



Economics Questions By Topic:

Monopoly (3.4.5)

A-Level Edexcel Theme 3

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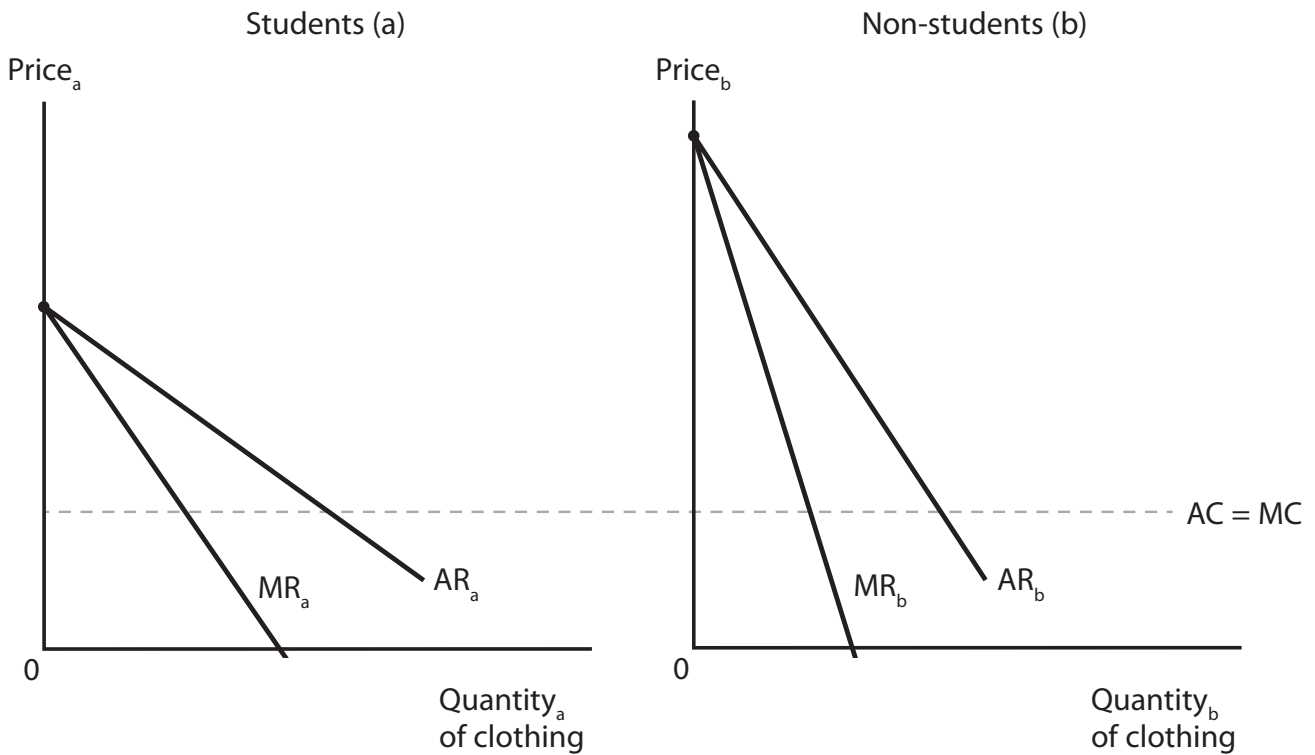
Section A	Page 1
Section B	Page 14
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SECTION A

Write your answers in the spaces provided.

- 1 River Island is a clothing retailer. Students are offered a River Island student discount code to benefit from a 10% price reduction as an attempt by the firm to increase profit.
- (a) Complete the third-degree price discrimination diagram below. Draw the impact on each sub-market by showing the price and profit.

(4)



(b) Which **one** of the following is necessary for a firm to be able to practise price discrimination?

(1)

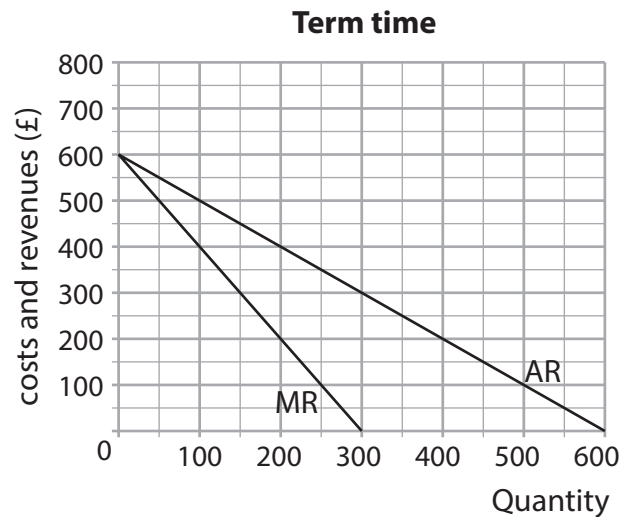
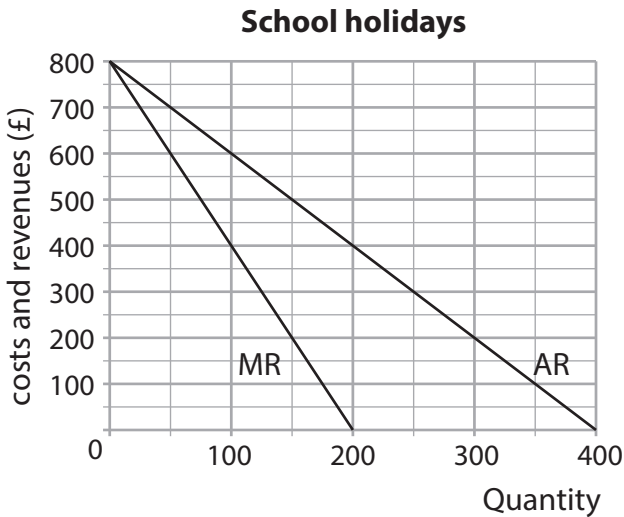
- A** It has some degree of market power
- B** It is able to store its product
- C** Its product has different features in different markets
- D** The costs of supplying some customers are higher

(Total for Question 1 = 5 marks)

- 2 A monopolist supplier of holidays to a small island resort splits the market into two sub-markets: one for school holidays and the other for term time. The diagrams show the average revenue (AR) and the marginal revenue (MR) curves for holidays in the two sub-markets.

If the marginal cost of providing one holiday is £200 at any time of the year, what prices should the holiday firm charge in the two sub-markets to maximise profits?

(1)



	Price in school holidays, £	Price in term time, £
A	200	200
B	300	300
C	400	300
D	400	500
E	500	400

Answer

Explanation

(3)

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(Total for Question 2 = 4 marks)

3 A large number of small key cutting firms in a large town behave in the same way as perfectly competitive businesses. The firms are taken over and combined to form a single monopoly supplier. Assuming no change in average costs, what effect will this have on price and output?

(1)

	Price	Output
A	Fall	Fall
B	No Change	No Change
C	Rise	Rise
D	No Change	Fall
E	Rise	Fall

Answer

Explanation

(3)

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(Total for Question 3 = 4 marks)

- 4 In December 2013, Virgin Trains quoted the following prices for a single train journey on 27 December at 07.55 hours between London and Manchester:

Passenger/ticket type	Price
Advance	£67.00
Senior citizen advance	£44.20

(1)

The most likely explanation of this pricing strategy is

- A to increase revenue
- B to take advantage of the lower price elasticity of demand for rail tickets of senior citizens
- C that it is easy for tickets to be bought by a senior citizen and used by any passenger
- D that the cost of providing seats for advance passengers is higher
- E to attract the attention of the competition authorities

Answer

Explanation

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(Total for Question 4 = 4 marks)

6 Which of the following characteristics is shared by a monopolist and a firm operating under conditions of monopolistic competition?

(1)

- A Low or no barriers to entry to the industry
- B Productive efficiency in the long run
- C Some degree of price setting power
- D Supernormal profits in the long run
- E Allocative efficiency in the long run

Answer

Explanation

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(Total for Question 6 = 4 marks)

7 Which of the following is the best example of price discrimination?

(1)

- A A bus company charges less than a train company for a single ticket from Oxford to London
- B An airline charges less for economy seats than for business seats
- C A café charges less for a cup of tea than a cup of coffee
- D A nightclub charges women less than men for admission
- E A university charges higher fees for Chemistry than for History undergraduate degrees

Answer

Explanation

(3)

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(Total for Question 7 = 4 marks)

9 A profit maximising monopolist operates at the output level where:

(1)

- A average revenue equals average cost
- B total revenue is at a maximum
- C the price is equal to the marginal cost
- D the price is equal to the marginal revenue
- E the marginal profit is zero.

Answer

Explanation

(3)

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(Total for Question 9 = 4 marks)

10 In May 2009, British Airways (BA) quoted the following prices for a flight from London to Toronto, Canada:

Date of flight	Price
1 August 2009	£407
1 October 2009	£204

Source: www.britishairways.com/travel/fx/public/en

The most likely explanation of this pricing strategy is:

(1)

- A** more spare capacity on BA's planes on 1 August 2009
- B** higher costs of flying planes in October than in August
- C** that there is a difference in price elasticity of demand in August and October
- D** the expectation that some airlines will go bankrupt between August and October 2009
- E** an expectation that the world recession will be over by October 2009.

Answer

Explanation

(3)

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(Total for Question 10 = 4 marks)

11 Amtrak is the sole provider of long-distance rail passenger travel in the US. The most likely reason why Amtrak has no competition is that:

(1)

- A sunk costs are low
- B there are falling long run average costs in the US rail passenger industry
- C demand for rail travel is increasing
- D x-inefficiency is high
- E consumers' surplus is always higher when there is a sole provider of a product or service.

Answer

Explanation

(3)

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(Total for Question 11 = 4 marks)

END OF SECTION A

SECTION B

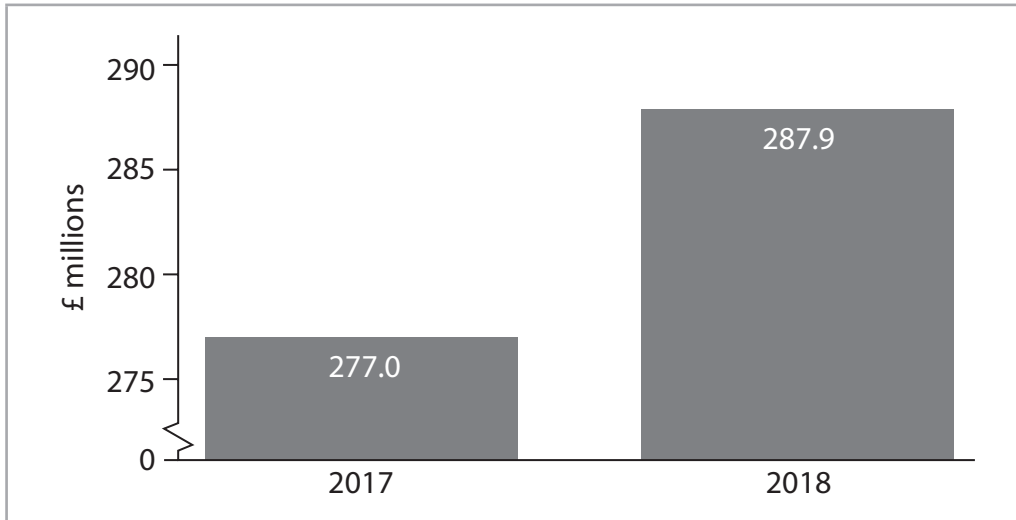
Read all extracts/figures before answering.

Write your answers in the spaces provided.

Question 12

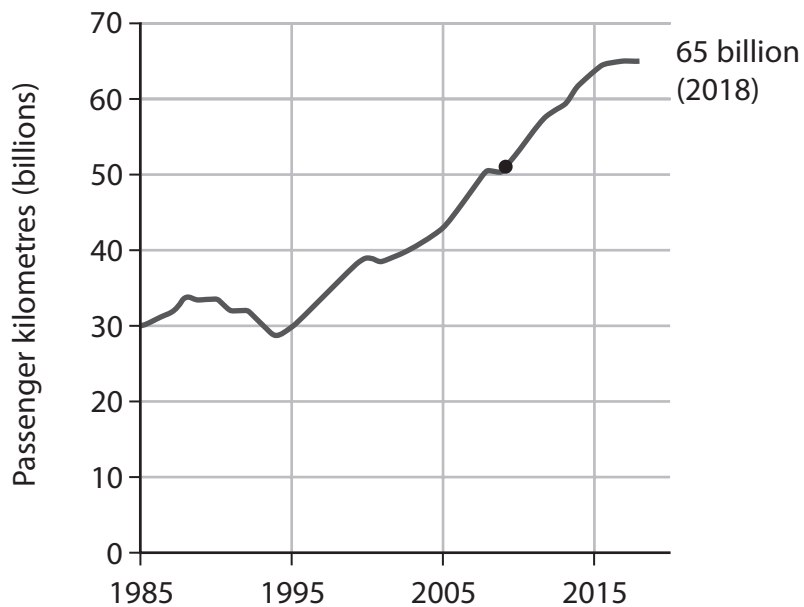
The UK Rail Industry

Figure 1: UK government subsidy to Northern, a train operating company in Northern England



(Source adapted from: <https://www.theyworkforyou.com/wrans/?id=2018-10-18.181280.h>)

Figure 2: Rail passenger kilometres travelled per year in the UK, billions



(Source adapted from: fullfact.org)

Figure 3: Price of a single off-peak train journey, Edinburgh to Leeds Saturday 22nd December 2018 19:00 hours

Adult	Young Persons (16–25) Railcard
£105.30	£69.50

(Source: <https://www.lner.co.uk/buy-tickets/booking-engine>)

Extract A

The case for nationalisation

Privatisation has not made the rail industry cheaper to operate, despite the promise from one government source that it would see private companies bringing: “more competition, greater efficiency and a wider choice of services”.

One reason, suggest the critics, is fragmentation. Instead of pushing British Rail into the private sector as a single supplier the government chose to break it into three components of track, train operators and rolling stock i.e. the trains and carriages. This has encouraged each part of the rail industry to prioritise its own profits rather than collaborating to improve the system. 5

Privatisation, meanwhile, never really worked. The rail network of 2 500 stations and 32 000 km of tracks was renationalised in 2001. This has encouraged the government’s transport secretary, a supporter of private sector involvement, to argue that the state Network Rail monopoly should be removed so that companies can bid to build new rail lines to upgrade the railway. 10

The privately-owned train operators are now the subject of fierce criticism, due to overcrowding and cancelled services. Private companies are supposed to compete to win a bid to be the train operator for a region for a short number of years. However in recent years the number of private companies bidding or renewing their contract as rail operators has fallen. In May 2018 the government rescued the East Coast line by renationalising it. The line had been run by the private rail operator Virgin Rail, which was suffering lower passenger numbers and revenue than forecast. 15 20

Some argue that there is a simple solution: reunite track and train in the only feasible manner, nationalisation.

(Source adapted from: <https://www.ft.com/content/d82848ca-f7ba-11e7-88f7-5465a6ce1a00>)

Extract B

Southern Rail boss paid £495 000

The Chief Executive of Southern Rail, the private-sector train operator that has become associated with delays, losses, cancellations and strikes, was paid £495 000 last year. This increased calls for nationalisation and a maximum wage for executives at companies with government contracts. In contrast the average base pay for a train driver in the UK is £47 705, although they can earn up to £63 000. 5

Nearly a third of Southern Rail trains were late in 2016 as it tried to deal with a labour dispute that involved extensive strike action. The rail trade unions are opposed to planned changes to the role of train guards, which they claim will put passenger safety at risk. 10

(Source adapted from: Rob Davies, The Guardian 10 April 2017
<https://www.theguardian.com/business/2017/apr/10/southern-rail-boss-double-pay-rise>)

(a) With reference to Extract A, paragraph 3, discuss whether the rail network can be considered to be a natural monopoly.

(12)

A series of horizontal dotted lines for writing the answer.

Handwriting practice area with 20 horizontal dotted lines.

Handwriting practice area with 20 horizontal dotted lines.

(b) Discuss the likely benefits of price discrimination to rail passengers. Use a diagram to support your answer.

(15)

A large rectangular area containing horizontal dotted lines for writing the answer.

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

Handwriting practice area with 25 horizontal dotted lines.

Handwriting practice area with 27 horizontal dotted lines.

(Total for Question 12 = 27 marks)

Question 13

Extract A

West End ticket prices reach all time high

The price of West End theatre tickets in London has reached an all-time high. In the past year alone, up to January 2013, the average top-price ticket has risen by almost £10 and now stands at £81.05. In January 2013, London theatres announced record numbers of people wanting to buy tickets for shows. Costs of running the theatres have also risen because there are restoration costs to pay and energy costs have increased. This rise in costs is despite some of the theatres in the West End receiving subsidies.

5

(Source: adapted from 'West End theatre tickets more expensive than ever, says The Stage,' by Matt Trueman, *The Guardian*, 5 April 2013
<http://www.theguardian.com/stage/2013/apr/05/west-end-ticket-price-discrepancy>)

Extract B

Cineworld merger with Cinema City International (CCI)

The UK's biggest cinema chain by market share is to enter seven overseas markets through a £900m merger. Cineworld announced that it has agreed to merge with CCI which owns 100 multiplex cinemas in seven countries Bulgaria, Czech Republic, Hungary, Israel, Poland, Romania and Slovakia. The deal is expected to be promoted as a merger of equals although Cineworld is larger than its new partner. The planned merger with CCI follows a fall of 1% in the revenue earned by cinemas in the UK and Ireland in 2013 to £1.17bn.

5

In 2013, Cineworld was ordered by competition regulators to sell three cinemas following its takeover of the Picturehouse chain. This underlined the difficulty of finding new growth opportunities in the company's home market, which was one factor prompting a search for international expansion opportunities.

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Cineworld's UK-based rivals have also grown overseas, with Odeon UCI having a presence in seven countries, while Canadian-owned Vue Entertainment has cinemas in Portugal, Taiwan, Germany and Denmark.

The combined group is to be run by CCI's chief executive, although other senior management will be drawn from the ranks of both companies and the board will have more Cineworld board members.

15

(Source: adapted from 'Cineworld Targets Europe With £900m Merger,' By Mark Kleinman, *Sky News*, 9th January 2014
<http://news.sky.com/story/1192823/cineworld-targets-europe-with-900m-merger>)

Extract C

Cineworld investigation by Competition Commission (competition regulator)

Cineworld had to sell cinemas in three towns after the Competition Commission (CC) concluded that its acquisition of the Picturehouse chain would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. While Cineworld operates mainly in large out-of-town-centre cinemas, Picturehouse's cinemas tend to be smaller and located in city centres.

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The CC has concluded that the acquisition could lead to a substantial lessening of competition in the cinema market in Aberdeen, Bury St Edmunds and Cambridge – where Cineworld and Picturehouse face limited competition.

(Source: <http://www.competition-commission.org.uk/media-centre/latest-news/2013/aug/cineworld-could-have-to-sell-cinemas>)

Adult (19–59 yrs)	£9.60
Child (2–14 yrs)	£6.80
Student (15–18 yrs)	£7.30
Senior (60+ yrs)	£7.30
Family of 4	£29.80

Figure 1

Cineworld (London) cinema ticket prices after 5pm

(a) With reference to Figure 1, discuss the likely impact of price discrimination on Cineworld's profit. Include an appropriate diagram in your answer.

(12)

A series of horizontal dotted lines provided for writing the answer.

(b) Discuss the likely impact of 'a substantial lessening of competition in the cinema market in Aberdeen, Bury St Edmunds and Cambridge' (Extract C, line 6–7).

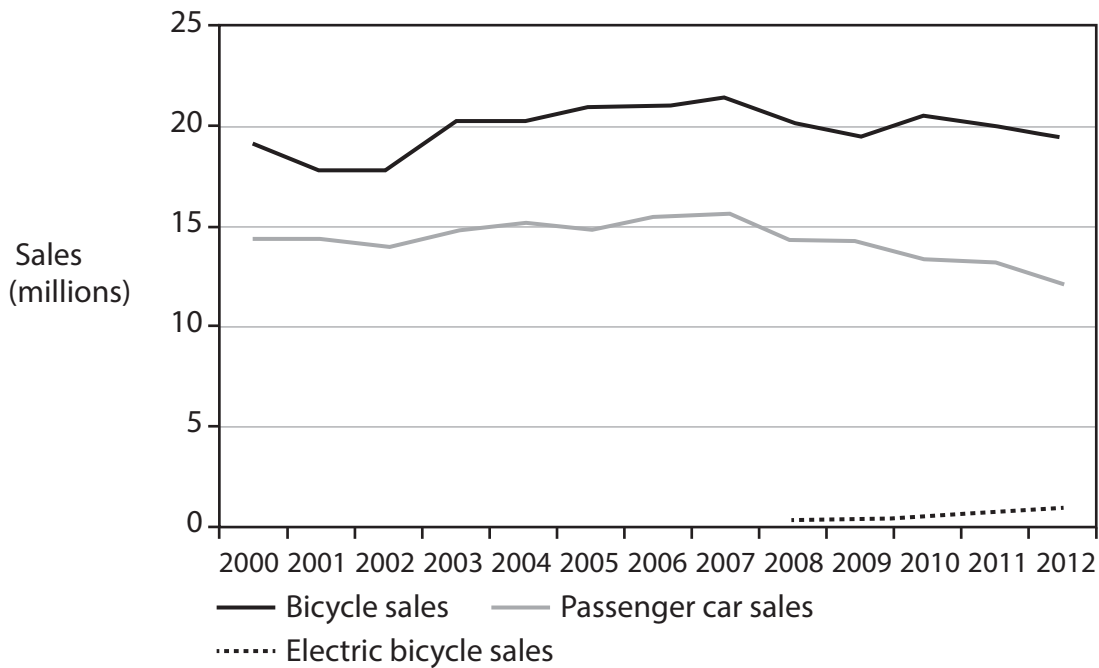
(15)

A series of horizontal dotted lines for writing the answer.

(Total for Question 13 = 27 marks)

14 Electric bicycles (e-bikes)

Figure 1 EU trends in Bicycle sales, passenger car sales and electric bicycle sales



Extract 1 Changing trends in private car and bicycle use in the EU

Electric bicycles (e-bikes) use batteries to add to a rider's own efforts with top speeds of up to 40kph.

Navigant Research, a market research company, sees trends that would suggest a possible correlation between increasing sales of e-bikes, as well as rentals, and declining car sales.

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For every car sold in the EU, almost two bicycles are sold. E-bike sales are growing by 22% a year while car sales are declining by 2%.

The market for e-bikes is likely to grow to between 1.0 million and 1.2 million units in 2013. But the question remains: does this mean that Europeans are shunning cars for bicycles and e-bikes?

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(Source: <http://evworld.com/news.cfm?newsid=30212>)

Extract 2 Downhill all the way

Electric cars are expensive and they stop dead if not recharged. These problems explain why the demand for electric cars remains low. E-bikes on the other hand can still be pedalled without a charged battery and are increasingly affordable. Faster e-bikes with more sophisticated electronic controls, such as those popular in China, may also be gaining ground.

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In the Netherlands one bicycle in six sold is an e-bike. In Germany the cycle industry expects e-bike sales to grow by 13% in 2013, to 430 000 and to account for 15% of the market. In France sales of traditional bicycles fell by 9% in 2012 while those of e-bikes grew by 15%.

As more people move to cities, e-bikes are catching on, helping to reduce problems of parking, transport costs and global warming. China buys most of them and makes even more, with European sales of 1.5 million in second place. The global market is expected to be 40 million in 2015.

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(Source: <http://www.ft.com/cms/s/0/9ecf3158-e536-11e0-bdb8-00144feabdc0.html#ixzz2glhjny30>)

Extract 3 Global electric bike sales in high gear

Growing e-bike sales are turning bicycle manufacturers, long viewed as unexciting companies, into firms worth investing in. The market for bicycles has been mature for years. That started to change in 2008, as the new generation of e-bikes was launched. The smaller batteries and attractive designs began luring older customers away from push bikes.

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"Over 90% of e-bike sales are to people over age 50, but I see the age slowly coming down, and more men buying," said Karel van Waselaer, CEO at Gazelle, a Dutch manufacturer. While there are e-bike specialists, such as Switzerland's Biketec and Germany's Sachs, most traditional brands are coming out with e-bike lines as well, for example, the major US bicycle manufacturer Cannondale introduced its own e-bike line in 2013.

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E-bike specialists have not yet begun to squeeze out small competitors on price, largely because almost all brands source their electrical components such as batteries from the same few suppliers, chiefly Shimano of Japan and Germany's Schramm. "The battery is 25% of the total price of the e-bike," said Patrick Langley of industry research firm GFK.

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(Source: <http://www.ft.com/cms/s/0/9ecf3158-e536-11e0-bdb8-00144feabdc0.html#axzz2glcm2IAW>)

14 With reference to Extract 3, explain the market structure of batteries used in the manufacture of e-bikes.

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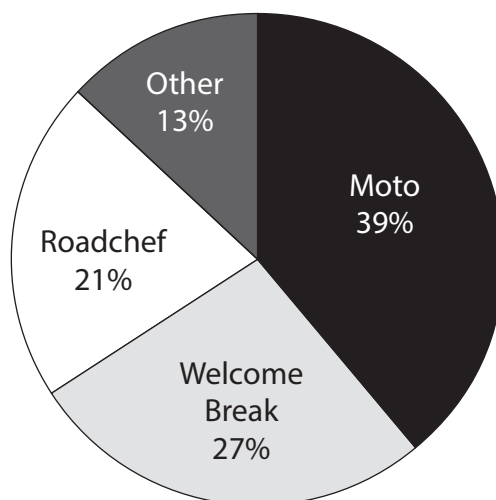
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(Total for Question 14 = 4 marks)

15 Motorway Service Areas (MSAs) in the UK

Figure 1 Market share of MSA sites in the UK (103 sites)



(Source: Mintel, Operator reports, 2010, http://reports.mintel.com/display/540116/?__cc=1)

Extract 1 Letter concerning monopoly pricing at Motorway Service Areas

I am writing to bring to your attention the issue of petrol prices. Returning from Germany yesterday evening, I needed to buy petrol on the M25 and stopped at a service station, not wanting to add extra miles or risk getting lost by coming off the motorway. Normally the price is advertised in advance but in this particular case it wasn't. I was horrified to see that I was being charged £1.47 which as you'll know is more than 15 pence above the average rate across the country. I had no choice but to buy the petrol at this price. Everyone knows that petrol is more expensive at motorway services, but I am writing to ask you to consider putting a cap on the amount of profiteering by these firms selling petrol at inflated prices. In some European countries it is normal to see the price at a service station and the next two after that so you can make a choice as to where to stop and buy your petrol, but in this country it's a complete monopoly.

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Letter to the Highways Agency November 2012

Extract 2 Pricing at Motorway Service Areas

It's no secret that Motorway Service Areas manage to provide the seemingly impossible combination of being both notoriously expensive and notoriously poor quality. This is usually attributed to the fact that they are seen to have a captive market and a monopoly on the motorway, often being the only easily accessible facilities for at least 15 miles, the minimum distance permitted between MSAs. However, the gap between MSAs often exceeds 50 miles. 5

Before we start complaining about the prices of services, we should first work out what we're comparing them to. While the obvious comparison would be a supermarket or high street shop, a more accurate one would be an airport or railway station – places which are also under fire for their high prices. If services were making as much money as some people think they are, there would be more operators and applications for new services. 10

(Source: adapted from www.motorwayservicesonline.co.uk)

Extract 3 Pressure on for motorway services operators with vast debts

How to get today's motorway users to spend money is a major problem that Roadchef and its rival operators Moto and Welcome Break have had to tackle. And with collectively hundreds of millions of pounds of debt on their balance sheets, the pressure is on.

In 2007, Welcome Break, Britain's second-biggest motorway services operator, was on the brink of exiting the industry as it desperately tried to rearrange its £376 million debt. Roadchef, its smaller rival, was also struggling. Like Welcome Break its credit rating had been downgraded and it was in danger of breaching its debt arrangements. Roadchef was bought by Israeli property company Delek Group. Welcome Break and Roadchef, along with Moto, still have vast debts, with servicing costs in the range of £15 million and £78 million a year. 5 10

But why is there so much debt in these companies when motorists regard service stations as roadside goldmines for their owners because of 'captive' customers and high prices? One reason is the huge investment needed. Moto says its new service area at Wetherby, West Yorkshire, cost £24 million to build. There are also the high overheads caused by its many obligations. Service stations must be open 24 hours a day, 365 days a year. There is a legal requirement to provide free parking for at least two hours, toilets, hot food and drink. Yet they are still not allowed to market themselves as destinations in their own right, mainly because of fears that traffic building up on the slip roads could cause accidents on the motorways. And they are still not allowed to serve or sell alcohol, a high-margin product for retailers. 15 20

Does it matter that the service stations are massively indebted? According to one commentator, 'The attractive thing about these companies is that they generate a huge amount of cash. If you can use that to service the debt and still make a profit, what does it matter that you are not going to pay the debt off?' 25

(Source: adapted from <http://www.thisismoney.co.uk/money/markets/article-2018000/Pressure-motorway-services-operators-saddled-vast-debts> Sarah Bridge July 2011)

15 With reference to the information provided, briefly explain why motorway services operators can charge high prices for petrol.

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(Total for Question 15 = 4 marks)

16 Camera retailing



(Source: metro.co.uk)

Extract 1 Peter Jones reopens Jessops

Jessops, the photography retailer, made a surprise return to the high street in March 2013 when Peter Jones, one of Britain's best-known entrepreneurs on the BBC programme *Dragons' Den*, relaunched the chain 11 weeks after it collapsed. Jessops, which was founded in Leicester in 1935, reached shut-down point in January 2013. Jessops suffered both from consumers' shift to buying cameras on the internet and their increased reliance on cameras built into mobile phones. Mr Jones became Chief Executive of Jessops after buying the firm from its administrators PricewaterhouseCoopers. Mr Jones made his money from the telecoms industry and operates some stores for Vodafone and has online retail investments. He has invested £4 million in Jessops and will reopen around 40 shops, far fewer than the 187 shops the retailer had before.

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"Britain's high street is fighting back," Mr Jones said as he reopened a refurbished flagship Oxford Street store, adding that shops could compete with online traders if prices are competitive. "Who would *not* want to buy a camera from expert and enthusiastic staff?" he said. Stores will feature areas to try out products before buying. Customers will be able to create photo albums and take photography courses through the Jessops Academy. Staff will also turn photos into calendars and posters while you wait. Mr Jones said companies such as Apple had proved that customers would spend time and money in a welcoming environment with quality staff in busy locations. "It is very Apple-ish. We have learnt from other retailers, I believe Jessops is an iconic British brand which can lead the retail resurgence on Britain's high streets, powered by new innovations and world-leading, expert staff" he said. "Image is everything and, even in the mobile and tablet era, there's no substitute for a quality camera when it comes to taking the perfect picture."

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Mr Jones has reduced fixed costs from £8 million to £1.5 million by cutting administration costs, closing stores and further rationalisation. Jessops will have outlets in centres such as London, Birmingham, Manchester and St Albans, with six opening immediately. Jessops will hire as many as 500 staff and many are drawn from the 1 400 who lost their jobs when it collapsed. "A lot contacted me on Twitter and asked for a job and it's great to have them," said Mr Jones.

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Prices will be matched to those of Jessops.com and Mr Jones said it would be "competitive" with other online retailers such as Amazon. "We will make our profit margin on the accessories," he said. He said "click and collect" would be a powerful driver of sales and Jessops promised greater integration with its online presence, including an option to collect internet orders at store. "I think Amazon will start to lose their market share because they do not have a collect at store. Nobody likes waiting in for a delivery."

35

Mr Jones forecasts sales of more than £80 million in his first year and expects to take some 15% of the digital single lens reflex camera market in the UK. Revenue before Jessops shut was £304.6 million, but the firm is said to have made a loss of £12 million in the fifteen months up to its closure.

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More than 10 000 jobs have been lost in retail this year as chains such as HMV and Republic have fallen into administration. However, Mr Jones is not the only person to see potential in the high street despite flat retail sales. Sports Direct bought fashion chain Republic while Gordon Brothers Europe, the private equity firm, this week bought Blockbuster UK, the entertainment group, out of administration and will keep half its 528 stores open, claiming it can "bring new life" to them.

45

(Source: adapted from By Andrew Bounds FT.com 28 March 2013, www.ft.com/cms/ and www.thisisleicestershire.co.uk)

16 To what extent is price discrimination possible for firms selling products both on the internet and in high street shops?

(12)

A series of horizontal dotted lines for writing the answer to question 16.

(Total for Question 16 = 12 marks)

17 Chocolate Manufacturing and Retailing

Extract 1 Profits rise at Thorntons

Mike Davies, Thorntons' chief executive of the UK's remaining large chocolate manufacturer, reported 25% higher profit, despite a small fall in total sales. As well as from its own shops, Thorntons sells chocolates through its website and to other retailers, such as supermarkets. Sales to other retailers rose by 6.5% to £34.6 million in the 26 weeks to 9 January 2010. In boxed chocolate, Thorntons' sales have grown 82% in the past two years, compared with a 7% decline recorded by Cadbury.

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The company hopes that a new range of products will help it to become profitable in the second half of the year, which includes the summer months. Thorntons usually records a loss in the second half of the year, because customers eat less chocolate in warmer weather.

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Source: http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article7031407.ece
The Times February 18, 2010 'Thorntons plays hard ball on the high street as profits rise' Marcus Leroux

Extract 2 Kraft takes over Cadbury to become world's biggest confectioner

Kraft's offer to buy Cadbury was accepted by Cadbury's board on 19 January 2010. Kraft, the US food giant, will pay £11.7 billion for Cadbury in cash and shares, some 50% more than the firm's value before the bidding started in September.

Kraft's acquisition may be a good deal for both companies. Kraft has little presence in Britain's confectionery market, where Cadbury is strong, but it has thriving businesses in mainland Europe and Russia where Cadbury has made minimal progress. Cadbury is strong in India and various Commonwealth countries, and has a booming chewing-gum business, particularly in Europe and Latin America, an area where Kraft has little expertise. Between them they can make up lost ground in China, where Mars holds the upper hand. The deal is also set to yield cost savings of £414m a year for the combined firm, operating at a larger scale in emerging markets. This is a good deal for most Cadbury's workers. However, the fact that so much of the deal is financed by debt is a negative: borrowing that looks cheap today could double in price tomorrow. That would eat up the cost savings on marketing and administration already factored into the purchase price, and perhaps force undesirable cuts to operations. Cadbury is already efficient: under its current management it has reduced costs significantly, for example, by off-shoring more of its operations. 5 10 15

Three-quarters of mergers result in a fall in short run profits. In such a sensitive consumer sector, the risks of a culture clash and brand destruction are high. That is what happened to Terry's, a smaller York-based chocolate company bought by Kraft in 1993. Terry's has lost visibility in Britain since production was relocated to central Europe in 2005. The same problem could await Cadbury. 20

There are understandable fears that foreign owners will be more likely than domestic ones to axe British jobs or use British profits to pay off their global debts. But all successful big firms, British and foreign alike, respond to the demands and opportunities of the global marketplace these days, and, as Cadbury's current managers have shown, their behaviour is rarely determined by their nationality. 25

The management practices of multinational companies tend to be better than the average in any country they operate in. In theory, then, Kraft's takeover of a British firm should bring better management to Britain. One problem: Cadbury is itself a multinational, and in no need of lessons from Kraft. 30

Source: adapted from <http://bit.ly/89Azni>

'Cadbury goes American. Is this healthy for British manufacturing?' *The Economist* Jan 19th 2010 and <http://bit.ly/aaFiRe> Jan 21st 2010 'Manufacturing blues: Another one bites the dust' Jan 21st 2010

Extract 3 Kraft to close Cadbury plant it offered to keep open

Kraft Foods has gone back on its promise to keep open a Cadbury factory in Somerdale near Bristol, just weeks after the British chocolate maker accepted its £11.7 billion offer. The plant, which employs 400 staff, will be closed in 2011. The Unite union said: "This sends the worst possible message to the 6,000 other Cadbury workers in the UK and Ireland. It tells them that Kraft cares little for their workers." 5

Source: <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/7199322/Kraft-to-close-Cadbury-plant-it-offered-to-keep-open.html> Amy Wilson and Jonathan Russell 09 Feb 2010

17 Examine **one** reason why Thorntons is likely to sell its chocolates at a higher price in its retail shops than through its website.

(8)

(Total for Question 17 = 8 marks)

18 British Airports

Extract 1 International bidders line up for British Airports Authority (BAA) airport sale

Following a ground-breaking report this week from the Competition Commission, BAA (an airport operator) has been forced to put Gatwick airport up for auction. International infrastructure groups have approached BAA with offers to buy Gatwick, London's second airport, for up to £3 billion. The Spanish company Ferrovial bought BAA for £10.3 billion two years ago.

5

The competition watchdog says that BAA's ownership of London's three largest airports – Heathrow, Gatwick and Stansted – is against the public interest. It will be the first time the Commission has forced the sale of an asset outside a takeover or merger situation.

The sale process could take two years and could eventually yield a healthy profit for Ferrovial. The sale would end a system of ownership that has existed for more than 40 years. BAA has owned seven of the UK's largest airports, including the London trio, since 1965.

10

Source: Adapted from 'International Bidders line up for BAA airport sale' by Dominic O'Connell
The Sunday Times 17 August 2008.

Extract 2 Regulation, not competition, will shape airports

It is quite possible that you could be reading this in an airport lounge sitting out a delay to your flight. You will be irritable and likely to vent your frustration against both the airline and the airport operator which, if you are in southeast England, is most likely to be BAA.

That is why, when the Competition Commission decrees this week that BAA's monopoly of airport ownership should be broken up, the news will be met with almost universal joy.

5

However, the truth is that even if BAA is forced to sell one of its airports in southeast England – either Gatwick or Stansted, it is unlikely to make any difference to the future of aviation in Britain. The world's big airlines want to go to Heathrow, not to Gatwick or Stansted, and it is doubtful whether a change in ownership will alter that.

10

Admittedly it could improve the customer experience and bring in some much-needed competition. However the future of Britain's airports will be determined by regulation and planning rather than by competition.

If a company buys Gatwick it will not alter the fact that BAA is locked in an enormous battle for a second runway at Stansted and a third at Heathrow. The Commission's findings will be welcomed, but they will not address the big picture.

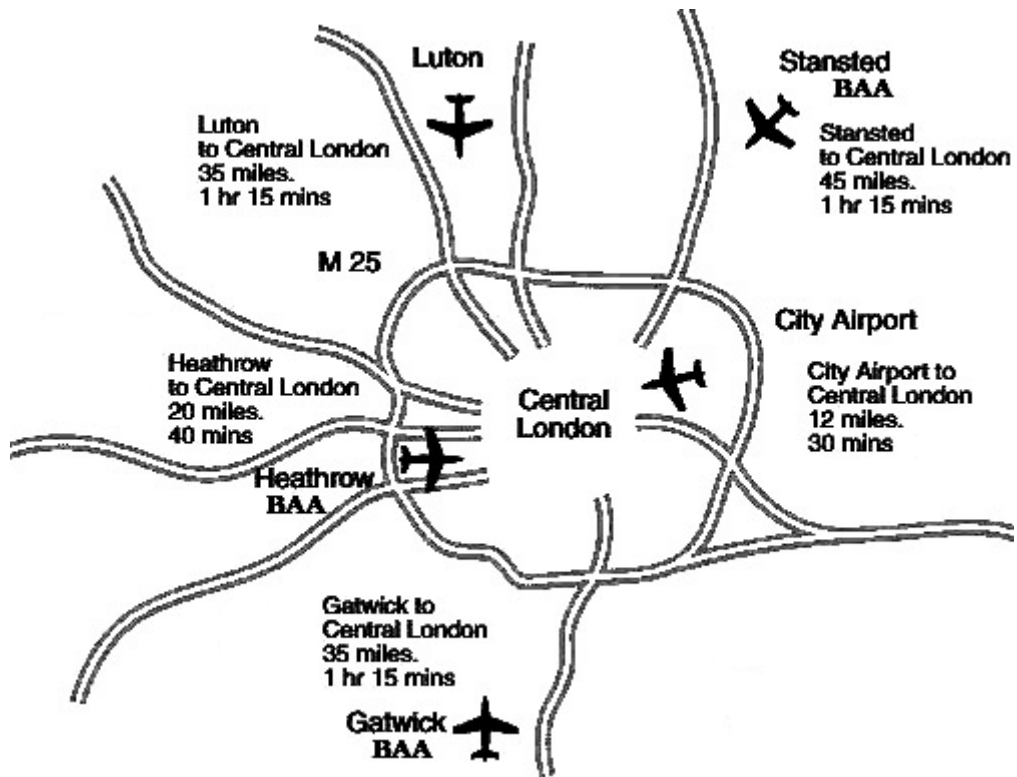
15

Making airports work financially is about making the best of the asset. That means pressing for more flights and more runways and it is the government that holds the key to that.

20

Source: Adapted from 'Regulation, not competition, will shape airports' by John Waples
The Times 16 August 2008.

Figure 1: Map of airports around London



Source: Adapted from <http://www.travelguidelondon.co.uk/london-guide/places-and-tourist-sites/london-luton-airport-map-directions-information.html>.

***(b)** BAA charge more for landings at Heathrow than at other airports. Evaluate the reasons for **and** consequences of such a policy.

(14)

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(Total for Question 18 = 18 marks)

END OF SECTION B

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Handwriting practice area with 25 horizontal dotted lines.

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

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

(Total for Question 19 = 25 marks)

Handwriting practice area with 25 horizontal dotted lines.

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Handwriting practice area with 25 horizontal dotted lines.

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

(Total for Question 20 = 25 marks)

END OF SECTION C