

General Certificate of Education
January 2008
Advanced Level Examination



ECONOMICS

ECN5

Unit 5 Business Economics and the Distribution of Income

Tuesday 29 January 2008 9.00 am to 10.30 am

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN5.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information

- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice

- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

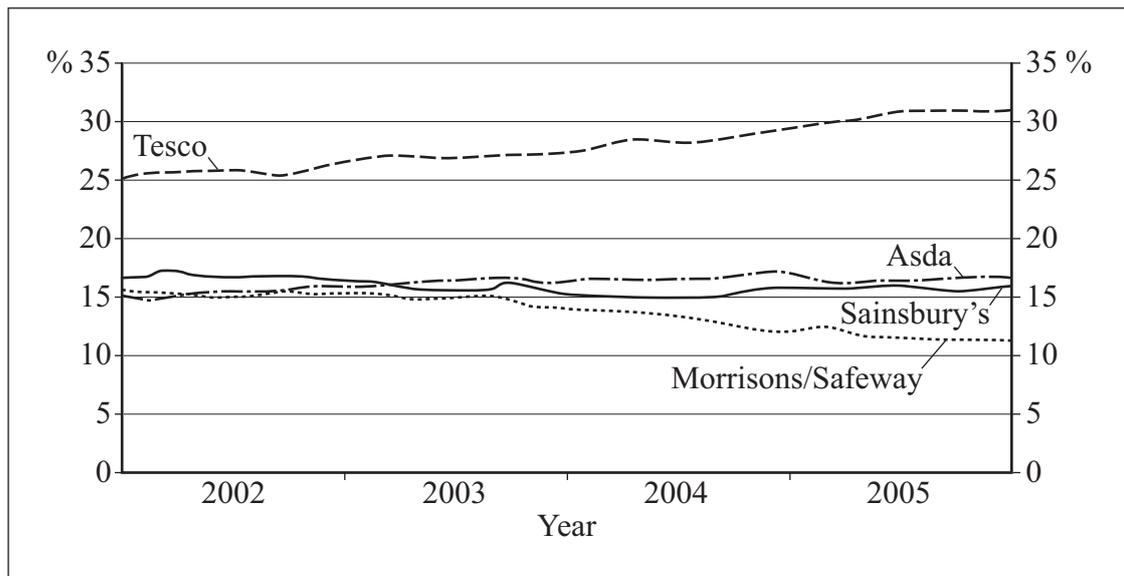
SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 Study **Extracts A, B, C, and D**, and then answer **all** parts of Question 1 which follows.

Extract A: The UK grocery market: market shares of the four largest UK supermarkets



Source: *The Grocery Market: The OFT's reasons for making a reference to the Competition Commission*, Office of Fair Trading, May 2006

Extract B: How supermarkets are harming communities

Food retailing has undergone a massive shift in the past forty years. The loss of independent butchers, bakers, grocers and pharmacies from the high street has punctured the heart of many local communities, and food retailing is now dominated by the 'big four' supermarket chains. The influential *All Party Parliamentary Shops Report* (2006) says that by 2015 there will be no independent convenience stores, grocers or newsagents left. 1
5

Shopping in the high street is much more than a consumer experience; it binds people and communities together. Furthermore, money spent in a supermarket is channelled to directors, shareholders and management staff living in other parts of the country, rather than boosting the local economy. A study by the *New Economics Foundation* found that £10, if spent in a local independent shop, generates £25 for the local economy, compared with only £14 if spent in a supermarket. 10

Supermarkets argue that they bring jobs to a community. However, a *British Retail Planning Forum* study found that, rather than creating jobs, every time a large supermarket opens, on average 276 jobs are lost within a 15km radius of the new store (through closure of smaller stores and associated services). 15

Source: adapted from a Corporate Watch Workers' Co-operative briefing, www.corporatewatch.org.uk, 30 July 2006

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 (a) Explain how technological change can affect a firm's costs of production **and** its methods of production. *(20 marks)*

(b) Some firms, such as Amazon, Google, Microsoft and Apple, currently operate in markets undergoing rapid technological change.

Evaluate whether technological change leads to more competitive or more monopolistic markets. *(30 marks)*

3 (a) Explain how the wage rate is determined in a competitive labour market. *(20 marks)*

(b) 'The movement of workers from eastern Europe into the UK has plugged gaps in labour markets and improved UK economic performance.'

Assess the effects of such a movement of workers upon wage rates, levels of employment **and** the competitiveness of labour markets. *(30 marks)*

4 In the summer of 2006, several UK water companies imposed hosepipe bans which restricted the amount of water that households could consume.

(a) Explain the costs **and** benefits that might result from new infrastructure projects, such as the building of new reservoirs in areas suffering from water shortages. *(20 marks)*

(b) Evaluate the view that shortages in markets, such as those for water and health care, can best be prevented by the operation of market forces rather than by government intervention in markets. *(30 marks)*

END OF QUESTIONS

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