



A-Level Edexcel Economics: Oligopoly Past Paper Questions

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Question 1

The following table shows global sales of PCs by company in 2015.

Company	Sales of PCs (million)
Lenovo	57 182
HP	53 534
Dell	39 049
Apple	20 794
Acer Group	19 680
Others	86 461
Total	276 700

(Source: IDC, reported in *The Times*, 14th January 2016)

(c) Calculate the five-firm concentration ratio. You are advised to show your working.

(2)

Question 2

Firms tendering for a private finance scheme from the government verbally agree with each other to fix a higher price than if there were independent bids. This is an example of:

(1)

- A** tacit collusion
- B** overt collusion
- C** symmetric information
- D** monopolistic competition
- E** regulatory capture.

Answer

☐

Explanation

(3)

Question 3

The grid below shows the possible pricing strategies of two ice-cream companies Juju and APJ. Assuming that demand is price inelastic, which of the following strategies shown in the grid would maximise the revenue of the two firms?

(1)

		Juju's price	
		High	Low
APJ's price	High	A	B
	Low	C	D

- A** Both firms set a high price
- B** APJ sets a high price and Juju a low price
- C** Juju sets a high price and APJ a low price
- D** Both firms set a low price
- E** Both firms set a price to increase consumer surplus.

Answer

Explanation

(3)

Extract 2 Kraft takes over Cadbury to become world's biggest confectioner

The management practices of multinational companies tend to be better than the average in any country they operate in. In theory, then, Kraft's takeover of a British firm should bring better management to Britain. One problem: Cadbury is itself a multinational, and in no need of lessons from Kraft.

(12)

Question 5

Early in the morning on 19 September 2013, Microsoft revealed that the price of its new games console Xbox One would be £429 in the UK. Later that day, Sony announced that its new PlayStation 4 games console would be sold for £349 in the UK.

One possible reason why Sony chose to price its product significantly lower than Microsoft was because

(1)

- A** it had first mover advantage
- B** it wanted to undercut Microsoft and take a large market share
- C** it wanted to benefit from relatively price-inelastic demand
- D** it was colluding with Microsoft
- E** it had higher sunk costs in developing the new games console

Answer ☐

Explanation

(3)

Question 6

Supermarkets selling freshly baked bread are operating in an oligopoly. They tend to keep prices stable for a popular, frequently compared product, an 800 gram white loaf. One reason for this might be

(1)

- A** supermarkets know that the pricing decisions of one supermarket will impact on those of other supermarkets
- B** supermarkets are independent and base their prices on costs alone
- C** there is heavy regulation in the industry to prevent tacit collusion
- D** supermarkets are unable to engage in non-price competition
- E** if prices were cut by one supermarket then the others would leave prices unchanged

Answer

☐

Explanation

(3)

Question 7

Egg farming, egg distribution, food manufacturing and supermarkets

Extract 1 A letter from a chicken farmer

Our problems started four years ago when the big egg packaging and distribution firms merged, purchasing nearly 70% of the eggs produced. I lost £40 000 last year and I could see the profits of Noble Foods [the UK's biggest egg distributor] increasing. There was no competition anymore and prices paid to egg farmers stayed low, while everything else, like the cost of chicken feed, was going up. New EU regulations preventing the housing of hens in conventional 'battery' cages have meant installing new cages, costing over £14 per hen. Many egg farmers like me are unable to absorb the costs of buying the new cages and some egg farmers have left the industry. 750 000 hens have been slaughtered across the UK.

5

Extract 2 The egg distribution business - profile of Noble Foods Limited

Noble Foods, the UK's largest egg packaging and distribution business, operates 160 vehicles from seven sites, 365 days a year, employing over 150 full-time drivers in temperature controlled vehicles. Eggs are collected from over 325 individual farm producers located throughout the UK and transferred to a packing centre, where they are sorted and boxed for delivery to customers. Pre-tax profits at Noble Foods increased by £1.4 million in 2011.

5

(Source: © 2011 Noble Foods Ltd)

Extract 3 Increased costs of eggs for food manufacture

Eggs – both in liquid and powdered form – are used in a variety of food products from biscuits and cakes to pasta and mayonnaise. The reduced supply of eggs, caused by the new EU regulations, is damaging the profits of some food manufacturers. Several of them are closing down their production lines because they cannot afford the soaring cost of eggs from distribution firms. However, they cannot raise their prices because supermarkets refuse to pass on any increase to consumers.

5

- (d) Assess reasons why supermarkets are not increasing the retail price of eggs to cover the increased production costs of egg farmers. Use game theory to support your answer.

(16)

Question 8

In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

(Total for Question 8 = 25 marks)

