

'A' level: Economics B

Paper 1 practice papers

Markets and how they work

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Contents

These three Paper 1 practice papers have the following key features:

1. They are laid out in the general format of the Paper 1 examination, and so help students to become familiar with the approach which they will face when they sit the Paper.
2. Accompanying each test is a mark scheme, based around Edexcel's own mark schemes. These both assist the teacher in marking students' work, and helps students understand what they need to do to improve their mark.
3. Also accompanying each test is a set of suggested answers. These are rather longer than most students would have time to produce in an examination setting, and also contain more analysis and detail than students would be expected to know. They inevitably contain some points of view personal to the author. They should therefore be seen as an example of how the questions might be tackled rather than as definitive responses.
4. Pagination has been organised so that Question 1 can easily be photocopied separately from Questions 2 and 3. This is also true of the mark schemes and suggested answers.

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November 2017

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Economics B

Advanced

Paper 1: markets and how they work

Time: 2 hours

You do not need any other materials

ECONOMICS B, PAPER 1: FIRST PRACTICE PAPER

Instructions

Write in black

Fill in the boxes at the top of this page

Answer all questions in the spaces provided

Information

Total marks: 100

This gives you one minute per mark plus 20 minutes reading time

Use this to time your answers

Calculators are permitted

Advice

Read each question very carefully

Try to answer every question

Check over your answers if you have time at the end

Answer ALL questions

SECTION A

Read the following extracts (A to D) before answering Question 1.

Extract A

Everything we thought we knew about supermarkets has turned out to be wrong

It used to be the case that the more expensive the supermarket the better the food was. So Waitrose was for rich people, Sainsbury's came next, then Tesco – with Asda bringing up the rear. This view of supermarket shopping has been changed by the new German discount stores, Aldi and Lidl. In just five years Aldi has raised its supermarket share from 2.6% to 7%, while Lidl has increased its market share from 2.5% to 5.2%.

Their relentless focus on cost reduction and quality produce has proved a winning formula. "UK consumers used to think you had to pay more for better products", says Aldi's UK managing director Roman Heini. "We have shown that this doesn't have to be the case". Average costs have been reduced by choosing cheap locations away from high streets and by offering a reduced product range. Customers do their own packing, and paid for plastic bags long before the UK government made this compulsory. Expensive credit cards, which charge the retailer a percentage of sales, are not accepted.

Meanwhile a relatively small store size makes it quicker to shop, and there is less emphasis on 'big name' brands, whose prices reflect substantial marketing expenditure. Professor Evanschitzky of Aston Business School has said, "Supermarkets have to get used to this 'new normal' of low profit margins. The Big Four – Tesco, Morrison's, Asda and Sainsbury's – must accept their falling market share. The best option for them now is to shrink their business gracefully."

Extract B

Supermarket	UK market share 2017
Tesco	27.8
Sainsbury	15.8
Asda	15.3
Morrisons	10.4
Aldi	7
Co-Op	6.3
Lidl	5.2
Waitrose	5.1
Other	7.1

Extract C

Online grocery sales as a percentage of all grocery sales		
Country	2015	2016
South Korea	14.6%	19.7%
UK	6.7%	7.3%
China	4.0%	5.7%
France	5.1%	5.5%
Spain	1.3%	1.7%

Extract D**Amazon launches an online supermarket service in the UK**

From June 2016, Amazon customers in parts of London have been able to order a weekly shop from Amazon and get it delivered the same day. Known as Amazon Fresh, it will be the last thing the Big Four grocers wanted to hear. Offering convenience, competitive pricing and one-stop shopping Amazon is rightly feared by its rivals. Amazon has built its success on going after market share with cheap prices, rather than maximising immediate profits.

Morrison's has felt unable to resist the Amazon giant and has struck a deal whereby, in return for a percentage of sales revenues, Morrison's groceries are available on their rival's website where they compete with Amazon's own offerings.

Not that Amazon is leaving existing bricks-and-mortar stores unchallenged. In the USA it has rolled out trial stores known as Amazon Go. Customers enter the store by swiping their smart phones, put food in their baskets and then walk straight out. Other than a security guard and a shelf-stacker no employees are required. Cameras record what they pick up and customer accounts are then automatically charged for their shopping. Combined with its acquisition of Whole Foods – the American upmarket equivalent of Waitrose - in early 2017, Amazon represents a potential long-term threat to UK grocery stores as well.

Sources: press reports, 2015-2017

1a Using Extract B, calculate to one decimal place the four-firm concentration ratio of the UK grocery market. **(4)**

1b Grocery sales in the UK were £186 billion in 2015. Using Extract C, calculate to two decimal places the value of UK online grocery sales in the same year. **(4)**

1c Using a market map, illustrate how Aldi and Lidl have positioned themselves in the UK grocery market. **(4)**

1d Analyse the impact of new technology, such as that trialled by Amazon Go (Extract D), on the supply curve of the grocery industry. **(6)**

1e Discuss the impact on grocery retailers of increases in unemployment. **(8)**

1f There are still 32,000 small independent grocery retailers but their numbers are falling fast. Assess **two** economies of scale which may be causing their decline. **(10)**

***** **SAMPLE** *****

Mark scheme for Economics B, Paper 1: First practice paper

Q		Mark
1a	<p>Using Extract B, calculate to one decimal place the four-firm concentration ratio of the UK grocery market.</p> <p>Knowledge/understanding 1, Application 3 Knowledge: For formula: 4 firm concentration ratio = sum of 4 largest firms' market share (1) Application: up to 3 marks for calculations $27.8+15.8+15.3+10.4$ (1) $= 69.3\%$ (2)</p> <p>69.3% on its own scores 4; 69.3 on its own scores 3</p>	4

Q		Mark
1b	<p>Grocery sales in the UK were £186 billion in 2015. Using Extract C, calculate to two decimal places the value of UK online grocery sales in the same year.</p> <p>Knowledge/understanding 1, Application 3 Knowledge: For formula: Total grocery sales times percent of online sales = total online sales (1) Application: up to 3 marks for calculations $£186 \text{ billion} \times 6.7\%$ (1) $£12.46 \text{ billion}$ (2)</p> <p>£12.46 billion or £12.46bn on its own scores 4; 12.46 billion or 12.46bn on its own scores 3; 12.46 on its own scores zero</p>	4

Q		Mark
1c	<p>Using a market map, illustrate how Aldi and Lidl have positioned themselves in the UK grocery market.</p> <p>Knowledge/understanding 2, Application 1, Analysis 1 Knowledge/understanding: For each credible axis (1+1) e.g. high price/low price; small stores/large stores; expensive location/cheap location; high level of service/self-service; large product range/small product range; national brand focus/own brand focus Application: Aldi & Lidl in correct quadrant e.g. low price/small stores/cheap location/self-service/small product range/own brand focus (1) Analysis: For at least one other store placed in its correct quadrant (1)</p>	4

Demonstrating application:

1. Where the question specifically stipulates use of an Extract, students
 - a) must directly reference or analyse information in the relevant Extract
 - b) may, in addition, use their own knowledge provided it is directly relevant to the context of the question.
2. Where the question does not specifically stipulate use of an Extract, students
 - a. must use their own knowledge which is relevant to the context
 - b. may, in addition, reference an Extract provided it is directly relevant to the context of the question.

Q		Mark
1d	<p>Analyse the impact of new technology, such as that trialled by Amazon Go (Extract D), on the supply curve of the grocery industry.</p> <p>Knowledge/understanding 2, Application 2, Analysis 2</p> <p>Knowledge/understanding: Supply curve: quantity supplied at each and every price (or a supply curve drawn with both axes labelled) (2)</p> <p>Application: By saving the costs of employing staff, new technology will increase supply (or diagram showing supply curve shifting down and out). (2)</p> <p>Alternatively, may reward less credible argument that new technology costs more than it saves, shifting the supply curve inwards/upwards. (2)</p> <p>Analysis: Any extension e.g. costs will only fall when technology is rolled out across a significant proportion of stores e.g. impact may be limited by growth of online shopping. (2)</p> <p>May also reference falling equilibrium price and increased equilibrium quantity, although the question does not require this. (1)</p> <p>Note: the question does not require a diagram so full marks may be obtained without one. A fully-labelled diagram showing an outward shift in the supply curve may score up to 3, with the remaining 3 marks for written explanation.</p>	6

Q		Mark
1e	<p>Discuss the impact on grocery retailers of increases in unemployment.</p> <p>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Possibility of falling wages reducing costs. • Reduced costs lead to lower prices and increased sales. • Possibly a reduced industry turnover as the unemployed spend less. • Inward shift in demand curve will reduce prices, sales levels and profits. • Possible gain in market share for discounters like Aldi/Lidl. • Demand will only be marginally reduced due to necessity of buying groceries (low YED). • Fall in demand will affect mid-range grocers more; discount grocers may actually gain sales (if inferior good). • Outcome dependent on extent of increase in unemployment and its duration. 	8

Level	Mark	Description for 1e
	0	Completely inaccurate
L1	1-2	Elements of knowledge, little or no relevant evidence, limited attempt to address the question.
L2	3-5	Elements of knowledge, limited relevant evidence, developed chains of reasoning, judgements may be attempted.
L3	6-8	Accurate knowledge, well-chosen relevant evidence, developed arguments with balanced awareness of competing arguments.

Suggested answers for Economics B, Paper 1: First practice paper

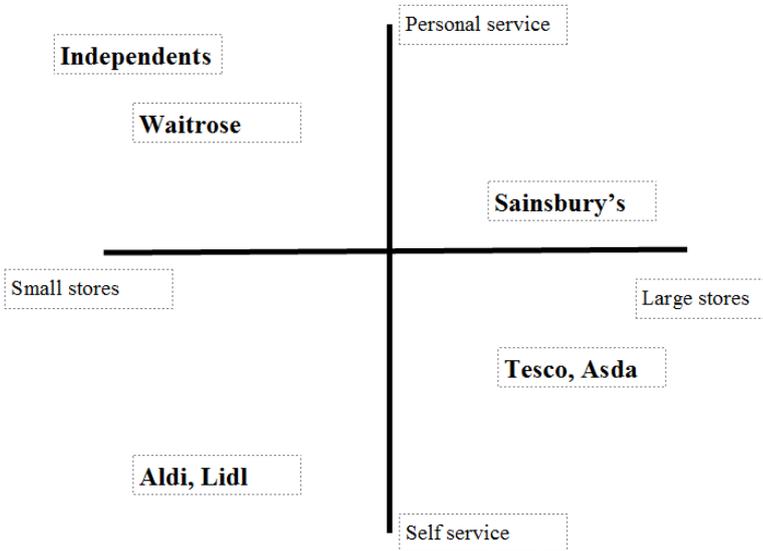
1a Using Extract B, calculate to one decimal place the four-firm concentration ratio of the UK grocery market. **(4)**

The four-firm concentration ratio is the sum of the market shares of the four biggest firms in an industry. In this case they are Tesco (27.8%), Sainsbury (15.8%), Asda (15.3%) and Morrison's (10.4%). These sum to give a 4-firm concentration ratio of 69.3%.

1b Grocery sales in the UK were £186 billion in 2015. Using Extract C, calculate to two decimal places the value of UK online grocery sales in the same year. **(4)**

From Extract C we know that online sales took a 6.7% share of the UK grocery market in 2015. So the total value of these online sales equals the total UK grocery market in 2015 times 6.7%. This gives a sales revenue of £186 billion times 6.7% = £12.46 billion.

1c Using a market map, illustrate how Aldi and Lidl have positioned themselves in the UK grocery market. **(4)**



1d Analyse the impact of new technology, such as that trialled by Amazon Go (Extract D), on the supply curve of the grocery industry. **(6)**

New technology usually reduces costs. This will certainly be the case with Amazon Go whose queue-less stores will be able to operate with many fewer staff. As the concept is rolled out across more and more stores so the fixed costs of developing the idea will be spread out over multiple units leading to ever-lower average and marginal costs.

Now supply curves reflect the marginal costs of production. The grocery industry supply curve will therefore shift downwards and to the right, leading to lower prices and increased quantities across the industry. This will not happen overnight: it may well be a few years before shoppers notice lower prices. Indeed lower prices may be concealed behind a rise in the cost of wholesale food globally driven by expanding, wealthy populations in Asia. Nevertheless, the supply curve itself will have shifted to the right, other things equal.

***** **SAMPLE** *****