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**Monday 5 June 2017 – Afternoon****GCSE ECONOMICS****A591/02** How the Market Works

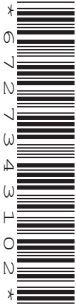
Candidates answer on the Question Paper.

**OCR supplied materials:**

None

**Other materials required:**

- Calculators may be used

**Duration:** 1 hourCandidate  
forenameCandidate  
surname

Centre number

Candidate number

**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 barcodes.

**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**.
- The quality of your written communication will be taken into account in the marking of your answers to the questions labelled with an asterisk (\*).
- This document consists of **12** pages. Any blank pages are indicated.



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

Answer **all** the questions**Jude's Gardening Service**

Before starting her gardening service Jude considered the opportunity costs in terms of other possible jobs.

Jude knew that by specialising in gardening for the elderly she could gain a monopoly in her local area. This would lead to both a good average revenue and profit.

Number of jobs per month	Total Revenue (£)	Total Cost (£)
0	0	200
10	300	240
20	560	280
30	710	360
40	860	480
50	1000	700

**Fig. 1**

- 1 (a) Using **two** of the following words below, complete the sentence so that it explains what is meant by 'opportunity cost'.

**alternative****choice****profit****surplus**

Opportunity cost is the next best ..... foregone when making a ..... [2]

- (b) Explain **two** reasons why individuals or firms might specialise.

Reason 1 .....

Explanation .....

.....

.....

Reason 2 .....

Explanation .....

.....

.....

**[4]**

3

(c) (i) Using the information in Fig. 1, calculate:

- average revenue for 40 jobs per month
- variable costs for 30 jobs per month

In each case, show your working.

Average revenue .....

.....

.....

.....

Variable costs .....

.....

.....

.....

[4]

(ii) Using the information in Fig. 1, compare the profit from 40 jobs a month with the profit from 50 jobs a month.

.....

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.....

.....

[2]

**(d)\*** Discuss the extent to which the benefits of monopoly power would exceed the costs.

[8]

### The Product Market

Tarling Ltd is a business producing finished goods which are sold to businesses, consumers and the public sector. These transactions take place in what is called the product market. The owners of Tarling Ltd believe that the benefits of the market outweigh any limitations.

The owners of Tarling Ltd also believe that increased productivity is the key to greater success in both market and mixed economies. Increased productivity within Tarling Ltd would result in its supply curve shifting, leading to increased sales.

**Fig. 2**

- 2 (a)** Explain what is meant by 'productivity.'

.....

.....

.....

..... [2]

- (b) (i)** Explain one key feature of a market economy.

.....

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..... [2]

- (ii)** Explain one key feature of a mixed economy.

.....

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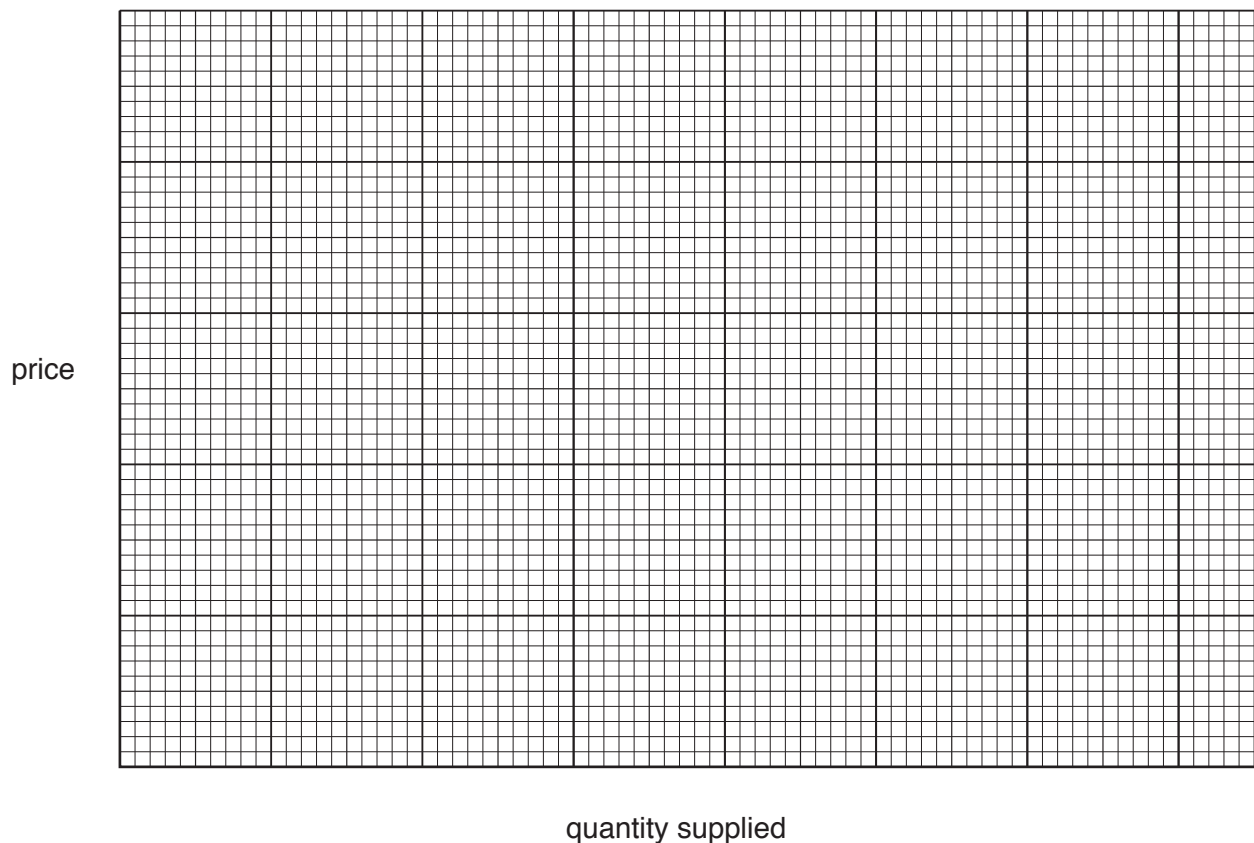
..... [2]

6

- (c) (i) The table below shows the supply of goods produced by Tarling Ltd.

Price (£)	Quantity of goods supplied
0	0
100	10
200	30
300	60
400	100
500	150

Using the information in the table above, draw and label a supply curve on the diagram below.



[2]

- (ii) Using the graph above, draw and label a new supply curve showing the effect of increased productivity. [2]
- (iii) As a result of the increase in productivity what has happened to:

- the quantity supplied when price is £200,

.....

- the price if 400 units are supplied?

..... [2]

**(d)\*** To what extent are the benefits of the product market greater than its limitations?

[8]

**Milk**

Many farmers are giving up producing milk with some seeing their incomes fall by up to £30 000 as the wholesale price falls. This has led some farmers to leave the industry. Other farmers have been buying up the land so as to gain economies of scale, though many others fear this could result in diseconomies of scale.

Average annual price of milk paid to farmers

Year	Price of milk per litre (p)
2010	24.67
2011	27.36
2012	28.08
2013	31.64
2014	31.52
2015	24.45

Other farmers are using their milk to produce their own butter, cheese and yoghurt. They sell these in farm shops. In these shops money is used as the medium of exchange.

Some farmers are blaming the fall in the price of milk on over-supply.

**Fig. 3**

- 3 (a)** In the table below, place a tick [✓] against the **two** statements about money as a medium of exchange which are correct.

Statements about money as a medium of exchange	Tick [✓]
Money is mostly in the form of notes and coins in the UK	
Money is the common standard for measuring relative worth of goods and services	
Money is used for buying and selling both goods and services	
Money takes the place of exchanging goods through bartering	

[2]



- (b) Explain **two** diseconomies of scale that a producer, such as a farmer, might experience by increasing the size of the business.

Diseconomy of scale 1 .....

Explanation .....

.....

.....

Diseconomy of scale 2 .....

Explanation .....

.....

.....

[4]

- (c) (i) Using the information in Fig. 3, explain what happened to the price of milk between 2010 and 2015.

.....

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..... [2]

- (ii) Explain the effects for farmers of deciding to use their milk to make their own products such as cheese.

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..... [4]

**(d)\*** Do you consider that over-supply is the main reason for the fall in the price of milk? Give reasons for your answer.

[8]

**END OF QUESTION PAPER**



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