



Oxford Cambridge and RSA

A Level Economics

H460/01 Microeconomics

Practice Paper – Set 2

Time allowed: 2 hours



You may use:

- a calculator

First name										
Last name										
Centre number						Candidate number				

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided.
- Additional paper may be used if required but you must clearly show your candidate number, centre number and question number(s).

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **20** pages.

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SECTION A

Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

The economics of supermarkets

Grocery retailing is often used as an example of an oligopoly market in the UK. Economists sometimes divide oligopoly markets into two types: perfect oligopoly, in which the products sold are homogenous and imperfect oligopoly, in which there are differentiated products. The behaviour of firms in a perfect oligopoly can be significantly different from those in an imperfect oligopoly.

In the UK, since the 1950s, the selling of groceries has become increasingly dominated by supermarkets. Tesco has been the market leader for a sustained period of time with over 25% of the market share. There are, however, other competitors who also maintain a significant share of the grocery market, as shown in Fig. 1.

Supermarket	Percentage share of grocery market	Percentage share of grocery market
	July 2014	July 2016
Aldi	4.8	6.2
Asda	17	15.5
Co-op	6.3	6.4
Lidl	3.6	4.5
Morrison's	11	10.7
Sainsbury's	16.6	16.3
Tesco	28.9	28.3
Waitrose	4.9	5.1
Others	6.9	7.0

Fig. 1 Percentage share of grocery market by supermarket. July 2014 and July 2016.
(As measured by % of total market sales revenue.)

The market for groceries is large with the value of sales exceeding £170bn. This has continued to grow, see Fig. 2, despite the macroeconomic problems of the UK economy and a prolonged price war between the supermarkets.

	UK grocery market by value in £bn
2014	177.4
2016	179.1

Fig. 2 UK grocery market by value £bn. 2014 and 2016.

The larger supermarkets have used price cutting in an attempt to maintain market share. While another method of differentiating their brand has been to offer better home delivery services. At present online ordering accounts for less than 10% of all grocery sales.

Sainsbury's, one of the leading supermarkets, has recently decided to integrate its business by buying out Argos. This constitutes horizontal integration. Argos specialises in selling non-grocery products such as toys, clothing and household goods. These non-grocery products are part of Sainsbury's wider product portfolio. Argos offers delivery by 10pm for any of its products ordered by 6pm on the same day. One of the potential benefits of this buy out of Argos by Sainsbury's is the delivery network that Argos has established. Sainsbury's hope to increase their ability to deliver food using online ordering. However, the delivery of items such as clothes and household goods creates fewer problems than delivering fresh food products. Food items require different temperatures and items are often fragile or bulky making the process more difficult and costly.

The major problem with online grocery sales is the lack of profitability. There is a very high level of fixed costs involved. It has been estimated that, on average, a delivery costs the supermarket £20 whereas consumers are charged less than £5. Ocado, an online groceries only provider, operated for 15 years before making a profit.

In recent years there have been some successful new entrants to the grocery retailing market such as Aldi, Lidl and Netto. Most recently, Amazon, a market leader in online sales, has also entered the grocery retailing market through a new service called Pantry. The entry of new firms into a market can influence the profits earned by the incumbent firms. Fig. 3 shows how the profits earned by Tesco and Sainsbury's have changed in recent years.

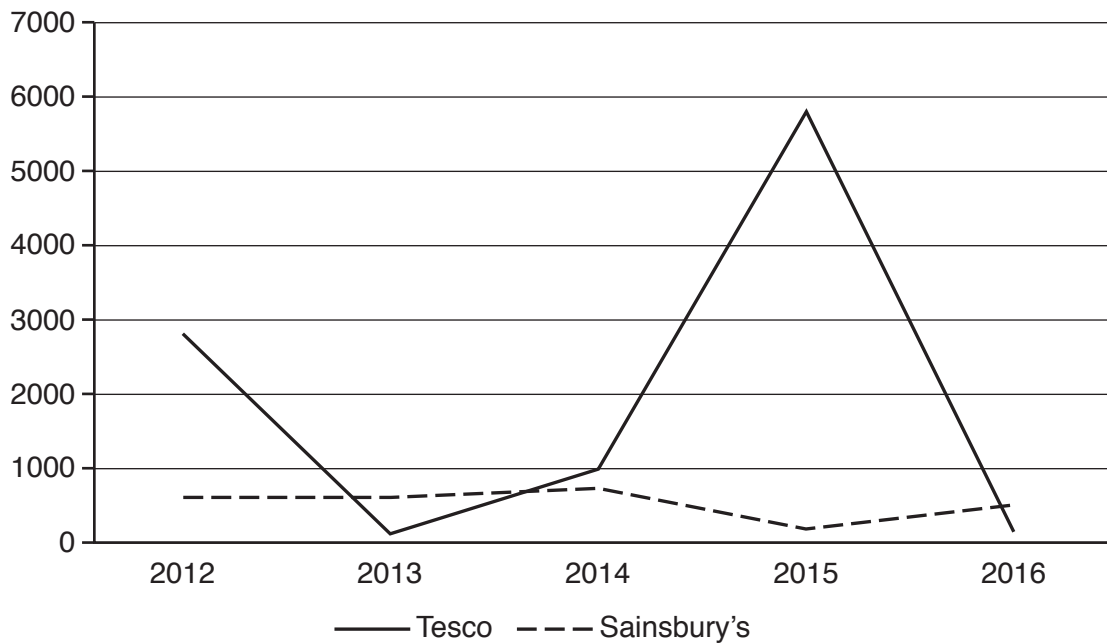


Fig. 3 Profits (£m) earned by Tesco and Sainsbury

Answer **all** the questions.

- 1 (a) Compare the 3 firm concentration ratio for supermarkets in the grocery market in July 2014 and July 2016.

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- (b) Explain, using a diagram, the significance of the kinked demand curve model on the way in which firms behave in oligopoly markets.

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- (c) Fig. 1 shows the growth of new supermarkets, such as Aldi.

Using the information in Fig. 1, calculate the percentage change in total revenue from grocery sales by Aldi between July 2014 and July 2016.

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(d) Explain what is meant by horizontal integration.

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END OF QUESTION PAPER

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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A large grid of dotted lines for writing practice. The grid consists of 25 horizontal rows. A solid vertical line runs down the left side of the page, creating a margin. The rest of the page is filled with horizontal dotted lines, providing a guide for letter height and placement.

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