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General Certificate of Education  
2013

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## Economics

Assessment Unit A2 1

Business Economics

[AE211]

MONDAY 13 MAY, MORNING

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AE211

### 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 2011. Please read them carefully and answer the questions which follow.

### Case study: Troubled Times at the Tills

#### Source 1: Tesco loses market share

Tesco is the UK's undisputed supermarket heavyweight champion, but in recent times the champ has begun to look tired and out of shape. While more than £1 in every £8 spent in the UK goes through Tesco's tills, it has been losing market share for the last three years. However, the retail giant's decline has accelerated in the last six months as cash conscious consumers shop around for the best deal.

In a recent statement to the London Stock Exchange Tesco reported its weakest six monthly sales figures in over 20 years. Tesco UK Chief Executive, Philip Clarke, stated that the group was facing "the most challenging retail market we have seen in a generation". Britons are cutting back on groceries, as household incomes are squeezed by a combination of rising fuel prices, stagnant wages and the government's austerity drive.

Retail analyst Tom Cleverly stated "While a figure for market share is extremely difficult to estimate accurately, the latest published figures paint a very bleak picture for Tesco. It would appear that Tesco is losing market share to its main competitors and to the smaller discount stores such as Aldi and Lidl which have seen market share increase by 0.3% and 0.2% respectively. Unless Tesco takes decisive action soon its market share could fall below the psychologically significant 30% barrier".

Fig. 1: Market share of the big 4 supermarkets 2008–2011

Company	Market share 2008*	Market share 2011*
<b>Tesco</b>	31.1%	30.4%
<b>ASDA</b>	17.0%	17.4%
<b>Sainsbury's</b>	15.6%	16.1%
<b>Morrisons</b>	10.8%	11.5%
<b>All other supermarkets</b>	25.5%	24.6%

(\* Market share figures based on the value of sales over 12 weeks to 7th September)

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However, the weak sales figures and falling market share did not prevent Tesco from posting a 4.5% increase in UK trading profits to £1.3 billion, suggesting that Tesco has been able to increase the margin on each item sold. Tesco's latest statement to the market also highlighted some fundamental changes in consumer behaviour. Tesco noted that they had experienced an increase in sales at their convenience stores and in online shopping. A Tesco insider suggested that "consumers are shopping more regularly and online in an attempt to buy only the goods they need, rather than visit the larger stores where they may be tempted to overspend on a big shop".

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## Source 2: Tesco sparks supermarket price war

Supermarket giant Tesco sparked a potential price war by launching a £500 million price drop campaign. The “big price drop” is being launched with a huge PR campaign in an attempt to convince consumers that Tesco’s is still the home of low cost shopping. Analysts are predicting a bloody battle with the other members of the big 4 – ASDA, Sainsbury’s and Morrisons – while successful discount retailers such as Lidl and Aldi are also expected to suffer major blows. To help pay for the price cuts Tesco is planning to end its double club card points promotion which it hopes will save it approximately £350 million.

The main retailers have been involved in what has been described as a “phoney price war” in the last few years. They have been using eye-catching promotions on a limited range of products, in an attempt to give customers the impression of lower prices. Indeed it has been suggested that the stores have routinely pushed up prices prior to discounting them, which has resulted in customers paying more for the discounted items. For example, *The Times* newspaper published evidence that Tesco put the price of 750g of fruit and nut muesli up from £1.28 to £1.89, six weeks before discounting it to £1.75. As a result shoppers were paying 47p more for the discounted item than they were six weeks previously.

Tesco suffered recently from ASDA’s promise to be 10% cheaper on a basket of groceries. Retail analyst, Dave McCarthy stated, “the fact that smaller businesses such as the Co-op, Waitrose and Ocado were able to peg their prices to Tesco should have been an indication something was wrong. Tesco is a dominant market leader with significant economies of scale and should therefore be much cheaper than the competition. These smaller retailers will have to abandon their price promises or risk going to the wall, as there is no way they can compete with Tesco on a cost basis”.

However, Sainsbury’s and Wal-Mart owned ASDA claimed to be unconcerned by Tesco’s price plans. One ASDA insider said “As far as we are concerned they can bring it on. We still have our price guarantee promise to be 10% cheaper than any comparable grocery shop, and we have the economic power to see our promise through”.

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### Source 3: Coming soon to high street shops: The Internet

The lines between virtual and high street shopping are blurring. House of Fraser has what you can – literally – visit, Google is putting wallets into phones, while Tesco is doubling the number of stores where customers can pick up items they've purchased online.

Outlining his vision of the “era of new retailing”, Tesco chief executive Philip Clarke warned this summer, “By 2020, everyone under 21 will see the Internet simply as an integral part of their lives. For them, there is no distinction between life online and life offline”. Clarke believes successful retailers can no longer view their physical and virtual stores as different things. By the end of the year Tesco will double to 600 the number of shops where customers can collect web-bought non-food items, adding clothing to the service and eventually all groceries.

Sainsbury's have installed a piece of software on their tills which uses the Internet to automatically compare the price of branded goods in a customer's shopping basket with prices in its main rivals. If the goods are cheaper elsewhere Sainsbury's automatically refunds the difference.

House of Fraser is opening shops a fraction of the size of its department stores as a way of gaining a toehold in cities where it currently has no presence, but believes there may be some pent-up demand for its range of premium clothing brands such as Mulberry, Ralph Lauren and Biba. There will be no stock in these stores, instead, “personal shoppers” will help customers browse the website on tablet computers, ordering items which will be delivered to the store the next day. The first outlets will be in Aberdeen and Liverpool.

Google this week launched an initiative in the US, which allows shoppers to use their mobile phones to pay for goods in a range of stores. In the UK, Orange and O2 will launch similar rival systems this year. Eventually, forecasters say, smart-phones could do away with the need for tills.

*Adapted from: © "Coming soon to high street shops: The Internet" by Juliette Garside, Copyright Guardian News & Media 2011*

- (a) Compare the concentration of the UK supermarket industry in 2008 with that of 2011. [5]
- (b) Explain why it is difficult to measure market share. [10]
- (c) Examine the likely economic impact of Tesco's decision to launch a price war. [10]
- (d) Evaluate the economic impact of new technologies such as smart-phones and the Internet on retailers and consumers. [15]

**Essays:**

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

**2 Government attempts to increase competition in UK energy markets**

- (a) Explain the difference between natural and artificial barriers to entry. [15]
- (b) Critically examine the impact of increasing competition in the markets for electricity and gas. [25]

**3 Water charges on the way in NI**

- (a) Explain why the cost of supplying a litre of tap water is likely to be lower than the cost of supplying a litre of bottled water. [15]
- (b) Evaluate the proposal to introduce water charges. [25]

**4 MP calls for end to price discrimination**

- (a) Explain why firms engage in price discrimination. [15]
- (b) Evaluate the desirability of a total ban on price discrimination. [25]

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

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