

A



A-level

ECONOMICS

Paper 1 Markets and Market Failure

7136/1

Time allowed: 2 hours

For this paper you must have:

- **an AQA 12-page Answer Book**
- **a calculator.**

[Turn over]

INSTRUCTIONS

- **Use black ink or black ball-point pen. Pencil should only be used for drawing.**
- **Write the information required on the front cover of your answer book. The PAPER REFERENCE is 7136/1.**
- **In SECTION A, answer EITHER Context 1 OR Context 2.**
- **In SECTION B, answer ONE essay.**

INFORMATION

- **The marks for questions are shown in brackets.**
- **The maximum mark for this paper is 80.**
- **There are 40 marks for SECTION A and 40 marks for SECTION B.**

ADVICE

- **You are advised to spend 1 hour on SECTION A and 1 hour on SECTION B.**

DO NOT TURN OVER UNTIL TOLD TO DO SO

SECTION A

Answer EITHER Context 1 OR Context 2.

EITHER

CONTEXT 1

Total for this context: 40 marks

Flexible labour markets and trade unions

Study EXTRACTS A, B AND C and then answer ALL parts of Context 1 which follow.

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EXTRACT A

**FIGURE 1:
Participation in platform work*, % of UK workers, 2016 and
2019**

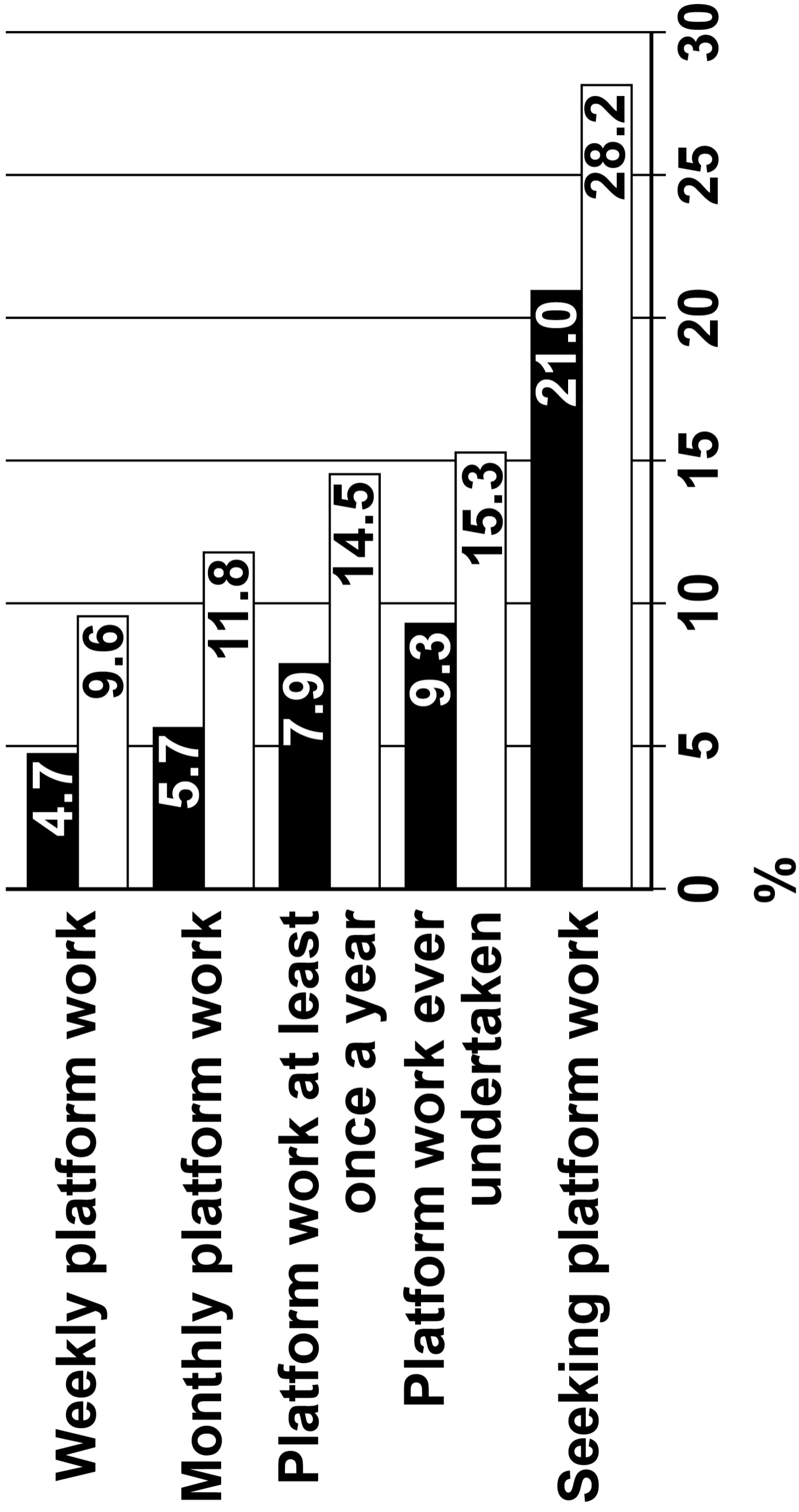
Source: TUC, 2020

**NOTE: *Platform work is defined as paid tasks that are
found via a website or 'app'.**

KEY

■ 2016

□ 2019



[Turn over]

FIGURE 2:

Median after-tax real earnings of working-age employees and the self-employed, 2009/10 to 2018/19

YEAR	EMPLOYED, £	SELF-EMPLOYED, £
2009/10	21 900	15 800
2010/11	21 300	15 100
2011/12	20 300	15 800
2012/13	20 800	14 200
2013/14	20 500	14 000
2014/15	20 900	15 800

2015/16	21 300	16 100
2016/17	21 400	16 300
2017/18	21 400	17 600
2018/19	21 600	16 500

Source: Department for Work & Pensions, 2020

NOTE: Base year is 2018/19

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EXTRACT B: The gig economy

The gig economy can be defined as that part of the labour market characterised by short-term contracts or occasional work, as opposed to permanent jobs. The rise of gig economy work has been driven by new technology, enabling people to work from anywhere, any time. Many self-employed people work in the gig economy through online platforms such as Uber, Deliveroo and Airbnb. These roles often replace employee roles in sectors including cleaning, taxi driving, pizza delivery, project managers and personal training.

Gig economy workers face higher risks and more uncertainty about the stability of their incomes than standard workers. They tend to earn less than employees doing similar work and they also tend to work

longer hours. However, they do have greater flexibility and control over their work-life balance. People who have other responsibilities beyond work (for example childcare) may choose to work in the gig economy because it allows them to allocate their time as they choose. 25

The government has pledged to combat unfair working practices associated with zero-hours contracts and the gig economy. They are seeking to bring gig employers into line with the standards and regulations by which other employers must abide. However, providers of meal delivery, ride-sharing and other gig economy services warn that tighter regulations will damage economic efficiency and employees 30
35
40

[Turn over]

will lose out. Gig economy defenders claim that today's flexible labour markets offer modern workers the opportunity to move freely between jobs and this gives them more choice over their working hours. 45

Source: News reports, 2020

EXTRACT C: New unions representing gig economy workers

The cleaners at St Mary's Hospital in London are members of United Voices of the World (UVW), a new trade union of mostly migrant workers whose employment is not secure. Their October 2019 strike and demonstration were typical of UVW action: joyful, noisy, confrontational and uncompromising. It was also very successful. The hospital trust increased their £8.21 minimum wage to the London Living Wage of £10.75, and decided to employ them directly, rather than via an agency for temporary workers.

As insecure and gig economy work becomes more common, especially among migrant and young workers,

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new trade unions are developing to meet demand from workers in workplaces with few protections. Since it was founded in 2014, UVW has organised at more than 20 workplaces and won improved contracts, wage rises or sick pay from employers including the Daily Mail Group, the Royal Borough of Kensington and Chelsea and the London School of Economics. It now has more than 3000 members and says it is attracting 200 more every month.

Some gig economy firms are starting to recognise workers as employees. Just Eat, which delivers takeaway food, has announced plans to offer workers benefits, including hourly wages above the minimum living wage, sick pay and pension contributions. This sets a precedent in the UK gig economy.

The new drivers will be on a mix of full-time, part-time and zero-hours contracts, the company said, allowing some to retain more flexible working hours. The firm said that operating costs would rise as a result of the new scheme but Just Eat felt it was the ‘right thing to do’. 45

Source: News reports, 2020

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Using the data in EXTRACT A (FIGURE 1, on pages 6–7), calculate the number of workers doing weekly platform work in 2019 for each worker doing monthly platform work in 2019.

Give your answer to TWO decimal places. [2 marks]

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Explain how the data in EXTRACT A (FIGURE 2, on pages 8–9) show that the incentive for workers to become self-employed increased between 2009/10 and 2018/19. [4 marks]

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EXTRACT C (lines 10–12) states that, as a result of trade union action, ‘The hospital trust increased their £8.21 minimum wage to the London Living Wage of £10.75.’

With the help of a diagram, analyse how a trade union might achieve higher pay for its members. [9 marks]

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EXTRACT B (lines 42–47) states that, ‘Gig economy defenders claim that today’s flexible labour markets offer modern workers the opportunity to move freely between jobs and this gives them more choice over their working hours.’

Assess the view that government intervention in the UK labour market is necessary to protect the interests of people who are working in the gig economy. [25 marks]

Do NOT answer Context 2 if you have answered Context 1.

OR

CONTEXT 2

Total for this context: 40 marks

The UK supermarket sector

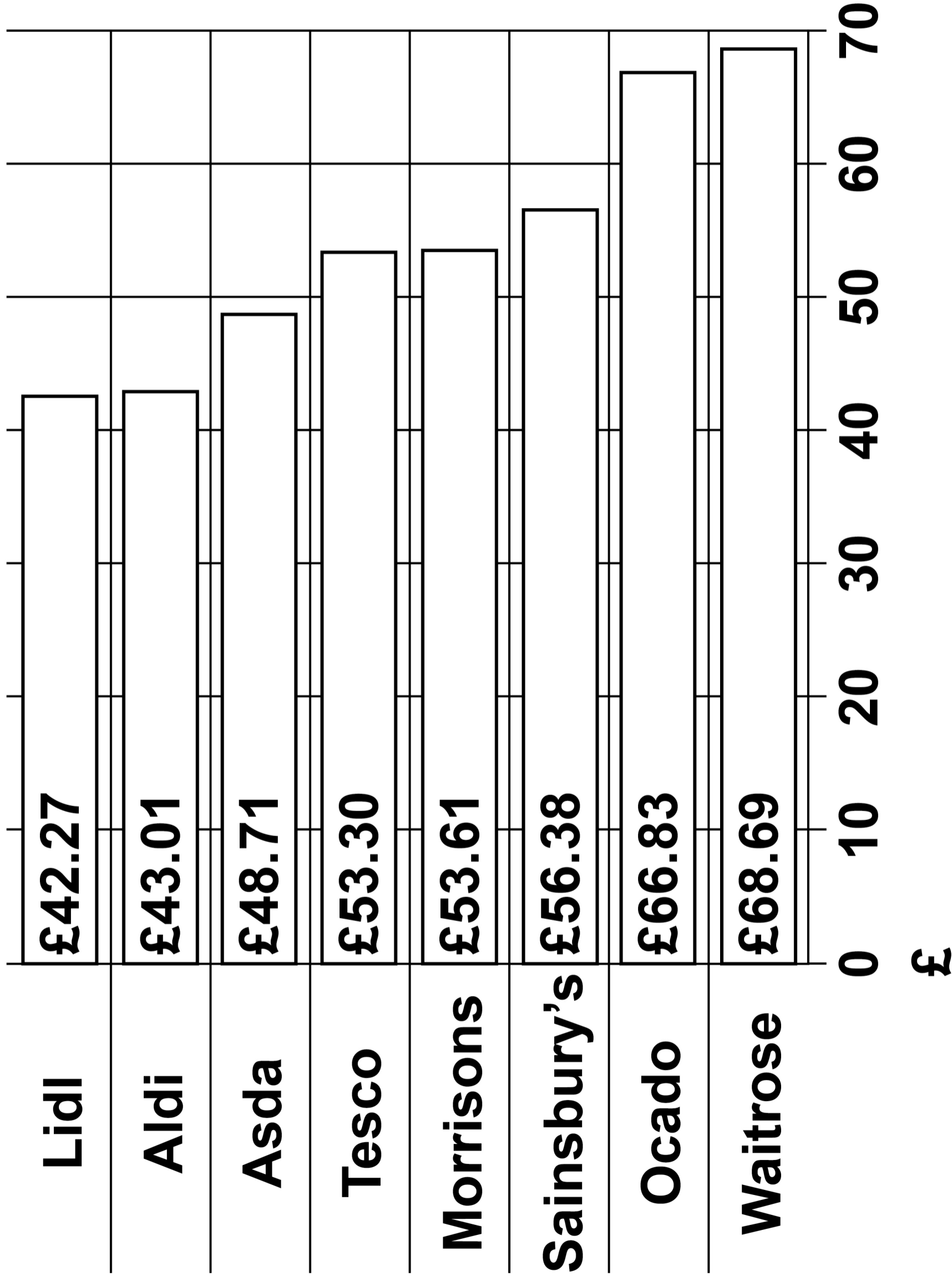
Study EXTRACTS D, E AND F and then answer ALL parts of Context 2 which follow.

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EXTRACT D

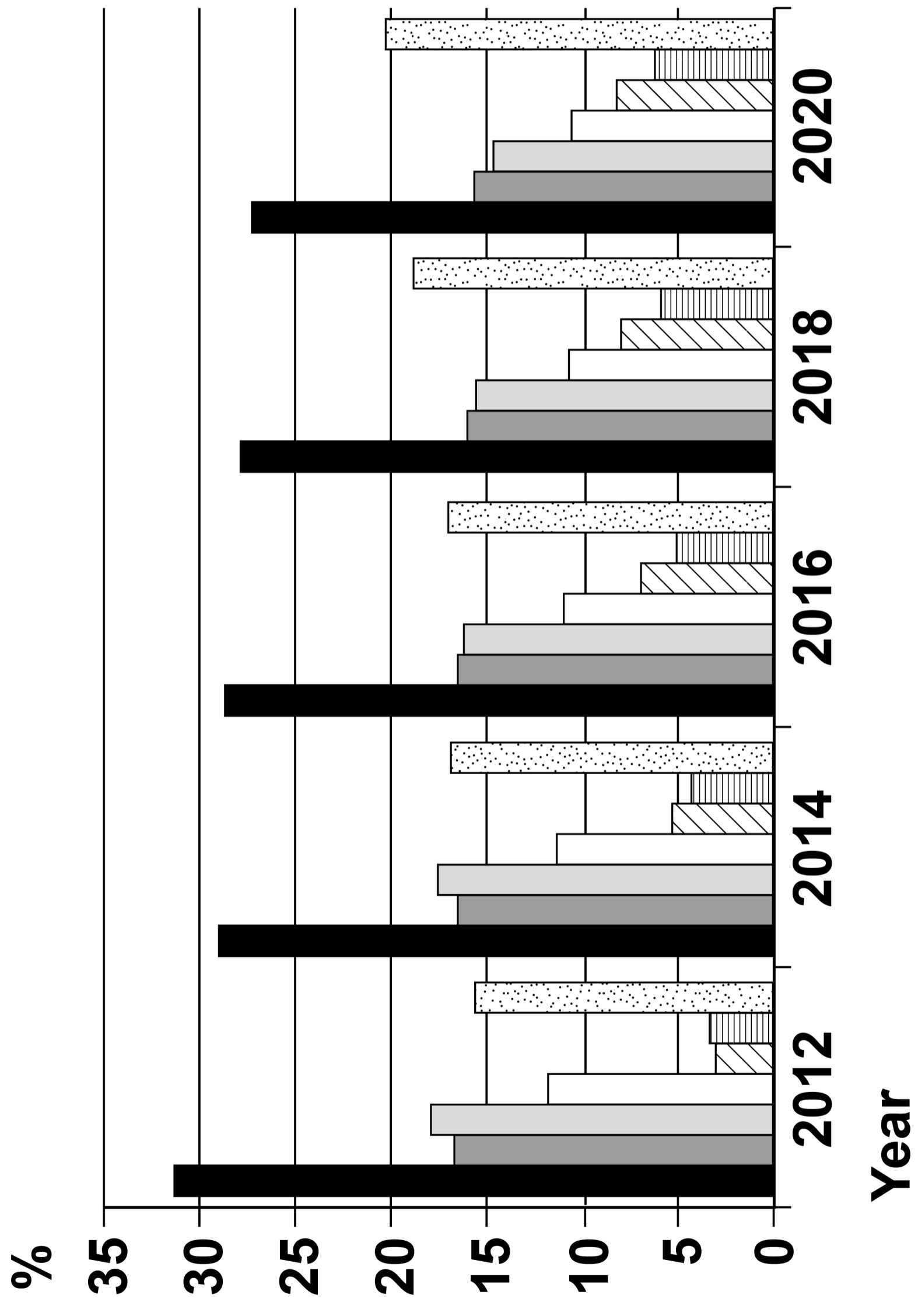
FIGURE 3:

Cost of a basket of 100 popular groceries, April 2020



Source: Which?, 2020
[Turn over]

FIGURE 4:
Market shares in the UK supermarket sector, 2012–2020



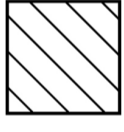
KEY

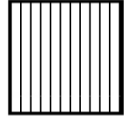
 **Tesco**

 **Sainsbury's**

 **Asda**

 **Morrisons**

 **Aldi**

 **Lidl**

 **Other**

Source: Statista, 2020

[Turn over]

EXTRACT E: Have Aldi and Lidl reached their peak?

Aldi and Lidl, the German discount grocers which primarily sell through physical stores, have missed out as more sales have moved online. They are now trying some small scale ‘click and collect’ and other online options, and are hoping to win back business as the economic downturn prompted shoppers to seek out lower prices. However, industry experts say their recent rapid growth and competition from traditional supermarkets would make it harder for the discounters to take more business from rivals. The ‘big four’ UK supermarkets – Tesco, Sainsbury’s, Asda and Morrison’s – have well-established home delivery infrastructure and were able to expand online delivery dramatically during the pandemic. This led to a

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doubling of the online share of the overall grocery market to 13% in just a few months.

Aldi and Lidl grew rapidly after 2008 as traditional supermarkets defended profit margins rather than sales. The discounters' combined market share in the UK grew from 4% to 14% in a decade. However, this time the traditional supermarkets are expected to put up a tougher fight. Andrew Porteous, analyst at HSBC, said the big four were "all very conscious of the mess they made of the last recession. They have done well through lockdown." "They will want to make sure they don't give people any reason to go back to split shops" he added, referring to the practice of shopping for basics at a discounters and topping up elsewhere.

[Turn over]

Supermarkets set prices interdependently, and price wars look very likely. Analysts estimate the price gap between discounters and conventional supermarkets is now about 10–12%, against more than 20% a few years ago. Tesco has pledged to match Aldi prices on key items, while Morrisons recently cut prices on 400 basics, and Asda has indicated it will not be holding back from price reductions. Competition and investment in more stores have reduced the discounters' profitability. Aldi's profit margin fell from above 5% in 2013 to just 1.75% in 2018.

Source: News reports, 2020

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EXTRACT F: Regulatory intervention in supermarkets

For decades now, economists have worried about a lack of competition between supermarkets. The sector has been dominated by a small number of large firms, led by Tesco. 5

Sainsbury's and Asda, the second and third largest supermarket firms, attempted a merger in 2019, which would have led to a combined market share of 33%. They argued that the 10

resulting cost savings of £1 billion per year would be passed on to consumers. However, the Competition and Markets Authority (CMA) was not persuaded, arguing 15

that the promised price cuts would be hard to monitor, and that customers would have reduced choice for their shopping. Not only was the CMA concerned about market 20

concentration at the national level,

but also the establishment of local monopolies where some towns might have only one large supermarket to purchase groceries. They predicted lengthening queues and rising prices. In April 2019, they banned the merger. 25

In 2020, the CMA ruled that Tesco had been preventing landlords from letting property to other supermarkets. This is illegal as it may reduce competition, limit choice and make consumers worse off. 30

Nigel Howorth, a lawyer, said: “Major supermarkets have for many years sought to maintain competitive advantage over rivals through the land planning system and restrictive property arrangements.” 35 40

Source: News reports, 2020

[Turn over]

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Using the data in EXTRACT D (FIGURE 3, on pages 20–21), calculate, in percentage terms, how much more expensive a basket of groceries at Waitrose was than at Lidl in April 2020.

Give your answer as a percentage to two decimal places. [2 marks]

0	6
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Explain how the data in EXTRACT D (FIGURE 4, on pages 22–23) show that the supermarket sector is competitive. [4 marks]

0	7
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EXTRACT E (lines 42–44) states that, ‘Supermarkets set prices interdependently, and price wars look very likely.’

With the help of a diagram, analyse the impact on grocery consumers of interdependence between supermarkets. [9 marks]

0	8
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EXTRACT E (lines 44–48) states that, ‘the price gap between discounters and conventional supermarkets is now about 10–12%, against more than 20% a few years ago.’

Evaluate the view that the supermarket sector is serving customers’ interests well. [25 marks]

[Turn over]

SECTION B

Answer ONE essay from this section.

Each essay carries 40 marks.

EITHER

ESSAY 1

The government has promised that everyone will be able to access superfast broadband by 2025. As more people have switched to studying and working remotely, good Internet connections have become more important. Low-income households have difficult choices to make between high-speed Internet and essential items such as food, heating and clothing.

0	9
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Explain how the price mechanism allocates resources in a market economy. [15 marks]

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Assess the view that high-speed Internet connection is a necessity for modern life and should be provided by the government, free of charge, to all households. [25 marks]

[Turn over]

OR

ESSAY 2

Markets fail for a variety of reasons and governments can play an important role in reducing the inefficiencies associated with such failures. However, Milton Friedman once suggested that “When government, in pursuit of good intentions, tries to rearrange the economy...the costs come in inefficiency, lack of motivation, and loss of freedom. Government should be a referee, not an active player.”

1	1
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Explain the difference between complete and partial market failure. [15 marks]

1 2

Evaluate the view that government failure means that government intervention in markets will rarely lead to an improvement in economic welfare.

[25 marks]

[Turn over]

OR

ESSAY 3

Data from the Organisation for Economic Co-operation and Development (OECD) suggest that countries with very different levels of pre-tax income inequality often have similar levels of post-tax income inequality.

1 3

Explain the main causes of inequality in the distribution of pre-tax incomes.

[15 marks]

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Evaluate whether the best way to reduce inequality in disposable income is to reduce differences in pre-tax incomes rather than through taxes and welfare benefits. [25 marks]

END OF QUESTIONS

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