

OCR

Oxford Cambridge and RSA

A Level in Economics

H460/01 Microeconomics

Sample Question Paper

Date – Morning/Afternoon

Time allowed: 2 hours



You may use:

- a calculator



First name											
Last name											
Centre number											
Candidate number											

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided.
- Additional paper may be used if required but you must clearly show your candidate number, centre number and question number(s).
- Do not write in the bar codes.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **8** pages.

SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

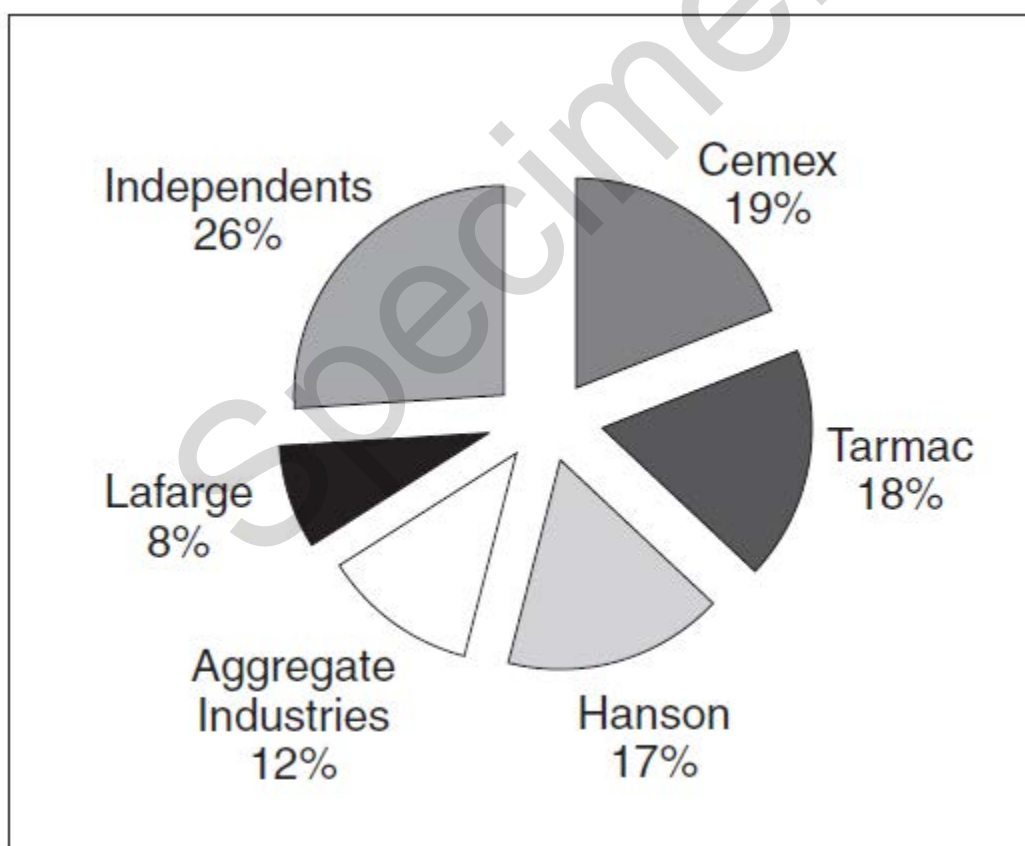
Developments in the UK cement and ready-mix concrete markets

5 Cement is mainly used to make concrete and accounts for approximately 45% of its production cost. The most common type of concrete is ready-mix concrete. This is a mixture of cement, granular raw materials and water. In 2009 the sales of cement in the UK totalled £0.9bn and the sales of ready-mix concrete came to £1bn. In the same year the output of cement was 7.6m tonnes and the output of ready-mix concrete was 14m tonnes.

Over the last 20 years, a high number of mergers have reduced the number of firms in both markets and combined firms producing both cement and ready-mix concrete. In 2009 the three largest firms in the cement market, Lafarge, Cemex and Hanson, produced 6m tonnes of concrete between them.

10 Large firms also play a key role in the market for ready-mix concrete. Fig. 1 shows the market shares of the five largest ready-mix firms in 2009.

Fig. 1 – UK shares of ready-mix concrete volumes, 2009



The large firms, all of which are multinationals, concentrate on producing building materials. Each owns quarries which extract granular raw materials. Their factories involved with the production of concrete sell some of their output internally to other parts of their business. Some is also sold to other firms, including small firms which just produce ready-mix concrete.

15 There is little difference in the quality of both the cement and ready-mix concrete produced by the different firms. In the markets for both cement and concrete the large firms have considerable information about the pricing and output strategies of their rivals. This information comes from, for example, buying and selling to each other and details provided in planning proposals.

20 In both the markets for cement and concrete, there are a number of significant barriers to entry and exit which give incumbent firms protection from the potential entry of new firms. There are high set up costs with, for instance, a cement factory costing as much as £100m to build. In addition, there are thought to be significant economies of scale available to the larger operators.

25 In 2010 and 2011 the Office of Fair Trading (OFT) undertook a study of the cement and ready-mix concrete markets. There was concern about the lack of competition and possible co-ordination of market strategies undertaken by the large firms. Small ready-mix concrete firms told the OFT that they were being charged high prices for cement by the large firms, while having to compete against the low prices the large firms were charging for their own ready-mix concrete. They suggested that the large firms were prepared to accept lower profit margins on ready-mix concrete knowing that they could still make a high level of supernormal profit producing cement. These smaller firms claimed that such a strategy, which became particularly evident in 2009, was designed to drive them out of business. Figs 2 and 3 show how the average revenue and average cost changed in the markets for cement and concrete between 2006 and 2010.

Fig. 2 – Cement – average price and average cost per tonne

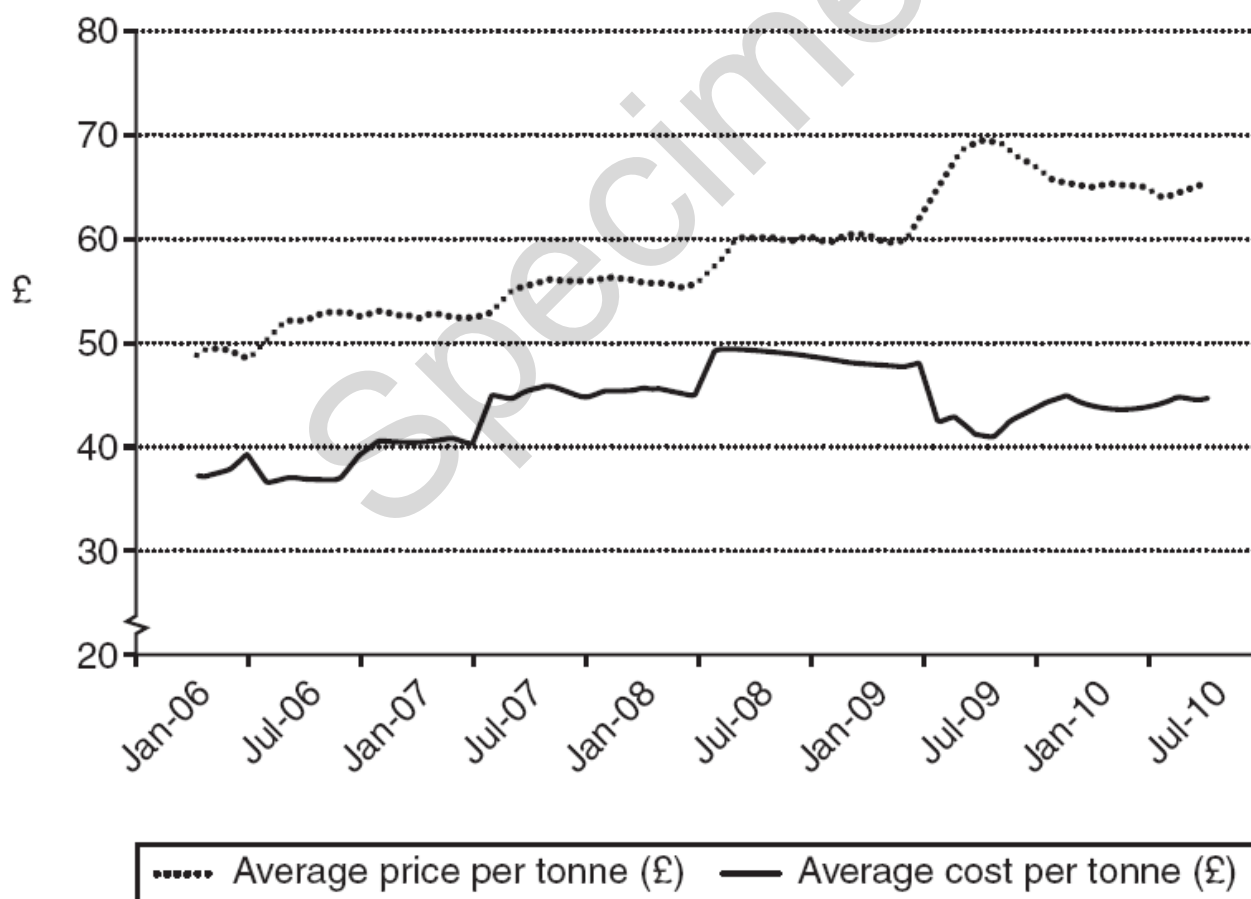
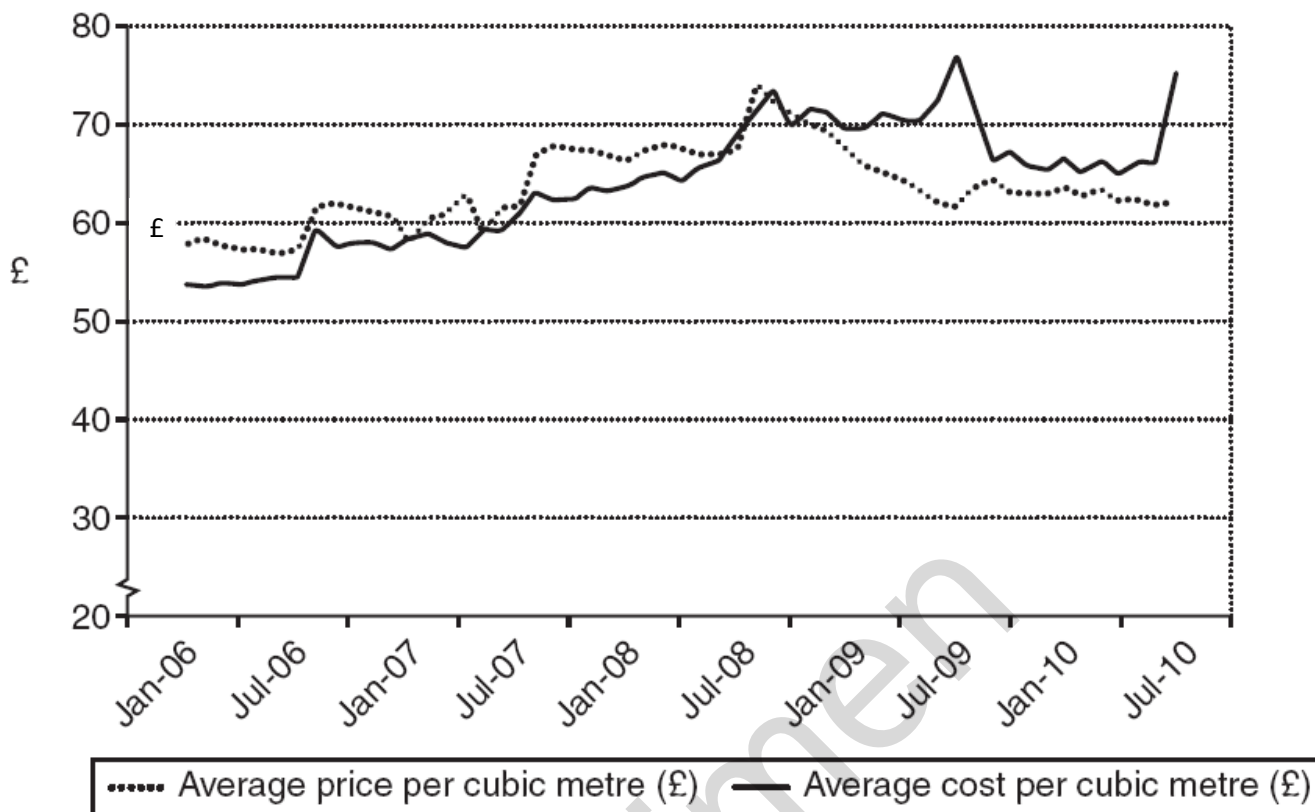


Fig. 3 – Ready-mix concrete – average price and average cost per cubic metre



35 In 2013 a merger took place between Lafarge and Tarmac but to gain permission from the regulatory authorities for this merger, the firms had to agree to sell off some of their quarries and factories to a new entrant, Hope Construction Materials. In early 2014 the Competition Commission ordered the newly merged firm, Lafarge Tarmac, to sell off more factories to create another major entrant.

It is likely that future years will see further changes in the markets for cement and concrete – nothing is set in stone.

- (a)** Identify one piece of evidence in the stimulus material of vertical integration and explain why it is an example of vertical integration.

(Insert 4 x line)

[2]

- (b)** Explain, using relevant calculations, whether the cement market was more concentrated or less concentrated than the ready-mix concrete market in 2009.

(Insert 8 x line)

[4]

- (c)** Large firms were accused of more actively trying to drive the smaller firms out of business in 2009 and 2010 than in 2007 and 2008.

Using Figs 2 and 3, explain what evidence there is to support this view.

(Insert 8 x line)

[4]

- (d)** Firms in the ready-mix concrete market specialise in one product.

Evaluate whether economies of scale can only be enjoyed by firms which specialise in a narrow range of products.

(Insert 32 x line)

[8]

- (e)*** Using evidence from the stimulus material, evaluate the extent to which collusion occurred in the UK cement market.

(Insert 48 x line)

[12]

SECTION B

Answer **EITHER** question 2 **OR** question 3.

EITHER

- 2*** Some top UK executives are paid more than 1000 times the average wage paid to workers in their firms.

Evaluate, using an appropriate diagram(s), whether a maximum wage should be imposed on executive pay in the UK.

[25]

OR

- 3*** In 2014, Telefonica, a Spanish telecommunications firm with a very large share of the Spanish market, decided to concentrate largely on increasing its sales revenue.

Evaluate, using an appropriate diagram(s), the extent to which a monopolist changing its objective from profit maximisation to sales revenue maximisation would benefit consumers.

(Insert 100 x line)

[25]

SECTION C

Answer **EITHER** question 4 **OR** question 5.

EITHER

- 4*** In the UK 7% of children are privately educated compared with 24% in Japan.

Evaluate whether the provision of education should be left solely to market forces.

[25]

OR

- 5*** In 2013 food prices in many parts of the world rose relative to other products, including air travel.

Evaluate the extent to which the price of food is likely to rise by more than the price of air travel in the future.

(Insert 100 x line)

[25]

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Specimen

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