

**Friday 18 May 2012 – Afternoon**

**GCSE ECONOMICS**

**A591/02** How the Market Works

Candidates answer on the Question Paper.

**OCR supplied materials:**  
None

**Other materials required:**

- Calculators may be used

**Duration:** 1 hour



Candidate forename		Candidate surname	
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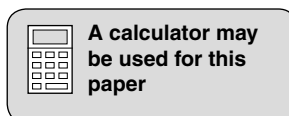
Centre number							Candidate number				
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**INSTRUCTIONS TO CANDIDATES**

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in marking your answers to the questions labelled with an asterisk (\*).
- This document consists of **12** pages. Any blank pages are indicated.



Answer **all** the questions.

**Kenfest**

'Kenfest' has created a monopoly for itself as an arts festival in the county of Cumberwest. In 2010 attendance at the Kenfest increased by 80%.

A quarter of all those who attended the Kenfest stayed in local accommodation for at least three nights. Given that the supply of local accommodation was perfectly inelastic, this led to a large increase in the price paid by visitors.

Catherine Coulthard, who runs a local bed and breakfast, rented out her four double rooms for the three nights of the Kenfest. She had the following total revenue and total cost for the three nights:

total revenue £800

total cost     £240

**Fig. 1**

- 1 (a) In the table below, place a tick (✓) against the **two** statements about monopoly which are correct.

Statement about monopoly	Tick (✓)
Monopolies are able to control only 10% of the market	
Monopolies control the price at which their goods/services are sold	
Monopolies reduce the choice available to consumers	
Monopolies have no barriers to entry	

[2]

- (b) Using the information in Fig. 1:

- (i) calculate the profit Catherine made by renting out her rooms for the three nights of the Kenfest;

.....

.....

.....

..... [2]

(ii) calculate the average revenue per room for the **three** nights.

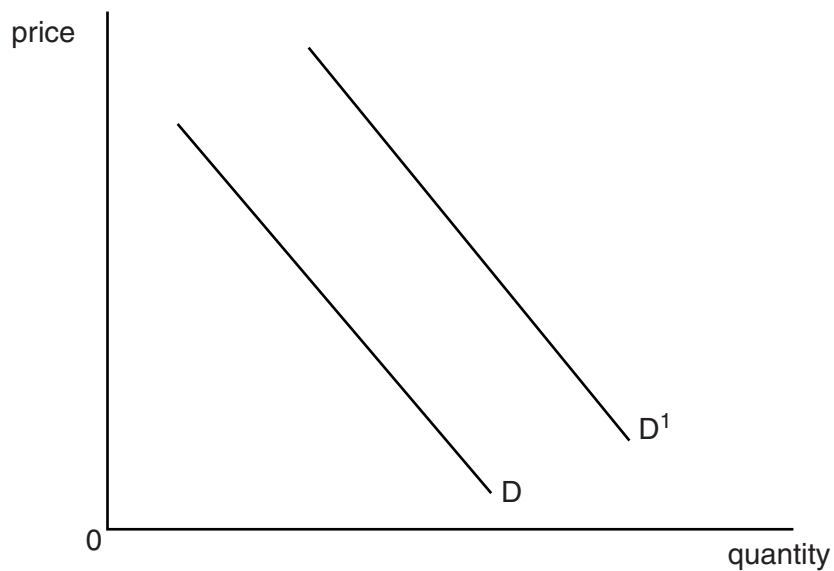
.....  
.....  
.....  
..... [2]

(c) (i) Using **two** of the words below, complete the sentence so that it explains what is meant by perfectly inelastic supply.

**no**                      **price**                      **quantity**                      **a small**

Perfectly inelastic supply is when the increase in ..... leads to ..... change in supply. [2]

(ii) The diagram below shows the increase in demand for local accommodation at the Kenfest. Draw and label a perfectly inelastic supply curve on the diagram. [2]



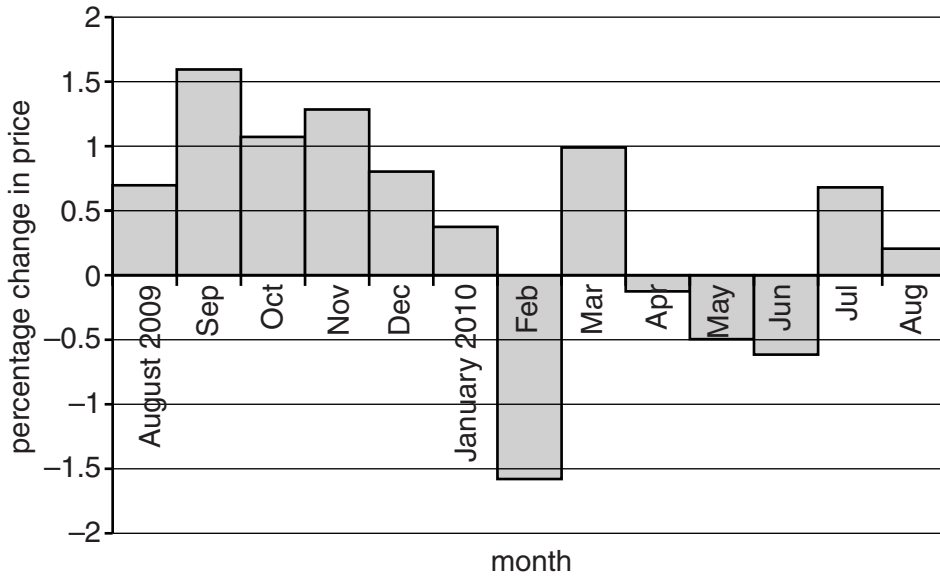
(iii) State what has happened to:

- the price
- the quantity

as a result of the increase in demand.

.....  
.....  
.....  
..... [2]





**Fig. 2 Monthly percentage change in average UK house prices – August 2009 to August 2010**

2 (a) Land and enterprise are two of the factors of production involved in house building.

Identify the other **two** factors of production.

Factor 1 .....

Factor 2 ..... [2]

(b) Using Fig. 2:

(i) state by how much house prices changed in:

- September 2009 .....
- February 2010 ..... [2]

(ii) describe what happened to house prices in the UK between November 2009 and January 2010.

.....  
 .....  
 .....  
 ..... [2]

(c) State and explain **two** possible reasons why house prices might fall.

Reason 1 .....

Explanation .....

.....

.....

.....

.....

Reason 2 .....

Explanation .....

.....

.....

.....

..... [6]



**Pots4U**

Joseph and Adam specialise in the making and selling of garden pots and garden furniture. With the recent recession, sales have fallen and they are worried about the effects of an increase in value added tax (VAT).

They realise that they need to sell a wider range of products and have decided to choose between a card and gift shop, or a farm shop selling local produce.

Whichever they choose, it will take them into a more competitive market, so they will need to consider the productivity of their workforce.

**Fig. 3**

- 3 (a) In the table below, place a tick (✓) against the **two** statements which are advantages of specialisation to a firm.

Statements about the advantages of specialisation to a firm	Tick (✓)
Decrease in opportunity cost	
Increase in productivity	
Lower average costs	
Workers become bored	

[2]

- (b) State and explain **two** effects which an increase in VAT might have on Pots4U.

Effect 1 .....

Explanation .....

.....

.....

Effect 2 .....

Explanation .....

.....

..... [4]



(c) Joseph and Adam have to make a choice between a card and gift shop and a farm shop.

(i) Explain why they have to make a choice.

.....  
.....  
.....  
..... [2]

(ii) Explain **two** factors which they should take into account when making their choice.

Factor 1 .....  
.....  
.....  
.....  
Factor 2 .....  
.....  
.....  
..... [4]







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