General Certificate of Education
Advanced Level Examination
January 2013

Economics ECON3

Unit 3 Business Economics and the Distribution of Income

Tuesday 22 January 2013 9.00 am to 11.00 am

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON3.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER **Total for this Context: 40 marks**

Context 1

THE GLOBAL CONTEXT

Study **Extracts A, B and C**, and then answer **all** parts of Context 1 which follow.

Extract A: Trade union membership and density, UK, selected years 1995 – 2010

	1995	2000	2002	2004	2006	2008	2010
Membership (number of employees, millions)	7.1	7.1	7.0	7.1	7.0	6.9	6.5
Density (total UK trade union membership as a % of all UK employees)	32.4	29.8	28.8	28.8	28.3	27.4	26.6

Source: official statistics, 2011

Extract B: Workers united?

In 1776, Adam Smith argued that business people often ‘combined’ (today we would say ‘colluded’) in order to fix prices and wages, while ‘combinations’ of workers were illegal. In his opinion there was an imbalance between the actions of employers and the rights of employees. In 1948, all members of the United Nations signed up to the Universal Declaration of Human Rights. Article 23 states: “Everyone has the right to form and to join trade unions for the protection of their interests.” The Declaration also states that union membership cannot be made compulsory.

In the UK and in other modern democracies, most people would probably agree with the Australian Bureau of Statistics that a trade union is ‘an organisation consisting predominantly of employees, the principal activities of which include the negotiation of rates of pay and conditions of employment for its members’. To an economist, a trade union replaces ‘individual bargaining’ with ‘collective bargaining’, which may enable workers to create a monopolistic supply of labour to counteract the monopsonistic demand for labour from powerful employers.

A prominent British trade union leader claimed recently that union membership was holding steady despite major economic difficulties, and advised workers worried about further shocks to the economy to join a union. He claimed that union members tended to be better paid than workers who are not part of a trade union but who do the same job. Union members earn on average nearly 17%, or £2 an hour, more than other workers.

Source: news reports, 2011

Extract C: *Walmart* and China

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company *Walmart*, the world's largest retailer and owners of *Asda* in the UK, has been known to stop operating in some countries rather than have to recognise unions.

With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as *Walmart*, *McDonald's* and *FedEx*, have adopted an anti-union stance in the countries in which they operate.

In China, however, *Walmart* has signed 'collective bargaining' agreements with the *All-China Federation of Trade Unions* (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on *Walmart*'s part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. *Walmart* gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if *Walmart*'s management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business.

ACFTU discourages strikes at a time when working conditions in China have come in for international criticism. ACFTU has also been accused of failing to represent its members properly because the Chinese government prefers to promote business investment and business growth at the expense of workers' rights. However, there is a view that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation. For this reason, it is argued, the UK government should encourage businesses, wherever they operate in the world, to engage fully with trade unions.

Source: news reports, 2011

0 1 Using **Extract A**, calculate to one decimal place the percentage decrease in the number of employees who were union members in 2010 compared with 1995 **and** identify **one other** significant feature of the data shown. *(5 marks)*

0 2 Explain what is meant by 'monopsonistic demand for labour' (**Extract B**, lines 13–14) **and** analyse how a trade union can influence wages **and** employment levels in an imperfectly competitive labour market. *(10 marks)*

0 3 '…any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation' (**Extract C**, lines 21–23).

Using the data and your economic knowledge, evaluate whether governments, such as those of the UK or China, should intervene in labour markets to increase trade union membership. *(25 marks)*

Do **not** answer Context 2 if you have answered Context 1.

OR **Total for this Context: 40 marks**

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts D, E and F**, and then answer **all** parts of Context 2 which follow.

Extract D: Average annual household gas bills, England and Wales, selected years 1998 – 2010

	1998	**2000**	**2002**	**2004**	**2005**	**2006**	**2008**	**2010**
Cash terms (£)	277	264	281	309	353	425	582	640
Real terms, 2005 prices (£)	325	300	303	315	353	412	532	560

Source: official statistics, 2011

Extract E: Getting gas to market

In the EU as a whole, there are over 72 million domestic consumers of piped natural gas. The largest consumers of piped gas are Belgium, France, Germany, Italy, the Netherlands and the UK. In the UK, six energy companies control 99% of the market for natural gas. *British Gas*, the privatised utility, dominates the market with over 50% market share. There are no signs, at present, of any significant new entrants to the market.

The EU Commissioner for Energy has called for the 'Europeanisation' of energy policy. The Commissioner argues that it is necessary to assure all EU consumers that their energy sources are safe, competitive, efficient and sustainable. To help achieve this, the *Agency for the Cooperation of Energy Regulators* (ACER) was launched in 2011 as an agency of the EU. At present, it has an advisory and coordinating role across the EU, rather than a regulatory one. In the UK, The *Office for Gas and Electricity Markets* (OFGEM) is the main regulator for piped natural gas.

Consumers might have doubts about the effectiveness of regulators such as OFGEM. In August 2011, price increases averaging 18% were announced for piped natural gas, while general inflation was 4.5%. Observers noted that, while wholesale prices were volatile, domestic retail prices tended to follow them upwards and then became 'sticky' and unlikely to follow them downwards. One problem is that there is very little storage capacity in the UK. OFGEM does not directly regulate prices, and is far more concerned with the ease with which consumers can switch between suppliers.

Source: news reports, 2011

Extract F: The ‘Butane Man’

One reason why it is difficult to regulate gas in the same way across all 27 member states of the Single European Market is that most EU states do not have well-developed pipeline distribution networks. Spain, Portugal, Greece and Ireland are leading the way in the process of catching up. In Spain, for example, where most of the population live near town centres in apartments that were built some time ago, there has been a strong tradition of using liquid petroleum gas (LPG). The ‘Butane Man’, who regularly delivers gas cylinders to households, has much the same standing in popular culture as the traditional ‘milkman’ in the UK. A recent proposed strike by butane delivery workers was regarded as a very serious threat by Spanish media, government and consumers.

Putting homes onto the gas mains is least costly when new housing estates are being built, meaning that such houses can all be connected at the same time. It is often forgotten that there are over 4 million homes in the UK not connected to gas mains and which therefore rely on deliveries of LPG. It would also appear that the market for LPG is a highly concentrated oligopolistic market, with just four main suppliers: Shell, BP, Calor and FloGas. However, the market is unregulated and, according to OFGEM, this is because it is not dependent on a pipeline and therefore is ‘not a natural monopoly’.

However, in 2011, a BBC consumer affairs programme alleged that these companies were carrying out anti-competitive practices, such as locking consumers into long-term contracts, and that a smaller new entrant, Extra Gas, was the only company with transparent prices on its website. The programme found 30 houses in one neighbourhood all paying different prices, ranging from 35p to 52p per litre, with companies apparently charging the highest prices to customers using the least gas. While their MP called for OFGEM to get involved, one group of 51 households in a village in Devon saved £14 000 a year between them by forming a buying group and negotiating a single contract with a petroleum gas supplier.

Sources: news reports, 2011

0 4 Using **Extract D**, calculate to one decimal place the percentage increase in gas bills in real terms in 2010 compared with 1998 **and** identify **one other** significant feature of the data. *(5 marks)*

0 5 Explain what is meant by an ‘oligopolistic market’ (**Extract F**, line 14) **and** analyse why such a market might lead to ‘sticky’ gas prices (**Extract E**, line 16). *(10 marks)*

0 6 ‘Consumers might have doubts about the effectiveness of regulators such as OFGEM’ (**Extract E**, line 13).

Using the data and your economic knowledge, assess methods that could be used by the UK government and the EU to promote competition in the supply of domestic gas. *(25 marks)*

Turn over for Section B

Turn over ▶

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

0 7 Explain why a perfectly competitive firm might be regarded as statically efficient while a monopoly might be regarded as dynamically efficient. *(15 marks)*

0 8 'While some economic theories become dated, the theory of perfect competition has become more realistic over time.'

Discuss whether technological developments, such as the internet, are making markets more competitive and making perfect competition theory more realistic. *(25 marks)*

OR

Essay 2

In August 2011, the UK Secretary of State for Culture said that while there were many local television stations broadcasting in the USA, they did not exist in the UK due to 'market failure'. He proposed a subsidy of £40m from public funds to help create stations which would then be financed by advertising.

0 9 Explain why TV broadcasting might be classified as a public good **and** explain why TV broadcasting can also have some characteristics of a private good. *(15 marks)*

1 0 Evaluate the view that attempts by governments to eliminate market failure by intervening in markets for public goods and merit goods will inevitably lead to government failure. *(25 marks)*

OR

Essay 3

1 1 A government has a policy of reducing taxes on income while increasing taxes on spending, such as Value Added Tax (VAT).

Distinguish between equity and equality **and** explain the effects of this government policy on both equity **and** equality. *(15 marks)*

1 2 Assess the economic costs **and** benefits of government action which results in the UK becoming a less equal society. *(25 marks)*

END OF QUESTIONS

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