

**Friday 18 May 2012 – Afternoon**

**AS GCE ECONOMICS**

**F581/01** Markets in Action

Candidates answer on the Question Paper.

**OCR supplied materials:**

None

**Other materials required:**

- Calculators may be used.

**Duration:** 1 hour 30 minutes



Candidate  
forename

Candidate  
surname

Centre number

Candidate number

### MODIFIED LANGUAGE

#### INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

#### INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (\*).
- This document consists of **16** pages. Any blank pages are indicated.



**A calculator may  
be used for this  
paper**

## The changing face of fast-food in the United States of America (USA)

For some time, fast-food businesses have been under threat from health experts who have regularly accused them of selling food which makes people fat. Critics also complain that it is wrong for McDonald's, whose golden arches symbolise calorie excess, to be allowed to sponsor sporting events such as the 2010 World Cup in South Africa and the 2012 London Olympics. Fast-food firms have learned to cope with such criticism ... perhaps not for much longer though as they face growing pressure from government regulators and others who are concerned about global health issues.

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Some fast-food chains have coped with recession better than others. The traditionally held view is that when consumers need to cut spending, they trade down to cheap meals such as Big Macs, Whoppers and KFC. Such outlets have been picking up business from more expensive restaurants. This has been particularly true in the USA, the home of fast-food, with discounts and promotions such as the \$1 menu.

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The recession has had different effects on fast-food chains in different countries. In the USA, where average incomes fell by 2% in 2009, sales of fast-food showed no change on their 2008 level. In some markets, sales of fast-food dropped in 2009. This was so in Japan where sales fell 2% at a time when incomes fell by 1%.

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Not all fast-food companies have had the same experience. McDonald's in the USA, for example, increased its spend on advertising at a time when competitors were cutting back and as a result sales increased. One of the biggest losers has been its rival, Burger King. During the recession it kept some of its prices deliberately low hoping that customers would be persuaded to buy more expensive items once they reached the counter. Despite \$1 promotions (such as burgers reduced to that price), demand for Burger King's products in the USA fell in 2009. More worrying for the company has been the fact that this so-called 'value' menu has accounted for an increasing percentage of sales.

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Due to this experience, companies such as Burger King are rethinking their pricing policies by introducing higher priced items to entice customers away from the \$1 specials. For example, the company has now introduced barbecue pork ribs which sell at \$7 for eight ribs, a far cry from its \$1 offerings in terms of both price and quality.

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But what about America's growing waistlines? In 2010, the US government passed a law which requires all food chains with 20 or more outlets to put the calorie content of items they serve in a prominent place on the menu. Furthermore, a recent proposal from the state of California is to ban McDonald's from including plastic toys in its high calorie 'Happy Meals'. Fast-food companies are providing more healthy options, but all are very concerned about the growing range of regulations that are being forced upon them.

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Answer **all** questions.

- 1** State and explain **three** factors of production which are necessary for the sale of fast-food.

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..... [6]

- 2 (a) Define the term 'consumer surplus'.

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..... [2]

- (b) Burger King decided to reduce the price of its burgers to just \$1.

Using a diagram, explain how this decision would have affected consumer surplus.



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..... [4]

- 3 (a) “Some fast-food chains have coped with recession better than others. The traditionally held view is that when consumers need to cut spending, they trade down to cheap meals such as Big Macs, Whoppers and KFC” (lines 8–10).

State and explain **two** possible reasons for the increase in demand for fast-food items during a recession.

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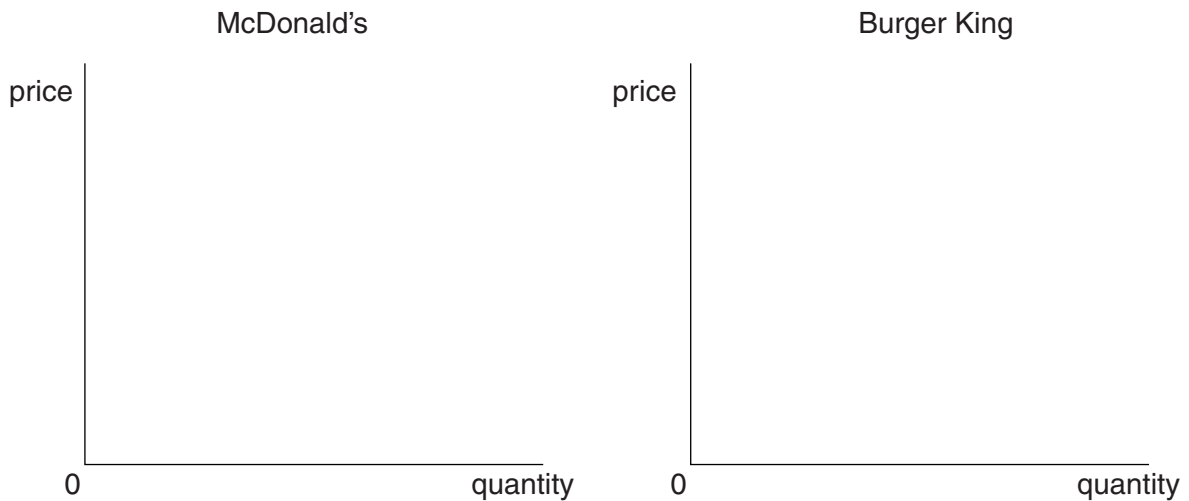
2 .....

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- (b) Using demand and supply diagrams, comment on the contrasting experiences of McDonald's and Burger King in the USA in 2009 (lines 17 to 24). Assume no change in supply.



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..... [8]

- 4 (a) Define the term 'income elasticity of demand'.

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- (b) Compare the income elasticity of demand for fast-food in the USA and in Japan in 2009 (lines 13 to 16). (Your answer should include all relevant calculations).

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- (c) Comment on the business significance of the figures you have calculated in part (b).

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5 (a) What is meant by a 'demerit good'?

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(b) Explain why many fast-food items can be classed as 'demerit goods'.

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..... [4]

**6\*** Discuss the extent to which regulations **alone** can be used to correct the market failure associated with the sale of fast-food.

[illegible]









Additional answer space. If you use these lined pages, you must write the question number next to your answer.

[illegible]







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