



Oxford Cambridge and RSA

# Thursday 15 June 2023 – Morning

## Level 3 Cambridge Technical in Business

05878 Unit 10: Economics for business

Time allowed: 2 hours

C427/2306



**You can use:**

- a calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

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Last name

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Date of birth

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### INSTRUCTIONS

- Use black ink.
- Write your answer to each question in the space provided. If you need extra space use the lined page(s) at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions.

### INFORMATION

- The total mark for this paper is **90**.
- The marks for each question are shown in brackets [ ].
- This document has **16** pages.

### ADVICE

- Read each question carefully before you start your answer.

Read the scenario below.

## Better Shoes

Better Shoes is a family-owned business located in the Northwest of England. It manufactures superior quality men's shoes. The current Chief Executive Officer is Zac Scherzer. When Zac joined the business in 2003, it was struggling to survive.

Today, Better Shoes is the largest men's shoe manufacturer in the UK, making 1.5 million pairs of shoes a year. This represents a third of the UK's shoe output. Better Shoes' success has been due to its focus on producing high quality, well-made shoes that can be sold at high prices. In addition, the business gains significant benefit from economies of scale.

The public can order Better Shoes' products from the company's own website, from its own mail order catalogues or by responding to advertisements it places in national newspapers. Better Shoes only sells its shoes directly to customers. The majority of these customers are over the age of 45 years.

Over 95% of Better Shoes output is sold in the UK; the rest are sold in South Africa. Currently, all of the shoes the company manufactures are made out of leather. All of this leather is imported, primarily from Italy, Brazil and India. Other raw materials, including those for cushioned insoles and rubber heels, are also imported.

The UK shoe market is highly competitive. Better Shoes' competition ranges from small, specialist producers based in the UK and Europe to large mass-producing manufacturers in Asia. Better Shoes uses male names to identify each style of shoe that it makes. Zac finds it helpful to calculate the price elasticity of demand for each style of shoe (see **Table 1**, below).

**Table 1: Price elasticity of demand data for a selection of Better Shoes' styles**

Style of shoe	Selling price	Price elasticity of demand
Matthew	£65	-1.8
Paul	£85	-1.0
Stephen	£139	-0.2
Thomas	£95	-0.8

Better Shoes requires a skilled workforce for almost every part of its production process. Although the UK unemployment is quite low, the Northwest of England's unemployment rate is well above the UK average. Zac is critical of the poor skills of many school and college leavers, as he finds they have little experience, or understanding, of manufacturing-based work.

Zac is considering the next stage of Better Shoes' development. One option would be to merge with Sykes Shoes, the third largest shoe manufacturer in the UK. Sykes Shoes makes lower quality shoes for men and women, aimed at the mid-price market.

Assuming it went ahead, the merged business would produce nearly half of the UK's output of shoes. Zac thinks that this merger would affect the balance between price takers and price leadership in the UK shoe industry.

An alternative option, if the merger with Sykes Shoes did not go ahead, would be to increase the range of men's shoe styles produced by Better Shoes, to target different segments of the market. Better Shoes is currently focused on middle-aged, high income customers. However, Zac is considering producing a lower priced range of shoes for younger customers, including a non-leather 'vegan shoe' for the environmentally conscious male.

One decision which has already been made is to sell more shoes internationally. Better Shoes plans to start exporting its shoes to France and Germany in the very near future.

1 (a) Zac considers microeconomic factors, such as supply and demand, when making business decisions.

(i) What does a market demand curve show?

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(ii) Identify **three** factors affecting the supply of a product.

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(iii) Evaluate how the information in **Table 1** about price elasticity of demand might affect Better Shoes' business behaviour.

[16]

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**(b)** Explain **two** effects on a business of economies of scale.

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**[4]**





(c) Other than changes to income tax, analyse **three** supply side policies the UK government could use to help UK businesses.

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[9]



3 A merger between Better Shoes and Sykes Shoes is currently being considered. Zac thinks that this merger would affect the balance between price takers and price leadership in the UK shoe industry.

(a) Explain what is meant by each of the following:

- price taker

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- price leadership

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[4]

(b) Explain **two** ways the Competition and Markets Authority (CMA) might affect a proposed merger.

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5 (a) Explain **two** activities the World Trade Organisation (WTO) carries out as part of its role in global markets.

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[4]





**ADDITIONAL ANSWER SPACE**

If additional answer space is required, you should use the following lined page(s). The question numbers must be clearly shown in the margins – for example, 1(a)(i) or 2(b).

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