiency • Owner objectives e.g. profit satisficing • Government regulation e.g. price cap • Predatory pricing or other action by incumbents • Irrational behaviour/brand loyalty • Fluctuations in wholesale gas prices • Lack of information (e.g. not forward buying gas) • Labour market shortages	(8)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
1(c) continued	Evaluation 4 • Prioritisation of the most important constraint • Significance of constraints change over time • Short run vs long run considerations • Combination of constraints have a bigger impact on business growth • Fewer economies of scale needed if just a retail operation, and not wholesale • If the regulators were more effective then the market could allow new businesses to develop • Firms may choose to stay small if they believe it to be more profitable • Different firms face different constraints • Firms that demonstrate innovation have been able to grow e.g. Octopus	(4)



Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
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Question Number	Indicative content	Mark
1 (d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for causes of the number of firms in an industry to change. Microeconomic causes may include: • nationalisation • privatisation • contestability • market power • economies of scale – natural monopoly • regulation and deregulation • oligopoly behaviour • barriers to entry e.g. factors linked to demand- tastes-preference for HCW over automatic, income, availability of substitutes- decline in automatics Macroeconomic causes may include: • economic growth – e.g. a growing market means more firms will enter • trade patterns • level of protectionism • government policies e.g. supply side policies • TNCs and FDI • unemployment (especially given recent events) • inflation- if inflation is high, costs rise and if unable to increase prices, then firms may exit the market • Level of environmental protection- adds to the costs and may reduce the number of firms. • Exchange rates - if appreciated - costs to import lower and export higher - exporters may exit the market • Relative poverty high and rising - more demand low costs HCW increasing demand and market size - more firms NB for a Level 4 response there must be micro and macro cause(s). Foreign direct investment, role of TNCs, or regulation could be seen micro or macroeconomics NB for a Level 4 response there must be reference to an industry	



	9 marks for evaluation – points might include: • Depends on the nature of the business. Another industry could be used as a contrast, e.g. a capital intensive industry • Depends on the LRAC and the minimum efficient scale in the current situation • Changes over time – barriers to entry or exit are likely to change e.g. in the face of new technology in car wash industry or other industry • Exchange rates go up and down so could equally depreciate • Environmental protection may create more demand as it is a more ethical service and not cause the number of firms to fall	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.



Question Number	Answer	Mark
4(b)	Analysis 1 The only correct answer is D <i>A is incorrect as tacit is the opposite to overt</i> <i>B predatory pricing aims to price below AVC to destroy a competitor rather than cooperate with them</i> <i>C Price war aims to steal customers from a competitor rather than cooperate with them.</i>	(1)

Question Number	Answer	Mark
5(a)	Knowledge 1 The only correct answer is C <i>A is not correct because this would involve merging with a supplier</i> <i>B is not correct because this would involve merging with a consumer</i> <i>D is not correct because this is external not internal growth</i>	(1)



Question Number	Answer	Mark
5(b)	Knowledge 1 Analysis 1 Knowledge e.g. - Commercial/purchasing/ bulk buying (1) - Technical (1) - Financial (1) - Managerial (1) - Marketing (1) Analysis e.g. - Lower LRAC (1) - Cheaper steel /monopsony buying power (1) - Larger factory space/delivery vehicles/robots (1) - Lower interest charge on larger loans to fund car factory expansion (1) - New e-car design director/specialist managers (1) - Discounted advertising (1)	(2)

Question Number	Answer	Mark
5(c)	Knowledge 1 Analysis 1 Knowledge Concerns e.g. - Against consumer (1) - Against national economic interests (1) - Increased monopoly power/reduction in competition/increased market share (1) Analysis Linked development e.g. - Lack of choice for consumers/loss of consumer surplus/force competitors out (1) - Increased prices/exploit consumers (1) - X-inefficiency – lack of investment (1)	(2)



Question Number	Answer	Mark
6(b)	Knowledge 2, Analysis 2, Application 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of two likely benefits to the consumers (1+1) e.g. • Lower prices • Improved product quality • More innovative products • Better customer service • Better bundles/packages/choice Analysis: 1 mark for linked explanation of each identified benefit (1+1) e.g. • A benefit to the consumer is cheaper prices (1K) as BT has greater purchasing power (economies of scale) OR consumers can buy more goods/services with their income OR increased consumer surplus (1An) • A benefit to the consumer is the greater availability of bundles/packages (1K) this therefore means that they can spend less overall when buying products together rather than individually on separate contracts(1An) Application: 2 marks for reference the context of the BT and EE takeover (1+1), e.g. • Multi-brand strategy (1) • Mix of BT, EE and Plusnet services (1) • Greater value bundles of services (1) • Compete for their business (1) • Controlling 35% of market share (1) Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g. • Potential problems to the consumer ○ Higher prices in the LR due to diseconomies/monopoly power/x-inefficiency ○ Lack of choice as control 35% of market ○ Restriction of new competitors ○ Slowed pace of technology ○ Poor customer service • Depends on the actions and behaviour of rival firms • Depends on the extent to which cost saving measures are passed on to the consumer • Depends on the degree of future regulation within the industry	(8)



2(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Knowledge/understanding of two problems (1 + 1) e.g. • Lack of economies of scale • Lack of human capital/lack of information • Expensive capital equipment • High costs of importing raw materials • Foreign currency gap • Inconsistent supply of energy • Access to finance/high interest rates on bank loans • Monopsony power of chocolate buyers • Climate change/access to water • Problem of expanding in a market with inelastic demand Application: (2 marks for any relevant point, or two points 1 +1): e.g. • There is neither a local sugar nor dairy industry • Imported milk and sugar would increase the cost of production significantly • Producing chocolate requires consistent refrigeration • Major obstacle for entrepreneurs without substantial funds • Rural parts of Ghana do not have access to energy • Interest rates on loans between 18%–20% • Farmers make \$1 a day so can't invest in the farm Analysis (1+1) Development of points made, e.g. • Increases firms cost of production and therefore export prices rise • Expensive imported raw materials add to production costs for firms reducing international competitiveness • Less FDI into the industry resulting in lower growth • Productivity remains low • Use of diagram to explain relevant concept Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • Combination of problems prevent expansion • Short run vs long run considerations e.g. government pledged to solve structural issues, such as 'One District One Factory programme' • Significance/prioritisation of the main problem • Different parts of supply chain affected differently • May not be a problem for cocoa farmers e.g. inelastic demand could lead to significant price rises NB Candidates may refer to any part of the chocolate industry in Ghana e.g. farmers, distributors, manufacturers, retailers	(8)
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Question Number	Indicative content	Mark
1(c)	Knowledge 2, Application 2, Analysis 4 Points might include: • integration includes horizontal/vertical/conglomerate joining of firms • leads to economies of scale • increased market share • removal of competition • increased monopoly power • international rivals can avoid taxes • prices higher for consumers • reduced choice for restaurants and consumers • monopsony power over restaurants • technical advantages of vertical integration • vertical power over firms can leave other firms with high barriers to entry • Just Eat has bought out rivals e.g. merger between Just Eat and Takeaway.com • Amazon has partially bought Deliveroo (16% so far) which may have saved it, and/or improved it on the tech side NB effects might include more than one types of economies of scale, or other combined analysis. Award diagrammatic analysis e.g. economies of scale LRAC	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.



Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
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Question Number	Indicative content	Mark
1(c) continued	Evaluation 4 • mergers might be necessary to ensure the survival of firms (e.g. Deliveroo case) • further mergers might be limited by the CMA • supernormal profits might lead to lower prices, better technology and/or a more consumer-led market • prices may fall due to fall in average costs due to e.g. economies of scale • diseconomies of scale	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.



6(d)	Knowledge 2, Application 2, Analysis 4 • CMA role/concerns/rejects merger • Reference to Nvidia and Arm Concerns might include: • Greater monopoly power/higher prices/lowering consumer surplus/less allocative efficiency • Lower output/choice • Lower quality/customer service • X-inefficiency or diseconomies of scale resulting in less innovation/higher prices • Less competition/higher barriers to entry • Collusion/other anti-competitive practices • Shareholders put before consumers N.B. A diagram may be used to illustrate some of these concerns e.g. higher supernormal profits or a lack of allocative efficiency N.B. Two concerns required for KL3 N.B. KAA may be used as Evaluation and viceversa	(8)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.



Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.	
Question Number	Indicative content		Mark
6(d) continued	Evaluation 4 • Economies of scale from horizontal merger - lower prices/increased output • Improved customer service – being closer to the consumer due to vertical integration • ‘Finance high-risk innovation and global advertising’ • Increased global market share/sales • Dynamic efficiency/synergy – profits reinvested into innovation/higher quality • Investment deal of £29.5bn funds innovation/quality /choice • The CMA investigation itself may prevent merger/ there may be fines if the firm exploits consumers • Imposition of price caps • The merger may not reduce competition		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	

Question Number	Indicative content	Mark
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Question Number	Answer	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Problems of merger include: • CMA may block this horizontal merger since the combined firm has 27.4% market share/ exceeds the 25% legal monopoly figure. • Costs to the firms: possible diseconomies of scale such as overlap between location of stores/ co-ordination of staff/ redundancies/ implementation of new IT system (different types of diseconomies of scale may be awarded separately). • Impact of merger on consumer loyalty: the new store may not deliver consumer loyalty, for example, different brands between stores. • Lack of synergies and cultural clash • Underlying market conditions remain: consumers changing their shopping habits and merger does not address this issue. • Impact on food suppliers: increased monopsony pressure on suppliers may lead to reduced choice of food suppliers. An increased risk of GCA investigation. • Consideration of problems of other mergers and acquisitions: for example, BT takeover of EE. NB for a Level 3 response there must be reference to the context e.g. Figure 1 or Extract C.	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 • There may be benefits which offset the problems, such as ◦ different types of economies of scale e.g. bulk purchase ◦ rationalisation of stores and employees could lead to increased efficiency and profitability ◦ increased market power • CMA could permit merger as sufficient competition still exists in the sector from online shopping and the growth of discount stores. • Prioritisation of problems with justification, for example, a lot of money could be spent on the proposed merger which is then blocked by CMA. • Short-run and long run implications: enormous upheaval in short run but sufficient cost savings could be made in long run to make it worthwhile.	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Understanding of integration - Horizontal, in the sense of Microsoft's ownership of Minecraft - Vertical in the sense of the X-Box manufacturer buying Activision, a game designer Benefits include: - Access to Activision's catalogue of titles: Microsoft will now own COD: MW II which had sales of 1 675 323, increasing the company's market share - These additions to its product portfolio (diversification) will enable Microsoft to generate a strong competitive advantage over rivals such as Sony - Removing titles and taking market intelligence away from competitors which helps to make a market less contestable i.e. it increases market power and profits - Can gain economies of scale e.g. technical, financial - Control of the supply chain – this helps to reduce unit costs and improve the quality of inputs into the game design/development process - Microsoft can move away from hardware into online and subscription gaming model which is the future of the industry – 'Microsoft is the dominant firm in the market for subscription services.' - Better control over retail distribution and adding new games to its subscription services to build business revenues - Improved access to key developers, perhaps at the expense of major rivals, who must then pay more for published titles - Communication issues may be overcome by technology. E.g. Microsoft can have meetings via Teams	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of

		economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 Disadvantages include: • Mergers can often create new problems of control, communication and coordination within the bigger more disparate firm • It can lead to diseconomies of scale where the new bigger firm is more inefficient • Growth can lead to synergies but there is also a risk of culture clashes and resistance to change e.g. there were issues with the conduct of some of Activision's employees, resulting in the State of California suing them • Cost of the merger is significant – '£65 billion' and it could incur very high legal fees/overhead costs • Microsoft becomes increasingly vertically integrated controlling key elements of its supply chain, hence increasing scrutiny by the competition authorities e.g. merger was blocked by the UK's Competition and Markets Authority (CMA) • Vertical mergers will have fewer economies of scale because production is at different stages of supply • The acquisition is likely to raise concerns in terms of competitiveness of the industry • Pricing power may not be that strong – Microsoft's Minecraft is only £14.99, less than half of the price of all the other titles in Figure 1 • Asymmetric information with mergers. E.g. major product releases may have to be delayed because of issues Microsoft was previously unaware of	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
1(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic influences may include: • Level of demand or expected demand, prospect for profit • Cost of labour, minimum wage, spare capacity in the labour market • Rent/land prices • Contestability of market/barriers to entry e.g. how long and it takes and ease of setting up business • Legal system and other legislative issues • Property rights • Extent of regulation • Existing PED • Brand loyalty • Sunk costs Macroeconomic influences may include: • Levels of competitiveness e.g. price and non-price, which might relate to competitiveness ranking, e.g. infrastructure, human capital, institutions • Macroeconomic environment, e.g. inflation • Membership of EU or other trade bloc issues • Value of currency • Level of corporation tax. • Transfer pricing possibility, as outlined in Extract A, as impact on profitability (not costs) • Level/rate of national income/economic growth and spare capacity/unemployment • Growth of household incomes in different countries, e.g. Chinese coffee shops are the most profitable, growing quickly in number • Strength and stability of local economy • Political and social stability NB competitiveness, corporation tax, incomes, unemployment and contestability can be seen as a micro or macro approach. • Possible evaluation points include: • Factors might balance each other out • Changes in tax rates, e.g. government cutting corporation tax significantly • Starbucks is starting to report UK profits – perhaps it has had too much negative publicity from the low profit tax paid, Extract A reduction by a third in sales at Starbucks. Also it is moving headquarters from Netherlands to UK • Different influences affect different firms	(25)



Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.



Question Number	Answer	Mark
4(a)	Analysis 1 The only correct answer is C A is not correct because the external economies of scale being the most likely reason would indicate that the market contains mostly small firms in a perfectly competitive market which is not evident in the stem. B is not correct because companies merging are more likely to benefit from internal economies of scale D is not correct because a demerger will usually reduce market share and it could be argued in this case that the two businesses are unrelated.	(1)

Question Number	Answer	Mark
4(b)	Knowledge 2 Application 2 Profit = TR – TC or TC = TR – Profit OR 72.8 million – 14.4 million (1) Calculation of profit in 2016 17.5 million/1.215 = 14.4 million (1) Calculation of total revenue in 2016 75.8 million/1.041 = 72.8 million (1) Award full marks for the answer = £58.4 million NB – simply stating 58.4 million is 4 marks simply stating 58.4 is 3 marks	(4)

