



General Certificate of Education  
Advanced Level Examination  
January 2011

## Economics

## ECON3

### Unit 3 Business Economics and the Distribution of Income

Friday 28 January 2011 1.30 pm to 3.30 pm

**For this paper you must have:**

- an AQA 12-page answer book.
- You may use a calculator.

#### Time allowed

- 2 hours

#### Instructions

- Use black ink or black 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 ECON3.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

#### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

#### Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

## Section A

Answer **EITHER** Question 1 **OR** Question 2.

**EITHER**

**Total for this question: 40 marks**

### Question 1

#### THE GLOBAL CONTEXT

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

#### Extract A: Value of music sales in the USA (\$US million)

Digital Format	2007	2008	Physical Format	2007	2008
Download single	802	1023	CD single	12	4
Download album	425	569	CD album	7452	5471
Download music video	28	41	CD/DVD music video	485	219
Mobile ringtones and downloads	881	816	Vinyl albums	23	58
<b>Total Digital Format</b>	<b>2136</b>	<b>2449</b>	<b>Total Physical Format</b>	<b>7972</b>	<b>5752</b>

Source: industry statistics, 2009

#### Extract B: Technological change and the recorded music industry

<p>Technological change presents both threats and opportunities to the global music industry. Around the world in 2008, 1.4 billion song tracks were legally downloaded to computers and paid for over the internet. However, an estimated 40 billion tracks (over 95% of music downloads) were obtained illegally. From the point of view of people sharing and using these tracks, new technology has changed recorded music into a form of public good.</p>	1
<p>To stay in business, record companies and retailers have to find ways of selling recorded music to people who do not want to pay because people expect everything on the internet to be free. Some politicians and industry representatives want to use the force of law to punish the people who download illegally, while some businesses, such as satellite broadcasters and computer games developers, appear to be using technology successfully in order to sell to paying customers and exclude 'free riders'. For example, <i>BSkyB</i> subscribers are sent a decoder card so they can access programmes.</p>	5
<p>While <i>iTunes</i> and others have had great success in selling downloads, CD sales are still important for on-line retailers like <i>Amazon</i>, traditional high street music stores such as <i>HMV</i> and <i>Virgin</i> and the large supermarkets. These sellers of music in physical format are taking on the new digital competition with aggressive pricing, persuasive TV advertising and differentiated products such as special edition CD box sets.</p>	15
<p>Many new and established artists have used the internet to their advantage. It is possible to record a song in a bedroom, place a clip on <i>YouTube</i> and go on to sell to a global market. Barriers to entry have changed and the music industry as a whole has to be creative to compete in new ways that build upon legal downloading and the on-line selling of CDs.</p>	20

Source: news reports, 2008–9

**Extract C: The creative industries and intellectual property**

The UK government regards the 'creative industries' as an important source of income and employment. This sector is defined as comprising 13 sub-sectors, including architecture, films, music, fashion, television and video games. The UK creative industries contribute nearly 8% of annual Gross Domestic Product (roughly half the contribution of the manufacturing sector) and produce exports worth £10 bn (almost equal to oil industry exports). The creative sector is expected to grow at twice the rate of the rest of the economy between now and 2013. 1  
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The main distinguishing feature of a 'creative' industry is that it depends on intellectual property rights (IPRs). These include copyrights (e.g. for music, literature, art works and films), trademarks, patents, industrial design rights and trade secrets. In effect, IPRs enable creative people and businesses to enjoy a degree of monopoly power. This is strongest when IPRs are enforced throughout the world. Although monopolies are generally regarded by economists as undesirable, legally-backed monopolies created by IPRs can be justified as being in the public interest. 10

Source: news reports, 2008–9

**Question 1**

- 0 | 1** Using **Extract A**, identify **two** significant points of comparison between sales of digital and physical formats over the period shown. (5 marks)
- 0 | 2** Explain the term 'Barriers to entry' (**Extract B**, line 20) **and** analyse **two** ways in which technological change can affect entry into creative industries such as recorded music. (10 marks)
- 0 | 3** 'Although monopolies are generally regarded by economists as undesirable, legally-backed monopolies created by IPRs can be justified as being in the public interest' (**Extract C**, lines 12–14).  
  
Evaluate the case for stronger action by governments to protect the monopoly power of firms involved in UK creative industries. (25 marks)

**Turn over for the next question**

**Turn over ►**

Do **not** answer Question 2 if you have answered Question 1.

OR

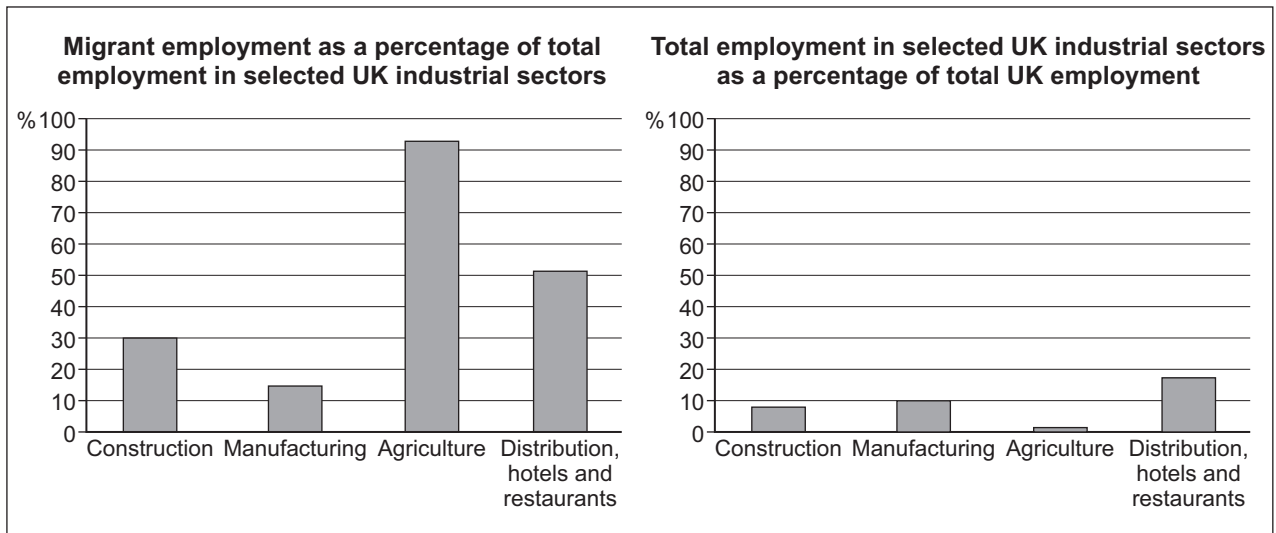
**Total for this question: 40 marks**

**Question 2**

**THE EUROPEAN UNION CONTEXT**

Study **Extracts D, E and F**, and then answer **all** parts of Question 2 which follow.

**Extract D: Selected UK industrial sectors employing migrant workers, 2006**



Source: official statistics, 2007

**Extract E: Wage differentials in the UK in 2008**

In 2008, the average doctor in general practice earned £105 000 and, while the average earnings of dentists doing NHS work were £89 000, over 700 dentists earned more than the Prime Minister, who earned £190 000. The Lord Chief Justice earned £236 000 and the Director-General of the BBC earned £816 000. The average annual earnings of all UK workers in full-time employment was around £30 000. Someone with a normal full-time working week on the national minimum wage would have earned about £11 000 over the year.

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Source: news reports, 2009

**Extract F: The supply of dentists and the mobility of labour**

According to economic theory, wages are the price of labour and price signals have an 'incentive' role in stimulating supply. Sometimes, differences in rates of pay alone are not enough to eliminate shortages or surpluses of labour due to imperfections in labour markets, such as the immobility of labour. Account also has to be taken of non-monetary considerations, as well as the effects of government intervention. 1  
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The European Union (EU) wishes to improve the mobility and flexibility of labour. The Single European Market (SEM) promotes not only the free movement of goods, services and capital, but also the free movement of labour among EU citizens. The architects of the single market believed that the labour market in the USA was more 'flexible' than in the EU and that this flexibility was largely due to workers in the USA being more mobile than their European counterparts. It was thought that this helped explain why US businesses were more productively efficient than those in the EU. 10

The single labour market of the EU is famous for the phenomenon of the 'Polish Plumber' and, when Poland joined the EU, some sections of the UK media predicted that the British labour market would be 'swamped' by low-wage workers from Eastern Europe. In 2005–2006, when the NHS was renegotiating its contracts with British dentists, many in the profession refused to accept the terms of the new contracts being offered and went into private practice. One response from the NHS was to recruit from Poland where, it was claimed, there was a surplus of qualified dentists. 15

The Scottish Executive, Welsh Assembly Government and a number of English NHS Primary Care Trusts took advantage of the existence of a single labour market across the EU and introduced schemes to attract dentists from Poland to work in their health services. In due course, several hundred arrived in the UK. 20

Source: news reports, 2009

**Question 2**

**0 | 4** Using **Extract D**, identify **two** significant points of comparison between the data shown in the two bar charts. (5 marks)

**0 | 5** **Extract E** gives examples of wage differentials. Explain what is meant by the term 'wage differentials' **and** analyse **two** reasons, suggested by economic theory, why wage differentials occur. (10 marks)

**0 | 6** 'The European Union (EU) wishes to improve the mobility and flexibility of labour' (**Extract F**, line 6). Evaluate the possible **costs** and **benefits** for the UK economy of the free movement of labour within the EU. (25 marks)

**Turn over for the next question**

**Turn over ►**

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**Section B**

Answer **one** question from this section.

Each question carries 40 marks.

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**Question 3**

**0 7** Many of the world's large companies, such as *Microsoft* and *Ryanair*, started out as small businesses.

Explain the different ways in which a firm can grow in size. (15 marks)

**0 8** Discuss whether the objective of profit maximisation becomes less important than other possible objectives as a firm grows in size. (25 marks)

**Question 4**

**0 9** 'Oligopolistic markets, such as supermarkets or car manufacturing, can be defined in terms of market structure or in terms of market conduct (behaviour).'

Using examples of particular industries, explain this statement. (15 marks)

**1 0** Assess the view that making an oligopolistic market more contestable is the best way to improve the efficiency of that market. (25 marks)

**Question 5**

**1 1** 'Imperfect information may lead to market failure.'

Explain how imperfect information may result in the failure of markets for merit and demerit goods. (15 marks)

**1 2** Discuss whether markets alone can be relied upon to reduce the problems of environmental pollution. (25 marks)

**END OF QUESTIONS**

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