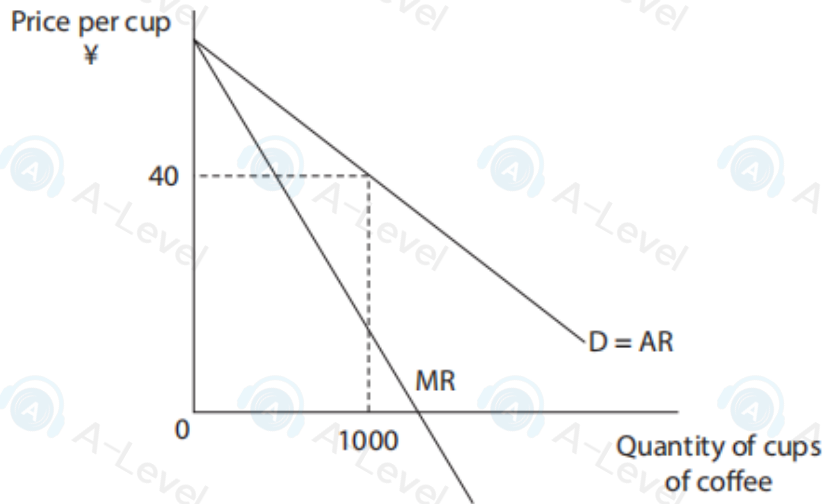


6 A farm producing wheat is operating in a monopolistically competitive market. Which **one** of the following will apply to this firm?

- A Allocative inefficiency in the long-run
- B Productive efficiency in the short-run
- C Supernormal profit in the long-run
- D Allocative efficiency in the short-run

(Total for Question 6 = 1 mark)

6 The diagram shows the average revenue and marginal revenue curves for a café in China selling cups of coffee.



It currently sells 1000 cups of coffee at ¥40 per cup.

Ceteris paribus, which **one** of the following would happen if the café increased its selling price by 15%?

- A Demand would become less price elastic
- B The price elasticity of demand would be constant
- C Total revenue would fall
- D Total revenue would rise

(Total for Question 6 = 1 mark)

1 Mara Phone is a new smartphone developed by the African conglomerate, Mara Group. The business is aiming to grow its market share by maximising its sales.

Which **one** of the following conditions is necessary for Mara Group to maximise sales volume of this new phone without making a loss?

- A Marginal revenue equals marginal cost
- B Average revenue equals average cost
- C Marginal revenue equals zero
- D Average revenue equals marginal revenue

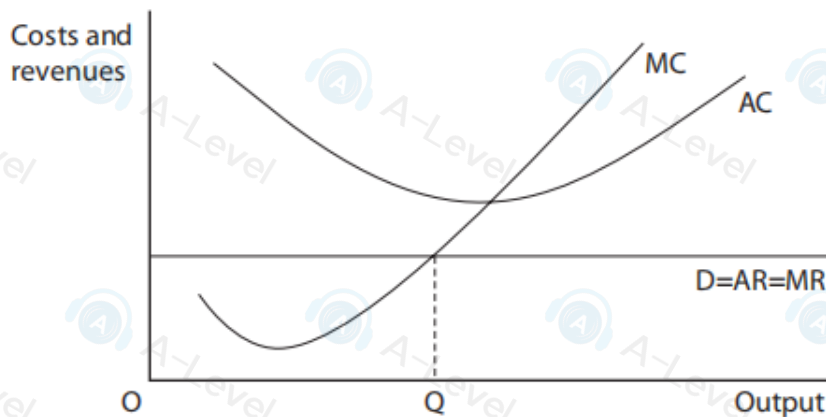
(Total for Question 1 = 1 mark)

- 6 Which **one** of the following combinations best describes a profit-maximising firm operating in a monopolistically competitive market in the long-run?

	Efficiency	Profit
<input checked="" type="checkbox"/> A	Productively inefficient	Normal profit
<input checked="" type="checkbox"/> B	Productively efficient	Supernormal profit
<input checked="" type="checkbox"/> C	Allocatively inefficient	Supernormal profit
<input checked="" type="checkbox"/> D	Allocatively efficient	Normal profit

(Total for Question 6 = 1 mark)

- 4 The diagram shows the equilibrium output of a profit-maximising firm operating in a perfectly competitive market.



Which **one** of the following can be deduced from this diagram?

	Profits of the firm in the short-run	Number of firms in the industry in the long-run
<input checked="" type="checkbox"/> A	Loss	Increase
<input checked="" type="checkbox"/> B	Normal	Decrease
<input checked="" type="checkbox"/> C	Normal	Increase
<input checked="" type="checkbox"/> D	Loss	Decrease

(Total for Question 4 = 1 mark)

- 4 In 2022 Google's global market share of the internet search engine market was 84%.

Which **one** of the following is the most likely outcome of Google operating at its profit maximising output?

- A Average revenue is equal to marginal cost
- B Marginal revenue is greater than average revenue
- C Marginal revenue is equal to total cost
- D Average revenue is greater than average cost

(Total for Question 4 = 1 mark)

5 A monopoly is operating at its revenue maximising output.

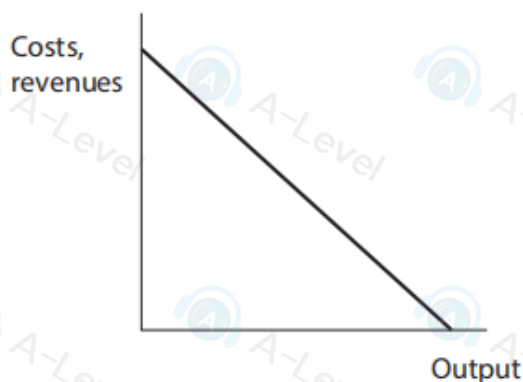
Which **one** of the following is true?

- A Marginal revenue is equal to marginal cost
- B Average revenue is equal to average cost
- C Average fixed costs are rising
- D Marginal revenue is zero

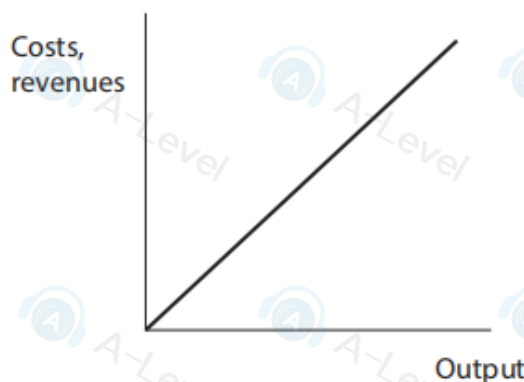
(Total for Question 5 = 1 mark)

6 Which **one** of the following diagrams illustrates the total revenue curve for a profit-maximising firm operating in a perfectly competitive market?

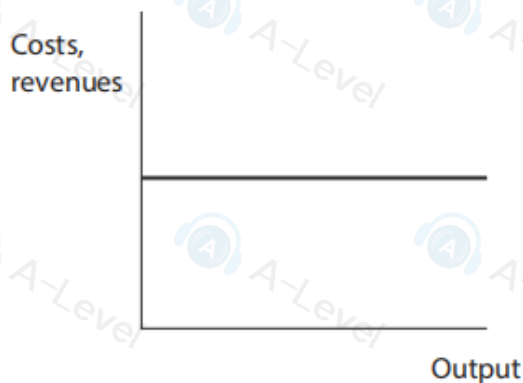
A



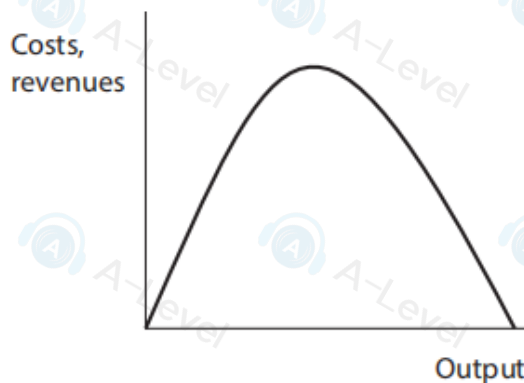
B



C



D



- A
- B
- C
- D

(Total for Question 6 = 1 mark)

- 3 A firm employs 50 workers in its factory. Each worker is paid a weekly wage of \$1 500. To attract an additional worker the firm needs to raise the wage from \$1 500 a week to \$1 600 a week for each of its employees.

Which **one** of the following is the marginal cost of employing the additional worker?

- A \$100
 B \$6 600
 C \$75 000
 D \$81 600

(Total for Question 3 = 1 mark)

- 2 A monopoly sets its price at the output where average revenue is equal to average cost.

Which **one** of the following best describes this firm's objective?

- A Revenue maximisation
 B Profit maximisation
 C Sales maximisation
 D Profit satisfying

(Total for Question 2 = 1 mark)

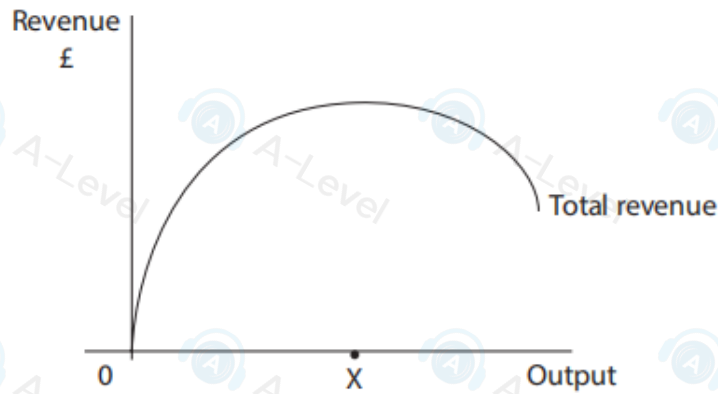
- 5 A profit maximising firm decides to change its objective to revenue maximisation.

Which **one** of the following combinations is the most likely impact of this decision?

- | | Supernormal profit | Price |
|----------------------------|--------------------|-----------|
| <input type="checkbox"/> A | No change | No change |
| <input type="checkbox"/> B | Increase | Increase |
| <input type="checkbox"/> C | Decrease | Decrease |
| <input type="checkbox"/> D | Increase | No change |

(Total for Question 5 = 1 mark)

- 6 The following diagram shows the total revenue curve for an imperfectly competitive business in Nepal selling mobile phones.



Which **one** of the following can be deduced from the diagram at an output of OX ?

- A Marginal revenue is zero
- B Marginal revenue is negative
- C Marginal revenue is equal to one
- D Marginal revenue is maximised

(Total for Question 6 = 1 mark)

- 5 The table shows the total costs of a shirt manufacturer at different levels of output.

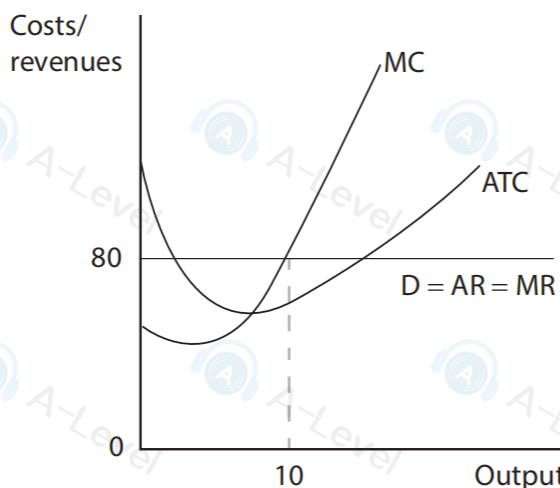
Output	Total costs \$
0	100 000
5 000	120 000
10 000	150 000
15 000	170 000
20 000	180 000

Which **one** of the following is the average fixed cost if the shirt manufacturer is producing 10 000 shirts?

- A \$5
- B \$6.67
- C \$10
- D \$20

(Total for Question 5 = 1 mark)

- 2 The diagram shows the short-run profit-maximising equilibrium of a street food seller in Beijing.



Which **one** of the following can be deduced from the information provided?

- A The productively efficient level of output is being produced
- B The allocatively inefficient level of output is being produced
- C There would be an incentive for new firms to enter the market
- D Firms will always make supernormal profits in this market

(Total for Question 2 = 1 mark)

- 2 The shareholders of a car manufacturer, who own the company, are separate from its management team, that makes the operational decisions. Assume that this manufacturer has a satisficing objective.

Which **one** of the following best describes this objective?

- A Maximising profits and reducing costs
- B Achieving an acceptable level of profit and sales
- C Minimising dividends to shareholders
- D Maximising total revenue and total costs

(Total for Question 2 = 1 mark)

- 1 In 2014 the Irish Government allowed private sector bus operators to bid for public transport contracts for the first time.

This is an example of

- A government failure
- B trade liberalisation
- C competitive tendering
- D regulation

(Total for Question 1 = 1 mark)

- 3 The table shows the number of international subscribers for Netflix and its total revenue for Q4 in the years 2017 to 2020.

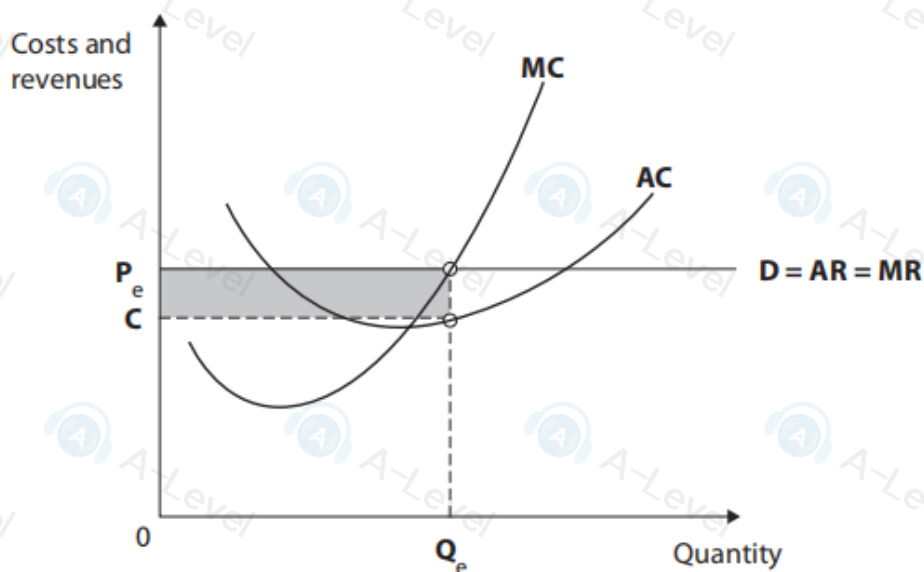
	International subscribers (millions)	Total revenue (\$ million)
Q4 2017	110.64	3 286
Q4 2018	139.26	4 187
Q4 2019	167.09	5 467
Q4 2020	203.66	6 644

Which **one** of the following can be deduced from the table?

- A Average revenue was \$32.62 in Q4 2017
- B Average revenue was \$29.70 in Q4 2018
- C Average revenue was \$32.72 in Q4 2019
- D Average revenue was \$30.07 in Q4 2020

(Total for Question 3 = 1 mark)

- 3 The diagram shows the short-run profit maximising equilibrium for an agricultural business operating in a perfectly competitive market.



Ceteris paribus, which **one** of the following is the most likely outcome in the long-run?

- A The agricultural business will make normal profit
- B The agricultural business will shut down
- C The agricultural business will increase its output
- D The agricultural business will increase its price

(Total for Question 3 = 1 mark)

- 7 (a) With reference to Figure 1, calculate the percentage change in the average world price of coffee beans from 1 July 2017 to 1 May 2019. You are advised to show your working. (2)
- (b) With reference to Extract A (line 12), explain what is meant by 'short-run shutdown point'. (4)
- (c) With reference to Figure 2 and Extract A, analyse **two** possible reasons for the increase in supply of coffee beans between 2015 and 2019. (6)
- (d) With reference to Extract B, examine **two** barriers to entry into the US coffee shop market. (8)
- (e) With reference to the information provided, discuss the reasons for the increase in Starbucks' profits in 2019. (14)
- For **one** of these reasons, illustrate your answer with an appropriate cost and revenue diagram.

The global coffee market

Figure 1 Average world price of coffee beans, \$ per kg, July 2017–May 2019

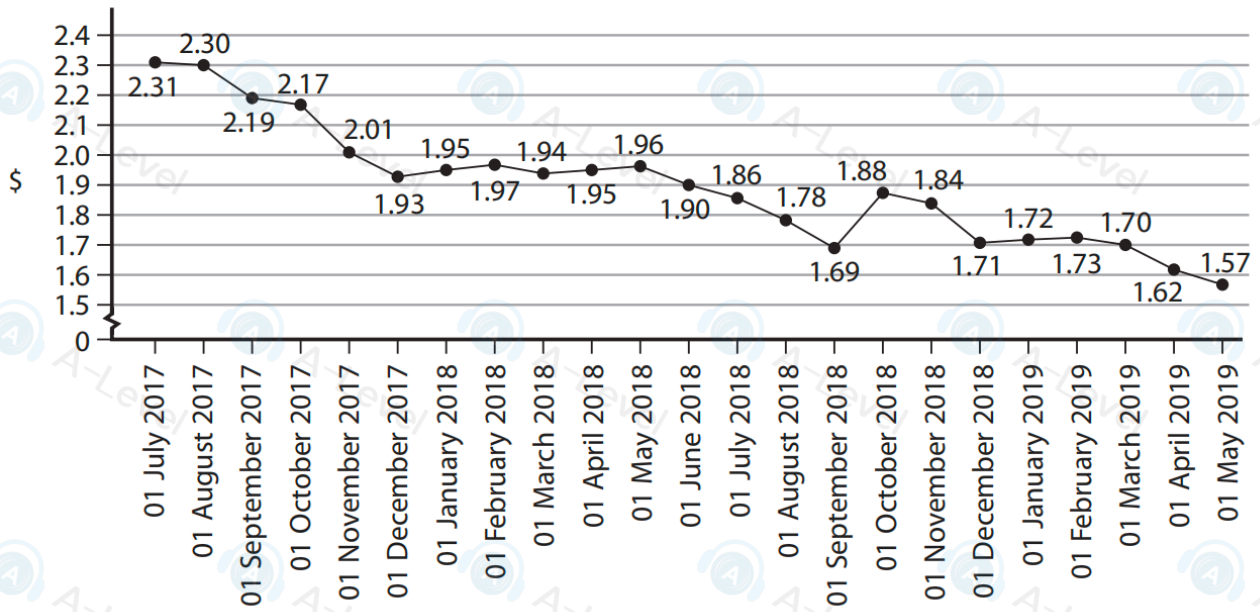
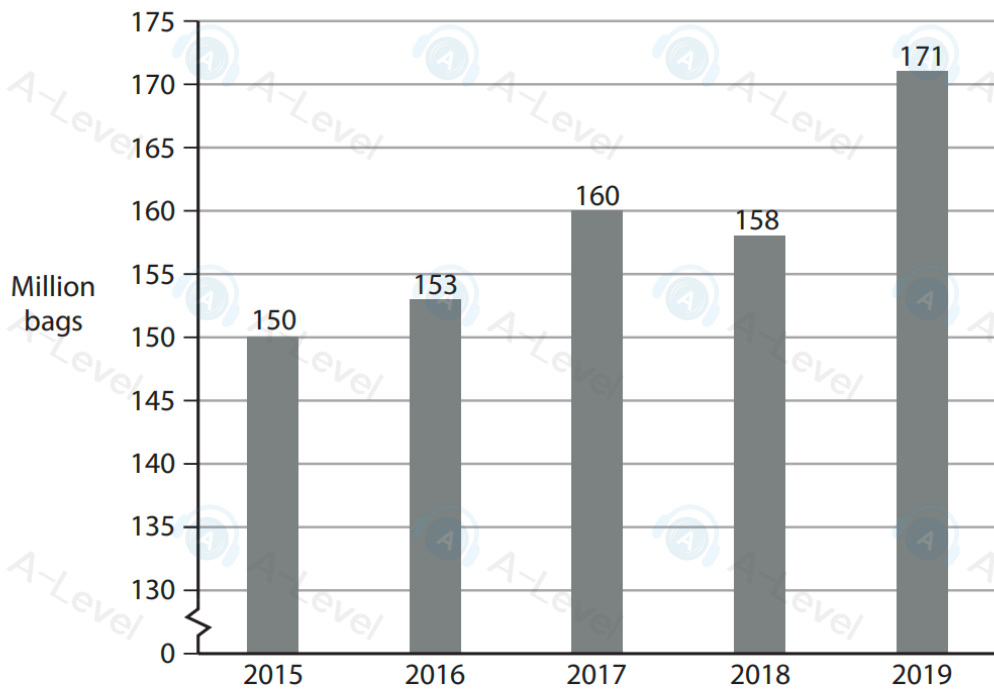


Figure 2 World coffee production, million bags, 2015–2019



Extract A Global coffee bean production

In 2019 the supply of coffee beans was greater than the demand, resulting in a global coffee bean surplus of over 4 million bags. Coffee bean supply increased by 8% whereas demand increased by only 2%. Consequently, by May 2019, the global price of coffee beans fell to its lowest level in over 10 years.

5

The increase in global production was caused by developments in farming equipment and improved methods of production. Also, favourable weather conditions in major coffee-producing countries, such as Brazil, contributed to the global increase in production.

The fall in the global price of coffee beans caused serious problems for small coffee growers in Central America and Africa. These farmers made large losses and many reached their short-run shutdown point. Some farmers have switched to the production of lower-risk crops.

10

Extract B Coffee shop chain growth

Coffee is the second most popular drink in the world and the demand for it is increasing steadily. Globally two billion cups of coffee are consumed every day. The revenue of coffee shop chains globally is projected to reach \$237.6 billion by 2025.

Starbucks is the largest coffee shop chain worldwide. In 2019 Starbucks' revenue increased by 7.24%. Its profits also increased by 7.11% to \$17.98 billion. The company had over 27 000 stores worldwide, with many new shops opening in China.

5

In the USA it is difficult for a new firm to enter the coffee shop market because there are already a number of well-known firms. These include Starbucks, Tim Hortons, Dunkin' Donuts, Dutch Bros Coffee and Peet's Coffee. The firms compete using special offers, large advertising budgets and loyalty schemes. More recently, these firms have been using higher quality coffee beans and cold coffee drinks to attract younger coffee drinkers. They have also been investing heavily in developing mobile phone apps and online ordering systems to increase brand loyalty and market shares. Industry leaders believe that social media advertising is the most effective form of marketing for coffee shops.

10

15

However, there are still a large number of successful, small independent coffee shops in the USA. These are often very different to the larger firms, offering alternative drinks and food options. They are also located in out-of-town-centres and aim to attract a different type of consumer.

20