

Name: _____

FREE PRACTICE EXAM · EXAMTEX.COM/FREE-EXAMS

A-Level Economics Essay — Practice Exam

Instructions: Answer ALL questions. Question 1 is based on Extract A and Table 1. The marks for each question and part are shown in brackets. The 10-mark and 25-mark parts require evaluation and a supported judgement; the 15-mark part does not. Use diagrams wherever they support your analysis.

Time Limit: 120 minutes

- [35 points] 1. A proposed supermarket merger. Read Extract A and Table 1, then answer both parts. Extract A (hypothetical data): Valumart and Harlow's, the second- and fourth-largest grocery retailers in a national market worth £150 billion a year, have agreed to merge. The firms say that combining their buying, warehousing and delivery operations would cut the merged firm's costs by about £1 billion a year within three years, roughly 2 per cent of their combined costs, and they have promised to pass "a substantial share" of the savings on to shoppers. The competition authority's first-stage review found 60 local areas in which a Valumart store and a Harlow's store are each other's closest competitor. It also noted that the discount chain Budgetline has doubled its market share in ten years, and that suppliers, many of them small farms and food manufacturers, already complain that the largest grocers use their buying power to push down the prices they are paid. Table 1 shows market shares (per cent of grocery sales).

Retailer	Ten years ago	This year
FreshCo	30	27
Valumart	23	22
Northfield	17	15
Harlow's	13	12
Budgetline (discounter)	4.5	9
Other retailers	12.5	15
Total	100	100

[10 points]

- (a) With the help of a cost diagram, examine how the proposed merger could affect the average costs of the merged firm.

- [25 points]** (b) Using Extract A, Table 1 and your own knowledge, evaluate whether the competition authority should allow the merger to go ahead.

- [40 points]** 2. Supply-side policies and unemployment. Over the past decade, several advanced economies have combined relatively low national unemployment rates with weak productivity growth. At the same time, unemployment has stayed persistently higher in regions where traditional industries such as manufacturing and mining have declined, and many employers report difficulty finding workers with the skills they need.

- [15 points]** (a) Using an aggregate demand and aggregate supply diagram, explain how supply-side policies could increase an economy's long-run aggregate supply.

[25 points] (b) Evaluate the view that supply-side policies are the most effective way to reduce unemployment.

- [25 points]** 3. Income inequality and taxation. Evaluate the view that raising income tax rates on high earners is the most effective way for a government to reduce income inequality.