OXFORD CAMBRIDGE AND RSA EXAMINATIONS

GCSE

A591/02

ECONOMICS

How the Market Works

MONDAY 6 JUNE 2016: Afternoon

DURATION: 1 hour
plus your additional time allowance

MODIFIED ENLARGED

Candidate forename		Candidate surname	

Centre number						Candidate number				

Candidates answer on the Question Paper.

OCR SUPPLIED MATERIALS:

None

OTHER MATERIALS REQUIRED:

Calculators may be used

A CALCULATOR MAY BE USED FOR THIS PAPER

READ INSTRUCTIONS OVERLEAF

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INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the boxes on the first page. 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.

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 the marking of your answers to the questions labelled with an asterisk (*).

Any blank pages are indicated.

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Answer ALL the questions.

Fig. 1

LETTERFAST

Karl and Emma worked for Royal Mail when it was a public enterprise. They left in 2012 to set up their own business, Letterfast. This is a private enterprise delivery service.

When setting up Letterfast, Karl and Emma had to make two key decisions:

what geographical area their service should cover

whether to specialise in collecting and delivering parcels or letters.

Karl maintains that Letterfast will increase competition, which will benefit the consumer and attract them to their specialised service.

1 (a) In the table below, place a tick (✓) against the TWO statements about private and public enterprises that are correct.

DIFFERENCES BETWEEN PRIVATE AND PUBLIC ENTERPRISES	TICK (✓)
A main objective for private enterprises is profit, whereas public enterprises are concerned with public welfare.	
Private enterprises are owned by private firms, whereas public enterprises are owned by shareholders.	
Private enterprises look to individuals, banks, etc. for finance, whereas the government is often a major source of funding for public enterprises.	
Private enterprises are always small, whereas public enterprises are large.	

[2]

(b) When setting up Letterfast, Karl and Emma had to decide whether to specialise in collecting and delivering parcels or letters.

Explain why they had to make this decision.

_____

_____

_____

_____

_____

_____

_____

_____ **[4]**

(c) **State and explain TWO disadvantages to the consumer when a firm such as Letterfast specialises.**

Disadvantage 1 _____

Explanation _____

_____

_____

_____

Disadvantage 2 _____

Explanation _____

_____

_____

_____ **[6]**

(d)* Assess the benefits to the consumers of a firm such as Letterfast operating in a competitive market. [8]

Fig. 2

A TASTE OF HONEY

Sajid produces jars of honey and supplies them to local shops. He is concerned that demand for his honey has decreased. At the same time, there has been a greater percentage fall in the price of his honey than in the quantity he was selling. His friend, Rahul, explained that this is because the supply of his honey is price inelastic. This has a resulted in a fall in his profits.

Sajid has produced a summary of his costs and revenues for Rahul.

SAJID'S COSTS AND REVENUES 2014			
Total revenue (£)	Average revenue per jar (£)	Total costs (£)	Average costs per jar (£)
8500	5	5100	3

2 (a) (i) In the table below, place a tick (✓) against the sector of the economy in which Sajid operates as a producer of jars of honey.

SECTOR OF THE ECONOMY	TICK (✓)
Tertiary	
Secondary	
Primary	

[1]

(ii) What is meant by the term 'demand'?

_____

_____ [1]

(b) (i) Using the information in Fig. 2, calculate Sajid's profit for 2014. Show your working.

_____

_____

_____

_____ [2]

(ii) Explain how cutting the price of a product, such as jars of honey, could lead to an increase in a business' revenue.

_____

_____

_____

_____ [2]

(c) (i) State what is meant by the term 'price elasticity of supply'.

_____

_____

_____ [2]

(ii) On the diagram below, draw and label a price inelastic supply curve.

[2]

(iii) **Using the diagram opposite, describe the effects on price and quantity supplied if there is an increase in demand.**

_____

_____ **[2]**

(d)* Discuss the effects on a business, such as Sajid's, of gaining internal economies of scale. [8]

Fig. 3

ORANGES AND LEMONS CAFÉ

Sarah is the owner of the Oranges and Lemons Café. She is trying to meet the basic economic problem in running the café.

She is also worried about the pay of her staff. Their gross, net and nominal incomes have all risen in the last two years, but their real incomes have fallen.

Sarah believes that she can only raise her staff's wages if productivity is increased by further specialist training.

Henry, the chef, believes that with two new cafés and a hotel opening in the local area he will be able to greatly improve his personal real income, as wages are likely to rise.

Sarah, however, is afraid that more competition will push prices down and make it even more difficult to increase the real incomes of her staff.

3 (a) Using TWO of the words below, complete the sentence so that it explains what is meant by 'the basic economic problem'.

allocated productive scarce unlimited

The basic economic problem occurs when

resources are _____ , but wants are

_____ [2]

(b) (i) Explain the difference between gross and net income.

_____

_____

_____

_____ **[2]**

(ii) Explain the difference between nominal and real income.

_____

_____

_____

_____ **[2]**

(c) Explain how the productivity of a workforce, in a business such as Sarah's, could be increased through specialisation and training.

_____

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_____ **[6]**

(d)* Henry believes that increased competition for labour will enable him to obtain a large rise in his real income. Sarah believes that increased competition will lower prices and make it more difficult to pay higher wages.

Do you consider Henry or Sarah to be correct? Give reasons for your answer. [8]

END OF QUESTION PAPER

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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