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3 Procter & Gamble, a US-based international business, sells beauty, grooming, personal healthcare and fabric care goods. In 2022 it increased its prices, on average, by 10%. The quantity of items sold decreased by 6%.

Which **one** of the following explains why consumers bought fewer Procter & Gamble products?

- ☒ **A** Consumers aimed to maximise utility
- ☒ **B** Consumers aimed to minimise utility
- ☒ **C** Consumers suffered from habitual behaviour
- ☒ **D** Consumers had poor computational skills

(Total for Question 3 = 1 mark)

2 In the UK, new consumers paid an average of £130 for home insurance in 2020. Consumers who had remained with the same insurance company since 2015 paid £238 for the same annual home insurance cover. Despite this, many consumers stay loyal to their insurance company.

Which **one** of the following is the most likely reason why consumers stay loyal to their insurance company?

- ☒ **A** Consumers feel undervalued
- ☒ **B** Consumers have good computational skills
- ☒ **C** The free-rider problem
- ☒ **D** Habitual behaviour

(Total for Question 2 = 1 mark)

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5 In July 2022 Amazon, the online retailer, announced that it would increase the price of its Amazon Prime subscription service from £79 to £95 per year. This resulted in 590 000 UK consumers cancelling their Amazon Prime subscriptions.

Which **one** of the following is the most likely explanation of this behaviour?

- ☒ **A** These consumers experienced inertia
- ☒ **B** These consumers experienced habitual behaviour
- ☒ **C** These consumers aimed to maximise their utility
- ☒ **D** These consumers aimed to minimise their utility

(Total for Question 5 = 1 mark)

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5 In April 2020 electricity prices increased on average by 10% in the UK. In the same month, a record number of 668 371 consumers switched to cheaper electricity suppliers.

Which **one** of the following can explain the behaviour of those consumers who switched to cheaper electricity suppliers?

- ☒ **A** Consumers experienced habitual behaviour
- ☒ **B** Consumers aimed to maximise their utility
- ☒ **C** Consumers had poor computational skills
- ☒ **D** Consumers aimed to minimise their utility

(Total for Question 5 = 1 mark)

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5 Before the global financial crisis of 2008, commercial banks expected that their governments would not allow them to fail because of the threats to the rest of the economy. This meant that some staff at banks took excessive risks when lending and investing.

Which **one** of the following concepts best describes the behaviour of staff at these banks?

- ☒ **A** Inertia
- ☒ **B** The free-rider problem
- ☒ **C** Moral hazard
- ☒ **D** Market bubble

(Total for Question 5 = 1 mark)

1 Which **one** of the following is a role of the government in a mixed economy?

- ☒ **A** To provide public goods such as street lighting and flood defences
- ☒ **B** To subsidise goods that cause external costs
- ☒ **C** To tax goods that cause external benefits
- ☒ **D** To introduce regulations that cause excessive administration costs

(Total for Question 1 = 1 mark)

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8 In the USA 96 million consumers have never switched banks. 39% of consumers had accounts at the same bank as their parents. 13% of consumers said that the process of switching involved too much time and effort.

With reference to switching banks, explain the difference between 'herding' and 'inertia'.

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9 In Canada, two of the largest internet providers, Bell and Rogers, increased prices in 2018. Consumers could save 25% by switching to smaller internet providers. However, most consumers remained with their more expensive internet providers.

Explain **one** reason why many consumers behave in this way and remain with their current internet providers.

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8 Unilever, a manufacturer of food, personal care and home care products, experienced an increase in total costs of €4.4 billion in 2022. As a result, the company raised its prices, on average, by 13.2% in Europe. Consequently, there was a 6.8% decrease in the number of items sold by Unilever because consumers switched to cheaper alternatives.

With reference to this information, explain what is meant by the term 'rational decision making'.

13 In 2022 consumers in the UK who did not switch suppliers for different services at the end of their contracts were paying a total of £1.3 billion more than those consumers who chose to switch suppliers. It is estimated that this applied to:

- 630 000 consumers with mortgages
- 1.5 million consumers with mobile phone contracts
- 7 million broadband consumers.

Evaluate possible reasons why consumers did not switch suppliers for these services.

(Total for Question 13 = 20 marks)

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