



Economics Questions By Topic:

Business Objectives (3.2.1)

A-Level Edexcel Theme 3

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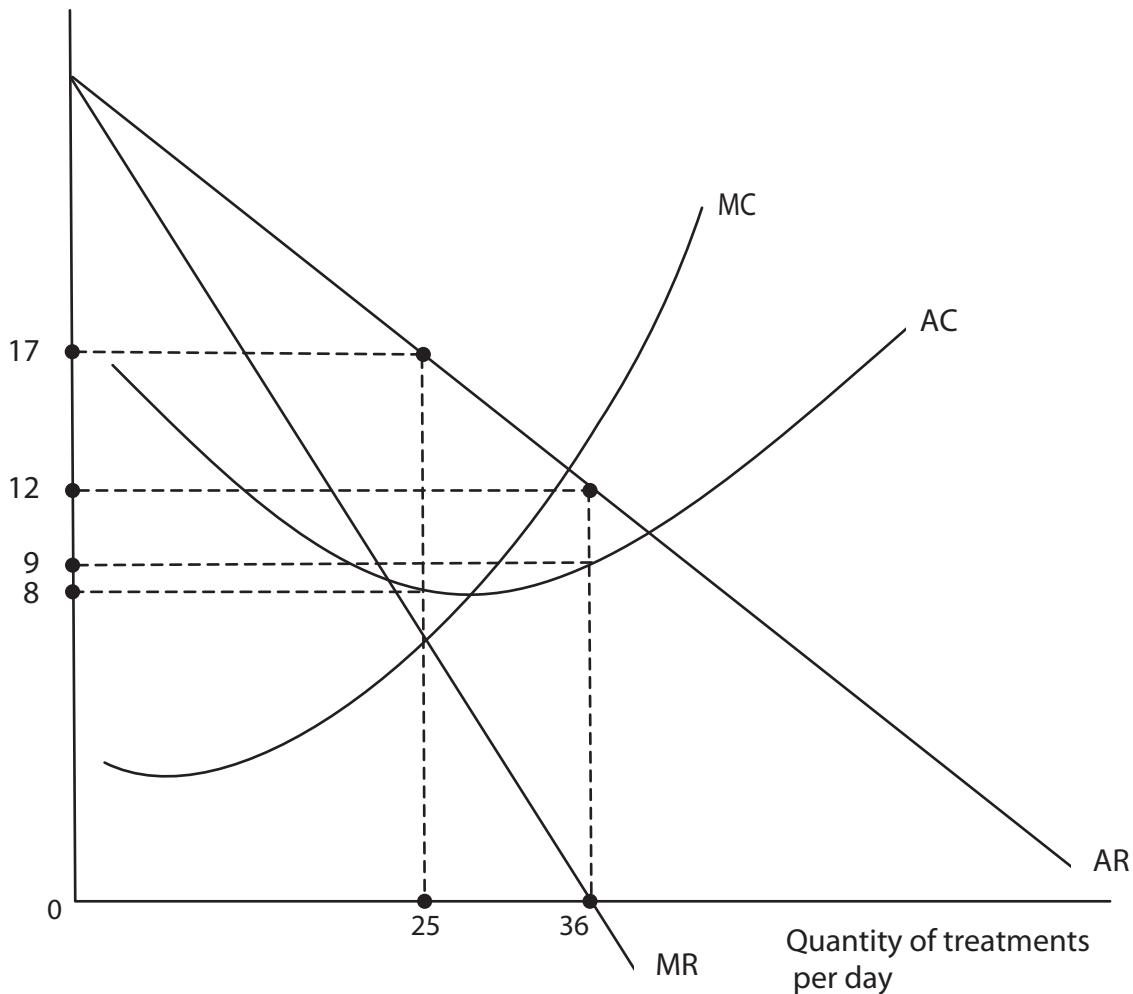
Section A	Page 1
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SECTION A

Write your answers in the spaces provided.

- 1** Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.

Costs, Revenue
per treatment (£)



- (a) Calculate the **change in total supernormal profit** if Emily changes her objective from profit maximisation to revenue maximisation. You are advised to show your working.

(4)

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2 Blackberry made a loss of \$4.4 billion in quarter 3, 2013 but continued to operate.

If Blackberry is currently a profit-maximising firm but changes its objective to sales maximisation, it can be deduced that Blackberry will move from setting prices at which:

(1)

- A** marginal revenue equals zero to where marginal revenue equals marginal costs
- B** marginal revenue equals marginal costs to where marginal revenue equals zero
- C** marginal revenue equals marginal costs to where average revenue equals average costs
- D** average revenue equals average costs to where marginal revenue equals marginal costs

Answer

(Total for Question 2 = 1 mark)

- 3 Lottie runs a tanning shop and the following table shows her costs and revenues for one treatment at different price levels. Some parts of the table are left blank for your own calculations.

Number of customers per day	Price (£)			Total costs (£)	Marginal costs (£)
0	20			30	
1	18				2
2	16				3
3	14				4
4	12				6
5	10				10

At what price range would Lottie maximise her profits?

(1)

- A £20 or higher
- B £18–£20
- C £16
- D £12–£14
- E £10

Answer

Explanation

(3)

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(Total for Question 3 = 4 marks)

(Total for Question 4 = 4 marks)

5 The management at a famous football club aim to promote the firm's success in matches as their primary objective. The firm's shareholders indicate at a meeting that they will accept low dividends on their shares on the condition that the club invests in new players. This indicates that the

(1)

- A** management is aiming for short-term gains in share prices
- B** management is profit satisfying
- C** management is profit maximising in the short run
- D** firm cannot make supernormal profits in the long run
- E** average variable cost of players is equal to the marginal revenue gained from their employment

Answer

Explanation

(3)

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(Total for Question 5 = 4 marks)

- 6 The table gives weekly information about the possible short run output, costs and revenue of a firm making military equipment. Some cells have been left blank for your own workings.

Output per week	Total revenue (£millions)	Average revenue (£millions)	Total cost (£millions)	Average cost (£millions)	Marginal cost (£millions)
0	0	-	10	-	-
1	40	40		25	15
2	60				9
3	78				18
4	96				44
5	105				54

Which level of weekly output would mean that the firm is sales maximising?

(1)

- A 1
- B 2
- C 3
- D 4
- E 5

Answer

Explanation

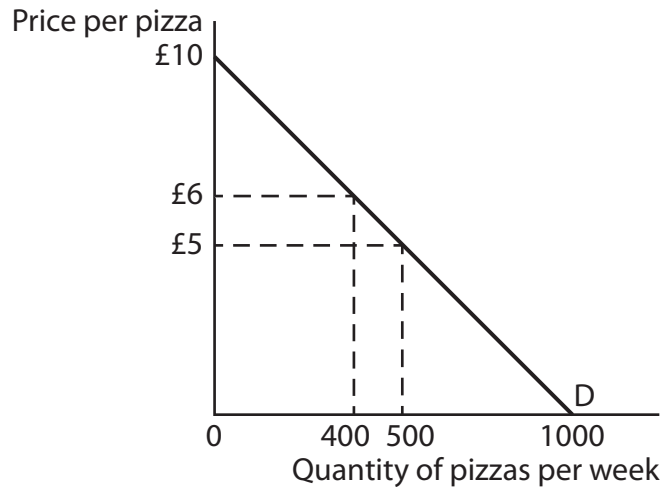
(3)

Handwriting practice area consisting of 12 horizontal dotted lines.

(Total for Question 6 = 4 marks)

8 A pizza restaurant faces the following demand curve (D). Which one of the following is necessarily true?

(1)



- A Marginal revenue will be positive then negative as price falls
- B Revenue maximisation occurs at a price of £6
- C Sales are maximised at a price of £6
- D Average revenue will equal zero where price elasticity of demand is unitary
- E Cutting the price from £6 to £5 will increase profits

Answer

Explanation

(3)

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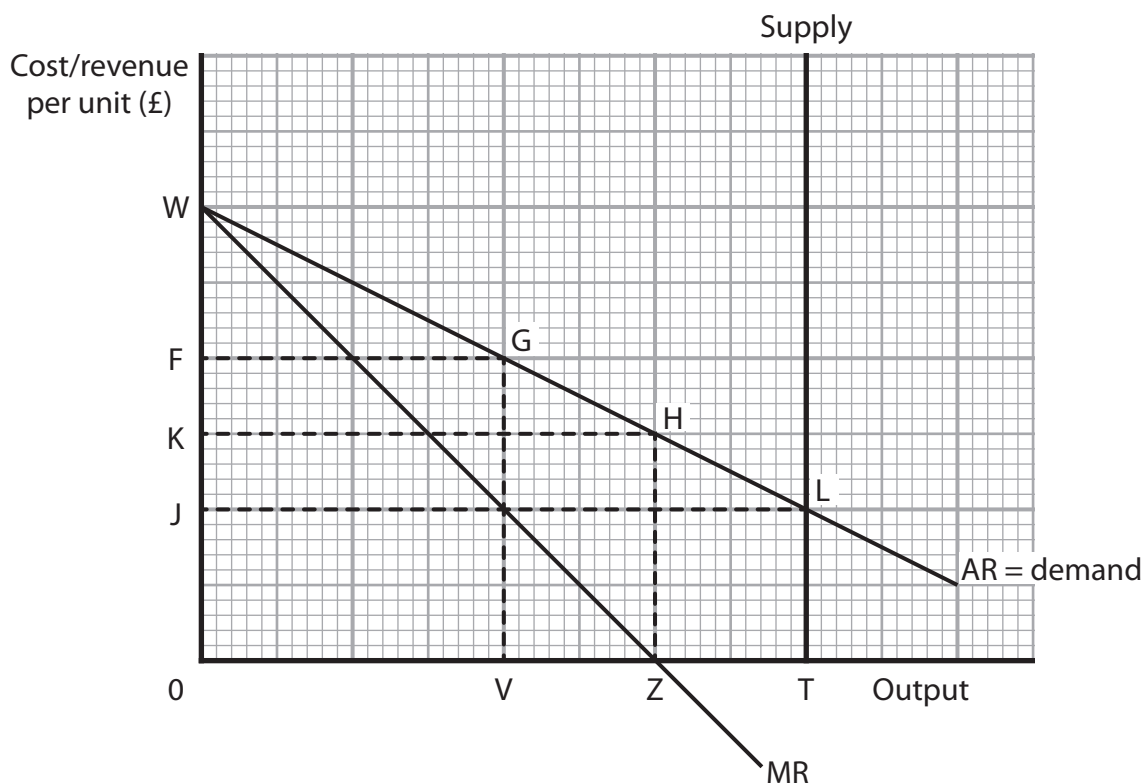
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(Total for Question 8 = 4 marks)

- 9 The diagram shows the supply, demand and marginal revenue schedules for parking spaces in a local government car park.



What single price will ensure that the local government maximises total revenue?

(1)

- A Zero
- B OJ
- C OK
- D OF
- E OW

Answer

Explanation

(3)

Handwriting practice area consisting of 15 horizontal dotted lines.

(Total for Question 9 = 4 marks)

13 A firm engaged in 'satisficing' behaviour is most likely to:

(1)

- A** maximise profits
- B** maximise revenue
- C** maximise sales
- D** minimise costs
- E** produce at an output different to that of a profit maximising firm.

Answer

Explanation

(3)

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(Total for Question 13 = 4 marks)

14 A firm might aim to maximise sales rather than profits in the short run because: (1)

- A it knows its marginal cost and marginal revenue
- B it is in a market with no other competitors
- C it wishes to deter the entry of new firms
- D supplies of raw materials are limited
- E there are substantial barriers to entry in this industry.

Answer

Explanation (3)

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(Total for Question 14 = 4 marks)

END OF SECTION A

SECTION B

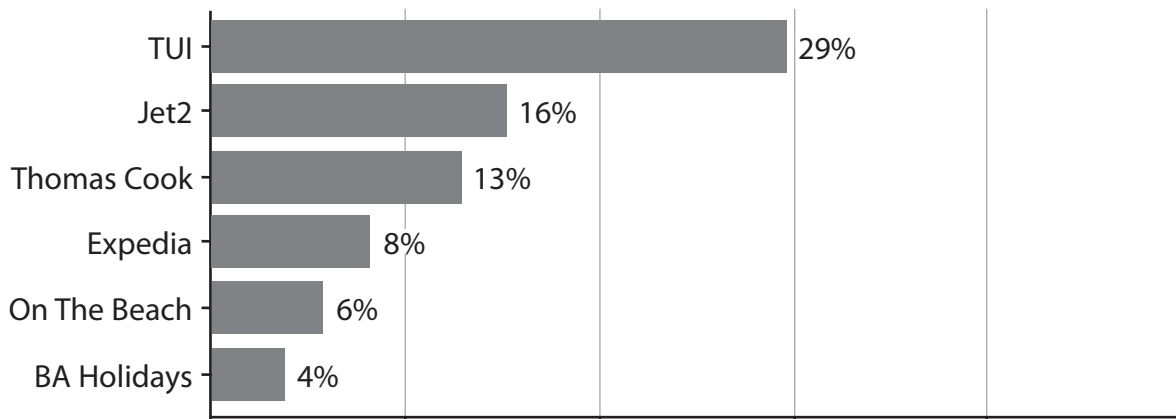
Read all extracts/figures before answering.

Write your answers in the spaces provided.

Question 15

The travel and tourism industry

Figure 1: Package holiday market share of the six largest providers, booked by UK residents, 2019



(Source adapted from: <https://knowledge.sharescope.co.uk/2019/10/16/finding-companies-that-control-their-own-destinies/The Times/ATOL>)

Figure 2: Jet2 package holiday prices to Sorrento

Price before Thomas Cook shutdown

Price 12 hours after Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- 🍴 Half Board
- 🛏 1 x Premium Double or Twin room
- ✈ Return flights from Edinburgh
[View flight times](#)
- 🧳 22 kg Bag Allowance
- 🎒 10 kg Hand Baggage
- 🛡 ATOL Protected
- 🚌 Coach Transfers

Holiday price from **£1,576** Per person price
£788

2 Adults for 7 Nights from Monday 25 May 2020

- 🍴 Half Board
- 🛏 1 x Premium Double or Twin room
- ✈ Return flights from Edinburgh
[View flight times](#)
- 🧳 22 kg Bag Allowance
- 🎒 10 kg Hand Baggage
- 🛡 ATOL Protected
- 🚌 Coach Transfers

Holiday price from **£1,648** Per person price
£824

Data accessed: 22nd and 23rd September 2019

Extract A

Marginal productivity of cabin crew

Cabin crew are responsible for loading passengers and providing in-flight meals. United Airlines is planning to reduce the number of its cabin crew members onboard international flights. The airline currently operates its planes with one more cabin crew member than its competitors. The marginal productivity of this additional crew member may be low. By reducing the number of its cabin crew members United Airlines will be able to operate more efficiently and compete more effectively.

5

(Source adapted from: <https://simpleflying.com/united-airlines-to-reduce-number-of-crew-on-international-flights/>)

Extract B

Thomas Cook's environmental impact

Thomas Cook Group plc's operations included its airline and 560 high street travel agents providing flights, hotels and package holidays.

The environmental impact of the travel industry is significant. It accounts for 8% of all global carbon emissions. Thomas Cook recognised the risks presented by climate change and actively engaged in reducing their airline emissions. Its plans included using more efficient aircraft and using lower-carbon fuel. In 2018, Thomas Cook was included in the top 10 of the world's most fuel-efficient airlines.

5

(Source adapted from: https://www.thomascookgroup.com/investors/insight_external_assesst/Thomas+Cook+Sustainability+Report+2018.pdf)

Extract C

Why did Thomas Cook shut down?

Thomas Cook Group plc ceased trading on 23 September 2019. The collapse of Thomas Cook left 600 000 travellers stranded overseas and approximately 21 000 worldwide employees were left without a job.

Thomas Cook's management said that the failure of rescue talks between banks, shareholders and the UK Government meant it had no choice but to shut down the business. 5

But in truth the tour operator's problems go back much further. A disastrous merger in 2007, increased debts, the internet revolution in holiday booking and Brexit uncertainty all contributed to the failure of the business. 10

In 2007 it merged with MyTravel. Thomas Cook directors had an objective of rapid company growth over short-term profitability. The merger was supposed to create a European giant, promising £75 million-a-year cost savings and a springboard to challenge emerging internet rivals. In reality, Thomas Cook was merging with a company that had only made a profit once in the previous six years, and the deal left the Group with huge debts. In May 2019, the firm reported a £1.5 billion loss. 15

The role of the management in Thomas Cook's collapse is being investigated by the UK Government. Thomas Cook executives' salaries and bonuses have been questioned. Directors received salaries totalling £20 million in the five years before its collapse. The Chief Executive Officer (CEO) earned a £500 000 cash bonus in 2017 and about £8.5 million in his five years with the company. It seems that around £4 million of this was in the form of shares. The share price reached £1.46 in 2018, but each share is now worthless. 20

The CEO said that the directors had worked "exhaustively" to rescue Thomas Cook and create a long-term turnaround strategy. "It is a matter of profound regret to me and the rest of the board that we were not successful." 25

The UK prime minister admitted that the government refused to grant £150 million as a subsidy to help rescue Thomas Cook in the short run. The UK prime minister stated: "Clearly, that is a lot of taxpayers' money and sets up, as people will appreciate, a moral hazard in the case of future such commercial difficulties that companies face. I have questions about whether it's right that the directors, or whoever, the board, should pay themselves large sums when businesses can go down the tubes like that. One is driven to reflect on whether the directors of these companies are properly incentivised to sort such matters out". 30

(Source adapted from: <https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator> and <https://www.ft.com/content/a7dd2554-de23-11e9-b112-9624ec9edc59>)

15 With reference to Extract C, assess whether Thomas Cook's failure was caused by the principal-agent problem.

(10)

A series of horizontal dotted lines for writing the answer.

A large rectangular area containing 25 horizontal dotted lines, intended for writing or drawing.

(Total for Question 15 = 10 marks)

END OF SECTION B

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing.

Handwriting practice area with 20 horizontal dotted lines.

A large rectangular area with rounded corners, containing 25 horizontal dotted lines for writing.

Handwriting practice area with 25 horizontal dotted lines.

END OF SECTION C (Total for Question 16 = 25 marks)