



**Friday 23 May 2014 – 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 hour



Candidate forename		Candidate surname	
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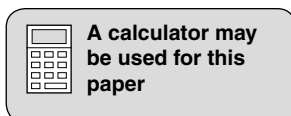
Centre number						Candidate number				
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**INSTRUCTIONS TO CANDIDATES**

- 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**.
- 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.



Answer **all** questions.

<b>Clucas Industries Ltd</b>			
Richard and Barbara are the major shareholders in Clucas Industries Ltd. They are concerned that, while production has increased, the productivity of the workers has fallen. As Clucas Industries Ltd operates in a competitive market, increasing the productivity of its workers is very important.			
Richard and Barbara have looked at the costs of the business and have seen that costs have been rising as the output of the business has grown to 500 units each week.			
Output (units per week)	Total costs (£)	Variable costs (£)	Fixed costs (£)
100	1000	500	500
200	1600	1100	500
300	2400	–	500
400	3600	3100	500
500	5000	4500	500

**Fig. 1**

- 1 (a) (i) In the table below, place a tick (✓) against the statement which correctly describes the term 'production'.

<b>Production is the</b>	<b>Tick (✓)</b>
average output of each member of the workforce	
extra output resulting from one extra unit of labour	
process of combining scarce resources to make an output	

[1]

- (ii) In the table below, place a tick (✓) against the statement which correctly describes the term 'labour productivity'.

<b>Labour productivity is the</b>	<b>Tick (✓)</b>
fall in the average labour cost of production	
output per unit of labour employed per period of time	
output resulting from the specialisation of labour	

[1]

(b) Using the information in Fig. 1:

(i) calculate the total variable cost when output is 300 units per week. Show your working.

.....  
.....  
.....  
..... [2]

(ii) calculate the average cost per unit when 500 units per week are produced. Show your working.

.....  
.....  
.....  
..... [2]

(c) Clucas Industries Ltd operates in a competitive market.

State and explain **two** methods by which Clucas Industries Ltd could increase the productivity of its workers.

Method 1 .....

Explanation .....

.....  
.....  
.....  
.....  
.....

Method 2 .....

Explanation .....

.....  
.....  
.....  
.....  
.....



**Eden Garden Centre**

Ayesha, the owner of Eden Garden Centre, has been explaining to Vijay, the manager of her business, about the supply of plants and some of the factors which could cause the supply to increase or decrease.

In addition, Ayesha told Vijay that the supply of plants is price inelastic, while the demand for plants by customers is price elastic.

Vijay has noticed that the poor spring weather has resulted in low sales of plants. He thinks that the weather is the most important factor affecting the demand for plants. However, Ayesha disagrees and is aware that other factors affect the demand for plants.

**Fig. 2**

- 2 (a) Using **two** of the words below, complete the following sentence so that it defines the term 'supply'.

**cost      price      productivity      quantity**

Supply is the ..... a producer is willing and able to produce at a given ..... in a given period. **[2]**

- (b) State and explain **two** factors which could cause the supply of plants to increase.

Factor 1 .....

Explanation .....

.....

.....

Factor 2 .....

Explanation .....

.....

..... **[4]**

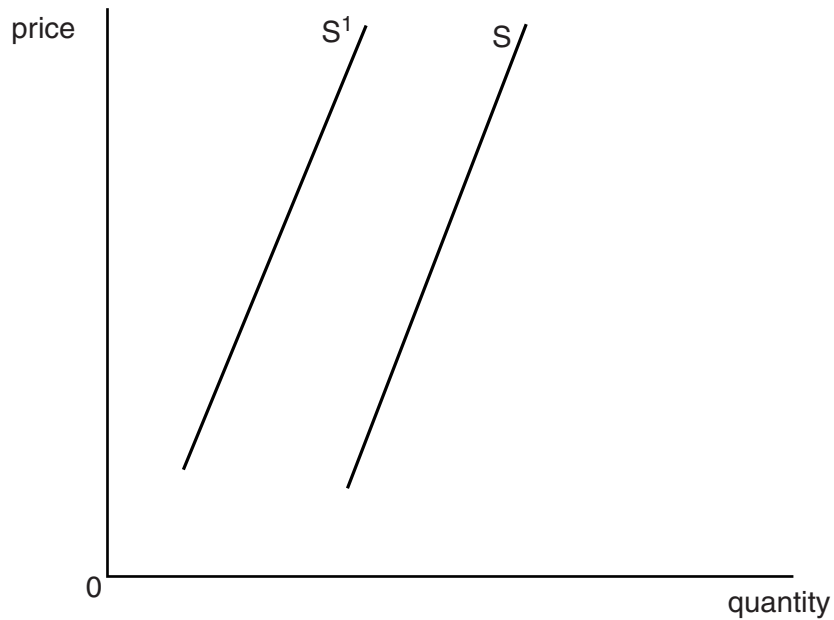
(c) Ayesha told Vijay that the demand for plants by customers is price elastic.

(i) State what would happen to the demand for plants if the price of plants decreased by 10%.

.....  
.....  
.....  
..... [2]

(ii) The diagram below shows a decrease in the supply of plants grown by Eden Garden Centre.

Draw and label a price elastic demand curve on the diagram.



[2]

(iii) As a result of the decrease in supply, state what has happened to:

- the price

.....

- the quantity.

.....

[2]



**To specialise or not to specialise?**

Maria is the senior partner in Salmon, Pike and Roe, a firm of solicitors, which offers a full range of legal services. She is concerned that the staff are overworked and has told them that “even more than before we are now facing the basic economic problem”.

She pointed out that the firm had two options. Firstly, it could continue to supply a full range of legal services to its customers, but would need to employ more staff and move to larger premises. Maria added that this would be necessary in the competitive market in which the firm currently operates. Secondly, it could specialise in one type of legal service such as criminal law. Either strategy would ensure that the firm survived.

**Fig. 3**

**3 (a)** What is meant by the ‘basic economic problem’?

.....  
.....  
.....  
..... [2]

**(b)** Other than survival, state **two** business objectives.

1 .....

.....

2 .....

..... [2]

**(c) (i)** What is meant by a ‘competitive market’?

.....  
.....  
.....  
..... [2]



(ii) State and explain **one** advantage and **one** disadvantage to consumers of firms operating in a competitive market.

Advantage .....

Explanation .....

.....  
.....  
.....  
.....  
.....

Disadvantage .....

Explanation .....

.....  
.....  
.....  
.....  
.....

[6]



**ADDITIONAL ANSWER SPACE**

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

A large area of lined paper for writing answers. It features a vertical margin line on the left side and horizontal dotted lines for writing. The lines are evenly spaced and extend across the width of the page.

A large rectangular area with a solid vertical line on the left and horizontal dotted lines, providing a space for writing answers.



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