

General Certificate of Education
June 2003
Advanced Level Examination



ECONOMICS

ECN5

Unit 5 Business Economics and the Distribution of Income

Friday 20 June 2003 Morning Session

In addition to this paper you will require:

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.
- Mark allocations are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice

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

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

	2000		2001	
	Number sold (million)	Market share (%)	Number sold (million)	Market share (%)
Nokia	126.4	31	139.7	35
Motorola	60.1	15	59.1	15
Ericsson	41.5	10	27.0	7
Siemens	27.0	6	29.6	7
Samsung	20.6	5	28.2	7
Others	137.2	33	115.9	29
Total	412.8	100	399.5	100

Source: The *Financial Times*, 11 March 2002

Mobile phone handset manufacturers suffered their first decline in sales in 2001, as new subscriber growth in the saturated European markets ground to a halt. For the first time since its invention, the mobile phone has become a victim of its own success. The fall in sales is not a blip, it is a crossroads for the market, which is changing from a market dominated by the signing up of new customers to a replacement market. But there has also been a marked slowdown in replacement sales. Some companies bucked the trend by introducing up-market phones. Analysts said that some users, particularly in the youth market, were treating mobiles as fashion accessories and upgrading to top-end models, partly as a result of successful promotion and advertising.

World sales were also hit by the emerging second-hand market, particularly in eastern Europe, Africa and Asia. A sharp reduction in subsidies on pre-pay phones also hit sales. The advent of 'pay-as-you-go' schemes had brought the mobile phone to millions who could not previously afford one. Vodafone, and other companies operating mobile phone networks, used to sell handsets at prices well below cost, subsidising prices with profits made from selling pre-paid calls. But by subsidising the price of handsets, the phone companies were building an unsustainable business model, and since the average call revenue per customer has begun to fall, the phone companies can no longer afford to sell subsidised handsets.

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Extract C: The auction of licences to run the next generation of mobile phone networks

In 2000, the UK government auctioned five licences for third generation (3G) mobile phone networks. 3G phones will be able to offer new services such as online banking and shopping. 1

Auctions are an efficient method of distributing a scarce resource. In an auction, bids indicate the amount of profit each bidder expects to make. Well-run auctions reward the bidders who are willing to pay most. But a bidder has to make a careful analysis of what the other bidders may do, which in turn will be dependent, to some degree, on what they think he or she may bid. The outcome of the auction depends not only on what you as a bidder might do, but also on the actions of other players who will be making their own calculations about what you are planning. 5

The 3G auction raised £22bn for taxpayers. While there is a case for the government regulating use of the airwaves by the mobile telephone companies, there is also a case against charging heavily for such use. First, the airwaves are a public good and a case can be made for free provision of public goods. Second, the government is exploiting its monopoly power. Third, the government is treating the mobile phone network companies unfairly as it charges commercial TV and radio companies much less than £22bn for similar use of the airwaves. 10 15

Most importantly, the prices the phone companies must charge to recoup their investment may put mobile telephony out of reach of the ordinary citizen. The government that raised £22bn from auctioning 3G licences has also claimed that it wants to promote mass access to the internet and the web. But it is not easy to see how successful bidders, having paid £5bn for a licence, and another £3bn in construction costs, can offer cheap access to consumers and good profits to shareholders. High speed access to the internet is likely to end up too expensive for ordinary people. This conflicts with the government's aim to make access to information technology available to all. 20

Source: adapted from articles in *The Guardian*, 13 April 2000 and *The Observer*, 23 April 2000

Question 1

- (a) Using **Extract A**, describe how market concentration changed between 2000 and 2001 in the world market for mobile phone handsets. (4 marks)
- (b) Explain why a company operating a mobile phone network may decide to sell handsets at prices which are below costs of production (**Extract B**, lines 13-15). (6 marks)
- (c) Using examples from **Extracts B and C**, analyse the types of competitive behaviour typically undertaken by firms in oligopolistic markets. (10 marks)
- (d) Lines 12-13 of **Extract C** state that there is a case for free provision of public goods, such as the airwaves used to provide mobile telephone services.

Do you agree that mobile telephone companies should be able to use the airwaves to provide telephone services without being charged £22bn by the government? Justify your answer.

(30 marks)

SECTION B

Answer **one** question from this Section.

Each question carries 50 marks.

- 2 (a) Explain how **and** why firms grow in size. *(20 marks)*
- (b) Do you agree that the separation of ownership and control that occurs in many large firms adversely affects the conduct and performance of such firms? Justify your answer. *(30 marks)*
- 3 (a) Explain how trade unions are able to influence wages. *(20 marks)*
- (b) Evaluate the view that, by protecting workers from exploitation by employers, trade unions improve the functioning of labour markets. *(30 marks)*
- 4 (a) Explain the causes of relative poverty in the United Kingdom. *(20 marks)*
- (b) Evaluate the view that the most effective way to tackle the problem of relative poverty is to increase the level of welfare benefits paid to the poor. *(30 marks)*

END OF QUESTIONS