



Rewarding Learning  
**ADVANCED**  
General Certificate of Education  
2022

---

# Economics

Assessment Unit A2 1  
*assessing*  
Business Economics



AEC11

**[AEC11]**  
**TUESDAY 24 MAY, MORNING**

---

## TIME

2 hours.

## INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.  
Answer **all** questions in Section **A** and **B** and **one** question in Section **C**.  
You are permitted to use a calculator in this paper.

## INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

## ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **5(b)**, **(c)** and **(d)**, **6** and **7**. Quantitative skills will be assessed where appropriate.

## Section A (20 marks)

### Answer all questions

- 1 The table below shows the output and total cost for a firm in the long run.

| Output (000 tonnes) | Total cost (£000) |
|---------------------|-------------------|
| 3                   | 1500              |
| 4                   | 1800              |
| 5                   | 2000              |
| 6                   | 2700              |
| 7                   | 3500              |
| 8                   | 4400              |
| 9                   | 5400              |

Identify the level of output at which the firm will achieve productive efficiency.

[2]

- 2 Paula McCann is a dairy farmer in a perfectly competitive market. Her marginal cost is equal to average variable cost when average variable cost is 13 pence per litre. Marginal cost is also equal to average total cost when average total cost is 27 pence per litre.

Explain whether Paula McCann should continue production in the short run if the market price of milk falls from 27 pence per litre to 22 pence per litre.

[4]

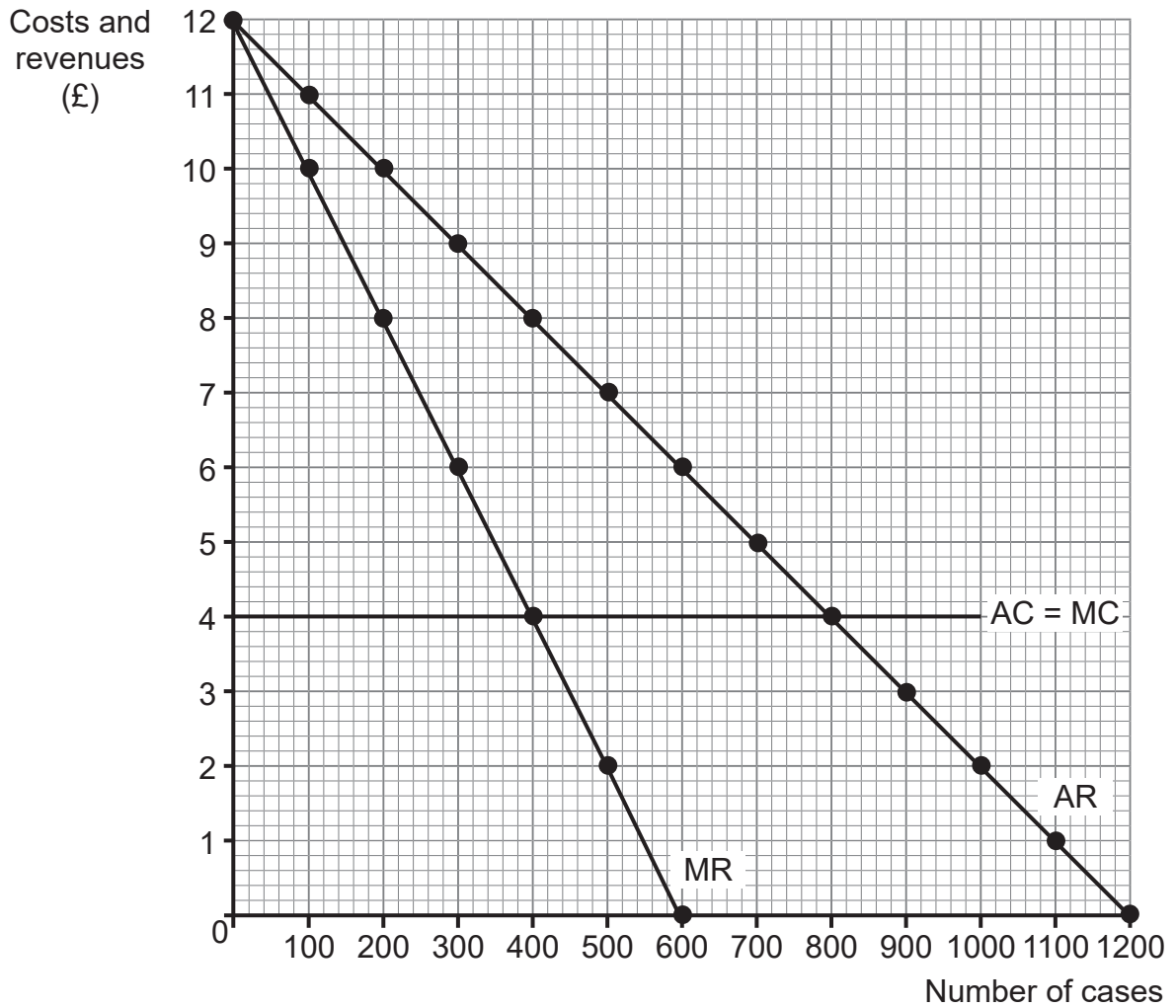
- 3** Across Europe, gin consumption continues to rise at an accelerating rate. A significant part of the market is accounted for by more expensive “craft” gins. In 2019 they accounted for 16% of gin sales by volume and 21% of gin sales by value.

The table below shows the index of gin sales in the EU over a five-year period.

| <b>Year</b>               | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Index of gin sales</b> | 89          | 100         | 123         | 157         | 257         |

- (a) Identify the base year in the table above. [1]
- (b) Calculate the percentage increase in gin sales between 2018 and 2019. [2]
- (c) Explain why craft gins accounted for 21% of gin sales by value but only 16% of gin sales by volume. [3]

- 4 Makeurcase.com is a company which sells customised phone cases online. The firm has cost and revenue curves as shown on the diagram below.



- (a) Initially, the firm decides to charge all customers the same price for its cases determined by the revenue maximising level of output. Calculate how much supernormal profit the firm will make at this level of output. [4]
- (b) Calculate how much supernormal profit the firm will make if it now decides to adopt a policy of perfect (first degree) price discrimination. [4]

**BLANK PAGE**

**(Questions continue overleaf)**

## Section B: Case study

### Answer all questions (40 marks)

This case study was compiled in September 2019.

Read the articles carefully and answer the questions which follow.

#### 5 Case study: “Creative destruction in the grocery sector”

##### Source 1: How a discount supermarket chain changed British shopping

On a Thursday morning in April 1990, in the suburb of Stechford in Birmingham, a strange grocery chain started trading in the UK. It only stocked 600 basic items, fewer than you might find in your local corner shop, and all at very low prices. For many products, including tea, butter and ketchup, only a single, usually unfamiliar brand was offered. This new grocery chain was Aldi, a German company founded in 1964.

The big British supermarkets underestimated Aldi’s threat at first. As recently as 2012 the “Big Four” of Tesco, Asda, Sainsbury’s and Morrisons had a combined market share of 76.3% as shown in **Fig. 1** opposite. However, the “Big Four”, and their suppliers, did not make things easy for the German retailer. Within months of opening that first store, Aldi had raised a complaint with the Office of Fair Trading. Quaker Oats was refusing to sell to Aldi at all, while Whitbread, the brewer, had criticised the discounter’s “open aggression on prices”, and cornflakes had to be sourced from France.

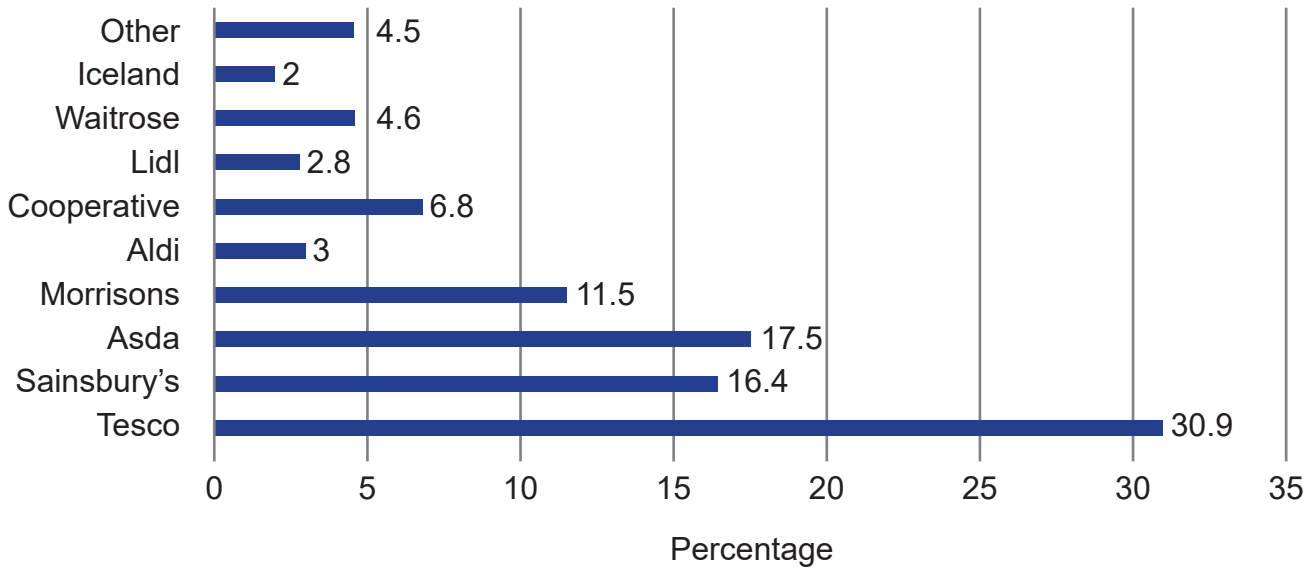
Aldi blamed the established supermarkets for putting pressure on suppliers. One senior manager complained that the “Big Four” had made it almost impossible for Aldi to rent space, organise transport and, most importantly, source products.

To get around this problem Aldi stocks its own branded products, which have names and packaging which are very similar to their big brand rivals. For example, Aldi sells “Wheat Shreds” in a box that looks very like “Shredded Wheat”!

Now, nearly two thirds of UK households visit an Aldi or the other major discount store, Lidl, at least once every 12 weeks. In 2017 Aldi overtook the Co-op to become the UK’s fifth largest grocery retailer, while Lidl climbed above Waitrose to claim seventh spot. What’s more, the two discounters are still growing quickly – opening an average of one new store every week.

*Source: Adapted from © "The Aldi effect: how one discount supermarket transformed the way Britain shops" by Xan Rice. Published by The Guardian, 05 March 2019*

Share of UK grocery market 12 weeks to August 2012



Share of UK grocery market 12 weeks to August 2018

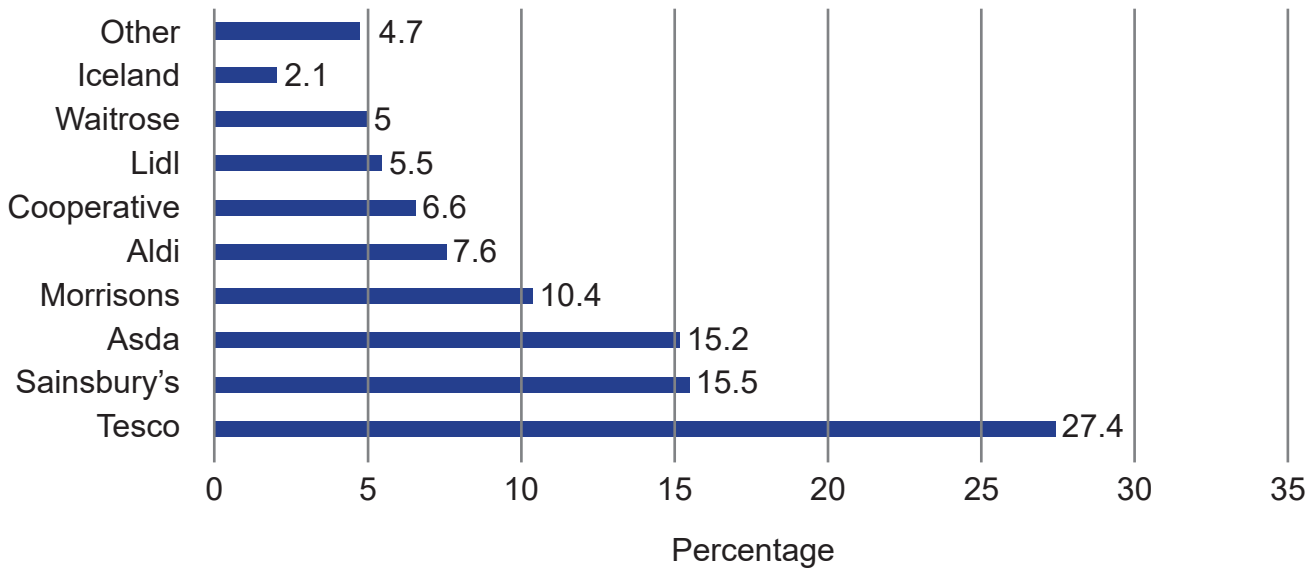


Fig. 1: UK Grocery market share August 2012 and August 2018

## Source 2: How technology is changing British shopping

Packaged products in all supermarkets come with a barcode, but look closely at a packet of Aldi toilet rolls and you will see not one but four barcodes: two long ones down the sides, and one on each large flat surface. This allows goods to be scanned quickly and customers moved speedily through the checkout.

Aldi does not sell food through its website. As the large supermarkets have realised, it is very hard to make money from internet sales because the profit margin on groceries is small (typically 2 to 3%) and the delivery costs are so high. Andy Clarke, the former boss of Asda, told the *Sunday Times* last year that if the big four supermarkets had their time again, “they wouldn’t have offered home deliveries, full stop”. However, other companies are going down the technology route. Ocado operates as an online only retailer and was the fastest growing supermarket in the first six months of 2019 with sales growth of 11.3%.

Tesco PLC has turned to a start-up from Israel for help as it looks to become the next major food retailer to remove cashiers from some of its stores. The UK’s largest grocery chain is working with Trigo Vision Ltd, which has developed a system of cameras and software that allows retailers to automatically charge customers as they fill their shopping trolley. Tesco and other grocers are racing Amazon, which could open as many as 3000 checkout-free Amazon Go stores in the US. Amazon is also expanding its partnership with the UK grocery retailer Morrisons.

Source: Adapted from “The Aldi effect: how one discount supermarket transformed the way Britain shops” by Xan Rice. Published by The Guardian, 05 March 2019. And Adapted from © “Tesco turns to cashier less store as competition with Amazon heat up” by Natasha Bernal. Published by Telegraph Media Group, 26 June 2019

## Source 3: Competition in the grocery market

Significant change in the grocery market is challenging the traditional views of that sector held by retail analysts. Traditionally, the sector was viewed as an oligopoly with an emphasis on non-price competition via quality of produce or range of products.

The table below shows how UK consumers rated the main grocery retailers based on a number of price and non-price factors.

**Extract removed due to copyright**

**Fig. 2: Consumer rating of UK Grocery Retailers (July 2019)**

Source: [//www.which.co.uk/reviews/supermarkets/article/best-supermarkets-aOJn2J0A10N](http://www.which.co.uk/reviews/supermarkets/article/best-supermarkets-aOJn2J0A10N)



Professor Sunflower, Director of Retail Analytics, has said, “The emergence of the German discounters has marked a step change in how supermarkets compete. We are rapidly returning to the old model of pile it high and sell it cheap. In this era of economic uncertainty this move towards greater price competition is both inevitable and desirable.”

- (a) Using the information in **Fig. 1**, explain how the market share of the major grocery retailers changed between 2012 and 2018. [4]
- (b) With reference to recent changes in the UK grocery market, explain the concept of creative destruction. [9]
- (c) Examine the extent to which the UK grocery market is contestable. [12]
- (d) Critically examine the view that it is both inevitable and desirable that the UK grocery market will move from a business model based primarily on non-price competition to one based primarily on price competition. [15]

## Section C: Essay section

### Answer one question (30 marks)

- 6 Traditional economic theory assumes that firms aim to maximise profits. However, the owner of Richer Sounds, one of the UK's largest electronics retailers, has given 60% of his business to employees while ensuring that a percentage of annual profits goes to charity. Other retailers that are suffering from poor sales might take note as Richer's philosophy seems to be good for business.

Critically examine the view that the assumption of profit maximisation is neither realistic nor desirable. [30]

- 7 In recent years economists have become concerned about the market share and market power enjoyed by the dominant firms in a range of UK industries including telecommunications, petrol retailing and banking. These concerns have led to calls for greater government intervention in these markets to ensure they work well, not just for shareholders, but also for consumers and suppliers.

Critically examine the range of policies the UK government could implement to deal with market dominance in important UK industries. [30]

---

**THIS IS THE END OF THE QUESTION PAPER**

---



Permission to reproduce all copyright material has been applied for.  
In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA  
will be happy to rectify any omissions of acknowledgement in future if notified.