

General Certificate of Education  
January 2006  
Advanced Level Examination



**ECONOMICS**

**ECN5**

**Unit 5 Business Economics and the Distribution of Income**

Monday 30 January 2006 9.00 am to 10.30 am

**For this paper you must have:**

- 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.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

**Advice**

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

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**SECTION A**

Answer **all** parts of this question.

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**Total for this question: 50 marks**

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

**Extract A:**

Extract A was a table of data.  
It has not been reproduced here due to third-party  
copyright constraints.

**Extract B: Kodak faces an uncertain future**

1 Since digital cameras revolutionised the photography market, Kodak has not made a profit from manufacturing film-based cameras. However, Kodak still makes a profit from manufacturing photographic films and the paper used for printing photographs. But both these products are now also in sharp decline. This is because digital cameras  
5 do not require film, and many digital camera users do not want the pictures they take transferred to photographic paper. Instead, they prefer to keep photographic images stored on their computers.

Entry barriers are much lower in the digital camera market than in markets for photographic film and paper, both of which are dominated by Kodak. Sony has made  
10 the transition successfully from video technology to digital photography. And now computer-makers, such as Hewlett-Packard, and mobile phone manufacturers have also entered the market. Mobile phone handsets capable of taking digital pictures will soon outsell both film and ordinary digital cameras. By contrast, Kodak's traditional  
15 photographic film and paper market is protected by higher entry barriers. To enter this market, investment in specialist equipment is required, together with knowledge of chemical processes that are not used in digital photography.

20 Recently, Kodak has been reducing its dependence on traditional photography by  
diversifying into the digital photography market. Kodak's strategy is based on  
takeovers rather than on internal or organic growth through investment in new  
production capacity. Kodak has just spent \$35m on taking over Chinon Industries, a  
Japanese digital camera manufacturer. But having suffered a falling share price,  
Kodak itself is potentially vulnerable to a takeover bid. Some say this is no bad thing,  
arguing that a successful takeover, or merely the threat of a takeover bid, performs a  
useful function in an economy, improving resource allocation and converting assets to  
25 more efficient and profitable uses.

*Question 1*

- (a) Using **Extract A**, describe the structure of the United States' digital camera market over the period shown in 2003. (4 marks)
- (b) Explain **two** possible economic reasons why Kodak has continued to manufacture traditional film-based cameras, even though the company makes a loss on these cameras (**Extract B**, lines 1 and 2). (6 marks)
- (c) Lines 13–16 of **Extract B** refer to barriers to market entry protecting Kodak.

Analyse why Kodak is facing greater competition, despite being protected by high entry barriers. (10 marks)

- (d) Firms may grow internally by investing in new production capacity, or they may grow externally through merger or takeover.

Using the data and your economic knowledge, assess the case **for** and **against** firms growing solely by merger or takeover. (30 marks)

**Turn over for the next question**

**Turn over ►**

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**SECTION B**

Answer **one** question from this Section.

Each question carries 50 marks.

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- 2** Successful firms such as BP, Tesco and British Gas regularly make large amounts of profit.
- (a) Explain the role of profit in an economy. *(20 marks)*
- (b) Discuss the case **for** and **against** a government regulating the amount of profit firms are making. *(30 marks)*
- 3** (a) Explain the impact of gender, ethnic and other forms of discrimination on wages **and** levels and types of employment. *(20 marks)*
- (b) Evaluate the view that trade unions raise wage rates but reduce levels of employment. *(30 marks)*
- 4** (a) Using economic theory, explain the causes of the unequal distribution of income in the UK. *(20 marks)*
- (b) Discuss whether a more equal income distribution can only come about through government intervention. *(30 marks)*

**END OF QUESTIONS**

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