



Rewarding Learning

ADVANCED
General Certificate of Education
2025

Centre Number

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Candidate Number

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Economics

Assessment Unit A2 1

assessing

Business Economics

MV24

[AEC11]

MONDAY 19 MAY, AFTERNOON

Time

2 hours, plus your additional time allowance.

Instructions to Candidates

Write your Centre Number and Candidate Number in the spaces provided at the top of this page. Answer **all** questions in Sections **A** and **B**, and **one** question in Section **C**.

You are permitted to use a calculator in this paper.

You must answer the questions in the spaces provided.

Do not write on blank pages.

Complete in black ink only.

Do not write with a gel pen.

Information for Candidates

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed at the end of each question indicate the marks awarded to each question or part question. This paper is accompanied by a Case Study Booklet.

Advice to Candidates

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings.

Quality of written communication will be assessed in Questions **5**, **6(b)**, **(c)** and **(d)**, **7** and **8**.

Quantitative skills will be assessed where appropriate.

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(Questions start overleaf)

Section A (20 marks)

Answer all questions

- 1 Software company Harness has recently announced plans to open a technology hub in Belfast, creating up to 100 jobs in the technology sector. A spokesperson stated that the investment was part of the company's ambitious expansion plans, which would allow it to benefit from greater management and financial economies. It could also take advantage of the large pool of highly trained labour available in Northern Ireland's fast-growing IT sector.

With reference to the information above, explain the difference between internal and external economies of scale. [4 marks]

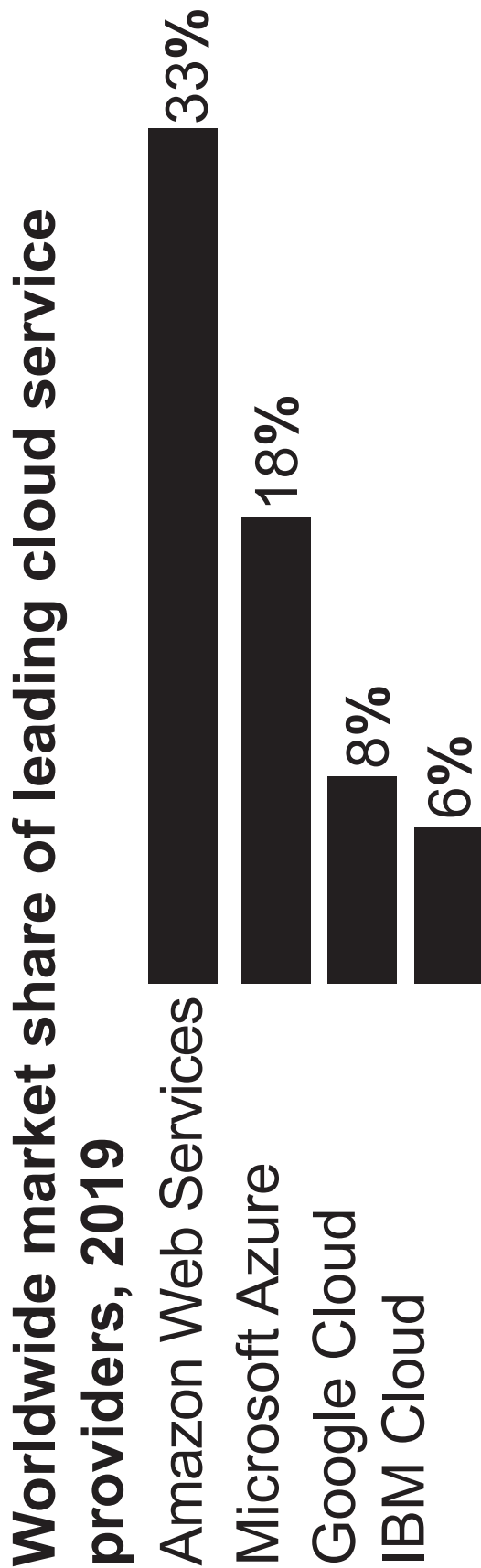
2 Two coffee shops, Costly Coffee and Café Nemo, are the only coffee shops which operate in a small town. Both companies are considering engaging in a local radio advertising campaign to increase sales and market share. The payoff matrix below illustrates the expected weekly profit of both firms, depending on whether each firm decides to advertise or not.

		Costly Coffee	
		Don't advertise	Advertise
Café Nemo	Don't advertise	$\begin{matrix} \text{£3,000} & \text{£3,000} \\ \text{£3,000} & \text{£2,000} \end{matrix}$	$\begin{matrix} \text{£4,000} & \text{£3,000} \\ \text{£2,000} & \text{£2,000} \end{matrix}$
	Advertise	$\begin{matrix} \text{£2,000} & \text{£2,000} \\ \text{£4,000} & \text{£2,400} \end{matrix}$	$\begin{matrix} \text{£2,400} & \text{£2,400} \\ \text{£2,400} & \text{£2,400} \end{matrix}$

- 3** Barry's Benches makes garden benches from scrap metal and wood. The table below shows how the weekly output of benches varies with the number of employees.

Number of employees	Total weekly bench production
1	20
2	48
3	88
4	148
5	206
6	248
7	278

- 4 The chart below shows the worldwide market share by revenue of the four largest cloud service providers in 2019. The total value of the market was \$96 bn.



Using the information in the chart opposite, calculate the total revenue earned by Microsoft Azure in 2019. [2 marks]

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(Questions continue overleaf)

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(Questions continue overleaf)

Section C

Answer **either** question 7 **or** question 8

Quality of written communication will be assessed in these questions.

- 7 A report published recently by the OECD suggested that price discrimination can benefit consumers as well as firms. However, other economists have questioned this conclusion, claiming that all forms of price discrimination are unfair and inefficient, and should be outlawed by government.

Critically examine the view that all forms of price discrimination are unfair and inefficient and should be outlawed by government.

[30 marks]

or

- 8** In what has been described as a Golden Age for television, four large companies dominate the TV-based streaming market in the USA and Europe. The big four, Netflix, Amazon Prime Video, HBO Max and Disney+, have been credited with revolutionising the TV industry. However, some argue that the dominance of the big four has led to higher prices, poorer quality output and restricted choice.

Critically examine the view that oligopoly is the least desirable market structure.

[30 marks]

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question paper**

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For Examiner's use only	
Question Number	Marks
Section A	
1	
2	
3	
4	
5	
Section B	
6	
Section C	
7	
8	
Total Marks	

Examiner Number

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**Case Study
Booklet**

**For use with
Section B**

Read the following information and answer Question 6 in the question and answer booklet.

The following passages were compiled in August 2023.

Case study: Water – a murky industry

Source 1: Will Thames Water sink?

In June 2023 England's largest water company, Thames Water, entered emergency talks with the regulator Ofwat. Those involved in the discussions have been told that Thames Water would require more than £10bn to get its infrastructure up to regulatory standards. If it fails to get this cash, it will be forced to cease trading.

Over recent years, the company has come in for significant criticism from environmental groups over its pollution record. In June 2023, the company was fined £3.3 million after it was found guilty of discharging millions of litres of raw untreated sewage into two rivers, killing thousands of fish and damaging local

ecosystems. Thames Water, like many other water companies in England, stands accused of years of chronic underinvestment and a failure to upgrade its water and sewage infrastructure. It has also been accused of loading the company with debt while drawing down huge dividends for shareholders. **Fig. 1** on page 4 shows the post-tax profits of England's largest water companies and their dividend payments between 2010 and 2020.

Fig 1: Post-tax profits and dividends in selected English water companies, 2010–2020

Company	Post-tax profit (£ bn)	Dividend payments (£ bn)
United Utilities	3.85	2.75
Thames	3.20	2.65
Anglian	3.0	3.75
Severn Trent	2.40	2.50
Northumbrian	1.80	1.75
Yorkshire	1.50	2.20
South West	1.45	1.10
Wessex	1.30	1.20
Southern	1.10	0.60

Environmental campaigner Euan Lappin stated, “Since being privatised in 1989, England’s water companies have enriched investors and senior executives, but failed to adequately invest in maintaining and upgrading the water and sewage infrastructure. Consumers have

seen prices rise by over 40% in real terms. However, the required investment in fixing leaks and building reservoirs has not been made, while shareholders have stripped £72 bn from the system. In some cases, companies have paid more out in dividends than they have earned in profits, a situation which would be unthinkable in any other industry.”

Source 2: From private to public and back again

The history of drinking water and sewage disposal in England can be traced back to the Romans, who built an extensive network of aqueducts and public wells to supply clean water to their settlements. Rapid population growth and urbanisation during the Industrial Revolution resulted in an increased demand for clean drinking water and an adequate system for dealing with wastewater and sewage. To meet this increased demand, private companies began to emerge with the first water company being established in London in 1743.

By the mid 1800s the government realised the need for state involvement in the provision of clean water and sewage services to prevent the spread of deadly diseases such as typhoid and cholera. The government passed several Acts of Parliament, which ultimately resulted in the full nationalisation of water and sewage services.

When the Conservative Party came to power in 1979, under the leadership of Margaret

Thatcher, they set about making plans for the full privatisation of water and sewage services. Their initial plans proved very unpopular and were shelved initially for fear of a public backlash. However, in 1989, the plans were resurrected, and the 10 regional water authorities were sold off to private investors for £7.6 bn, making England the only country in the world with a fully privatised water and sewage system.

To ensure interest from private investors, the government took on the £5 bn debts the companies owed and provided the new private companies with £1.5 bn of public money to kick-start investment, meaning the net gain to the UK exchequer was only £1.1 bn!

Source 3: Ofwat – a toothless tiger?

When the water authorities were privatised in 1989, the new water companies were gifted a regional monopoly. To offset this, the government created a regulator for water, Ofwat, to ensure the new private industry worked in the public interest. However, Ofwat has come in for significant criticism for being asleep at the wheel and allowing the current crisis in water and sewage to develop unopposed. Critics argue that Ofwat is hopelessly “captured” and that there is a revolving door between people working at Ofwat and people working in the private water companies. A recent survey showed that two-thirds of the biggest water companies employ executives who once worked for the regulator!

Critics also point out that Ofwat has limited powers to fine companies for actions which act against the public interest. Sinéad Douglas, a campaigner for reform of the current water system, claimed that “creating regulators to oversee the activities of natural monopolies like the water companies is always doomed to

failure. Ofwat is a toothless tiger. It lacks the funding to properly investigate the practices of the water companies and the power to impose fines large enough to act as a deterrent”.

Source 4: Calls for water to be nationalised amid failure of regulation

Activists are putting increasing pressure on the government and opposition parties to support the renationalisation of England's water system after criticism that the industry is not acting in the public interest. Campaigners say that water should be renationalised after 30 years of asset stripping, chronic underinvestment, widespread pollution of rivers and ever-increasing water charges. Sinéad Douglas said, "England's privatised water companies treat our rivers and seas like a sewer and their customers like a cash machine. We live in the wettest part of Europe, yet we face yearly hosepipe bans while allowing three billion litres of water to leak from old and decaying water pipes every day. Perhaps returning this most essential of utilities to public ownership, and removing it from the hands of organisations which put profits first, is the only way to go."

Not surprisingly, however, others dispute the view that nationalisation is the answer. Opponents argue that the state-run utilities that existed before privatisation were ineffective and

hugely inefficient, since they had no incentive to reduce costs. They estimate that around 40% of the jobs within these utilities before they were privatised were totally unnecessary!

Opponents also argue that the cost of renationalisation could reach £90 bn and hence place a huge burden on the taxpayer. As one spokesman for the water industry put it, “Privatisation has not been perfect, and there is no doubt that the regulatory framework could be tightened to the benefit of the public, but to renationalise water would be a backward step. It would lower water standards and lead to higher costs, which would ultimately be borne by the consumer, either in the form of higher prices or worse, higher taxes!”

**This is the end of the
case study booklet**

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