



*Rewarding Learning*

**ADVANCED**  
**General Certificate of Education**  
**January 2012**

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## **Economics**

**Assessment Unit A2 1**

**Business Economics**

**[AE211]**

**MONDAY 23 JANUARY, AFTERNOON**

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### **TIME**

2 hours.

### **INSTRUCTIONS TO CANDIDATES**

Write your Centre Number and Candidate Number on the Answer Booklet provided.  
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

### **INFORMATION FOR CANDIDATES**

The total mark for this paper is 80.

Quality of written communication will be assessed in all questions **except 1(a)**.  
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.

## Question 1

These articles were written in August 2010.

Please read them carefully and answer the questions which follow.

### Case Study: The UK mobile phone market

#### Source 1

#### Market consolidation

| Operator                                       | Market share |
|--|--------------|
| Everything Everywhere<br>(Orange and T-Mobile) | 37%          |
| O2   | 28%          |
| Vodafone                                       | 23%          |
| Virgin   | 6%           |
| 3  | 6%           |

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**Fig 1: UK mobile phone operators by market share**

The UK has one of the largest mobile telephone markets in Europe, both in terms of revenue generated and the number of subscribers. In August 2010 the market was estimated to have a value of £33.4 billion.

Mobile penetration rates in the UK are well above the EU average with the UK having 76.9 million subscriptions in August 2010. Figures show that approximately 87% of the population have at least one mobile phone subscription with 27% of the population having two or more mobile phones. Despite these already high penetration rates, subscriptions continue to grow as consumers adopt additional phones and business-orientated devices, such as the BlackBerry or the iPhone.

As a result of the recent merger between Orange and T-Mobile, the UK mobile market is now served by only five operators, with the top three firms accounting for nearly 90% of the market. However, in other EU countries the market is even more concentrated. An industry spokesman said recently, "In the UK we still have a more competitive market than in any other European country. France has just three big operators, Spain four, and in Germany the two biggest players have more than 80% of the market."

However, consumer groups are concerned about the increased concentration of the mobile market. A spokesman for consumer body *Which?* stated "We are concerned that the Orange/ T-Mobile merger could negatively affect the level of competition in the industry and result in higher prices and less choice for consumers. We don't believe that the deal should have been allowed to go ahead. The high concentration of the UK mobile phone market means that the top firms are able to earn supernormal profits which are way beyond the profits available in other industries."

## Source 2

### Mobile phone charges fall as competition authorities take action

Mobile phone charges will fall for millions of holidaymakers across Europe, after new regulations came into force to drive down the cost of roaming. A mandatory single tariff, which covers all European Union countries, will make it significantly cheaper for those who use their phones while outside of their home territory and away from their home network. The changes, which were originally approved in 2007, are an attempt by officials to end what they have called excessive charges.

“The roaming rip-off is now coming to an end,” said EU Telecommunications Commissioner Viviane Reding in a statement. “Expect the new roaming rules to make it much cheaper to surf the web on your mobile while abroad in the EU.”

After years of experiencing high prices for making and receiving phone calls abroad, the new tariffs are radically lower; sending a text message, for example, will drop from an average of 26 pence to just 10 pence. The move should end the well-worn fear of opening a huge phone bill when returning from holiday or business abroad!

The new tariffs include the following maximum costs:

- making a call while abroad will cost 37p per minute
- receiving calls will cost a maximum of 17p per minute
- sending a text message from another country inside the EU will cost 10p.

These new roaming charges are the second piece of good news for UK mobile phone users this year. At the beginning of 2010 UK regulator Ofcom announced plans to cut the amount mobile phone firms can charge for connecting a call from another network from 4.3 pence per minute to 0.5 pence. These charges cost UK consumers almost £800 million per year. An industry spokesman said that mobile operators were making excessive profits by levying charges on customers that were much higher than the actual cost to the firm. He said, “There is no economic argument for these excessive charges; they are simply an attempt by mobile phone operators to abuse their market power in an attempt to gain even greater levels of supernormal profit.”

### Source 3

#### Calls for Ofcom to be scrapped

Ofcom should be scrapped or at least slimmed down according to Prime Minister David Cameron. Ofcom, the independent telecommunications regulator and competition authority for the communication industries, was established in 2003 by the Labour Government and replaced five separate regulatory bodies which included the Independent Television Commission, the Radio Authority, and the Office of Telecommunications.

Mr Cameron said there was scope to slim down Ofcom, by a huge amount. "Give Ofcom, or give a new body, the technical function of handing out the licences to mobile phone operators, but do not give them power to make policy," he said.

"Quangos such as Ofcom are getting bigger and spending increasing amounts of money," he told BBC Breakfast. "They have their own communications department, and their own press officers and their bosses are paid vast amounts of money."

Others who want to see Ofcom's powers reduced argue that it would not only save a lot of money, it would also help restore democratic accountability. As one spokesman put it, "getting rid of Ofcom would improve the democratic process by returning decision-making to elected representatives. It would take power away from unelected bureaucrats who are only interested in maintaining their highly paid jobs. We already have the Office of Fair Trading and the Competition Commission regulating the telecommunications industry, not to mention the European Commission. We do not need another highly paid body telling firms what they can and can't do."

However, supporters of Ofcom claim that it plays a vital role in protecting consumer interests in what is a highly complex marketplace. One commentator stated, "Intervention by Ofcom has saved UK consumers millions of pounds by ensuring lower phone tariffs and lower charges for cable and satellite TV. Returning powers to government ministers would simply lead to decisions being made on the basis of political expediency rather than consumer welfare."

- (a) Using the information in **Fig. 1**, explain how the UK mobile phone market could be described as both a monopoly and an oligopoly. [5]
- (b) Explain why UK mobile phone companies are able to earn supernormal profits. [10]
- (c) Examine the likely impact on economic welfare of the introduction of maximum charges for using a mobile phone abroad. [10]
- (d) Evaluate the proposal to scrap communications regulator Ofcom. [15]

**Essays:**

Answer **one** question from **Questions 2, 3 or 4**.

**2 Concentrated markets are more efficient than competitive markets**

- (a) Explain how an economist could assess the efficiency of a market. [15]
- (b) Critically examine the view that economic efficiency is more likely to be achieved in a highly concentrated rather than a highly competitive industry. [25]

**3 Concerns over “food miles” lead to calls for freight transport levy**

- (a) Explain why long-distance transport of fresh food may be an example of market failure. [15]
- (b) Critically examine some of the ways in which government can encourage businesses to be more environmentally friendly. [25]

**4 Globalisation creates opportunities and challenges for UK firms**

- (a) Explain the shape of a firm’s short-run average and marginal cost curves. [15]
- (b) Evaluate the impact of globalisation upon the costs and revenues of UK firms. [25]

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

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