



**HOLIDAYS HOMEWORK
CLASS X A IGCSE**

**SUMMER BREAK 2018-19
SUBJECT : ECONOMICS**

CASE STUDY 1

Changes in car production

Car production is changing. Until recently car manufacturing firms had the most power in the market. Now, however, firms producing car parts are gaining more power. The markets for both cars and car parts consist of a relatively high number of firms that range from very large to small. In 2014 the market was dominated by sixteen major car firms, each selling more than one million cars a year. In that year there were ten major car part firms and these were gaining more power over the car producers.

The world's largest car part supplier by revenue claims to supply at least one of the parts in every car sold throughout the world. The firm has grown as a result of mergers and is moving towards total control of the market. It is seeking to build up high barriers to entry and to become the sole producer. The ten largest car part firms accounted for 63% of the total output of car parts in 2013, producing US\$250 billion of car parts in that year. These ten firms now have the ability to build 85% of a car's internal systems, leaving the car manufacturing firms to make little more than the engine.

Car production is increasing in a number of developing countries but declining in some developed countries. Car manufacturing increased in the UK between 2013 and 2014, but the industry had been experiencing problems before 2013. In 2008 the average wage of car workers fell. In that year the UK experienced a recession. Real wages in the UK car industry for the lowest paid workers also declined after 2008 and the number of workers employed fell between 2008 and 2012. This was despite output per worker increasing, partly because some less skilled workers lost their jobs and the industry replaced some of these workers with capital equipment.

Buyers of cars often borrow money from commercial banks to make their purchases. In some cases buyers use their savings, which may be withdrawn from commercial banks, to buy cars. The behaviour and performance of car firms are influenced by the economic system of the country they are producing in. In countries with a market system there is likely to be greater consumer sovereignty. Car firms in such countries may be more likely to innovate, bringing in new methods of production and developing higher-quality products.

- (a) Define monopoly. Using information from the extract, identify two characteristics of monopoly. 3
- (b) Calculate the total output of car parts in US\$ in 2013. 3
- (c) Analyse the impact of increase in labour productivity on average cost of production of the commodities. Use diagram. 4
- (d) Describe how fixed costs and variable costs are influenced by a rise in output. Explain with the help of a diagram. 4
- (e) Discuss, using the car parts industry industry as an example, whether consumers will benefit from larger firms. 6

CASE STUDY 2

Changes in the shipbuilding industry

China is becoming even more dominant in the global shipbuilding industry. In 2013 it accounted for 45% of ships built in terms of tonnage. It is concentrating particularly on building container ships. In 2012 China built six of the largest container ships for a total cost of US\$870 million. In 2013 it produced eight container ships of the same capacity with the total cost rising less proportionately to US\$1040 million.

The second-largest producer of ships is South Korea. One of its firms has built the largest container ship in the world. The firm is facing increasing competition from another large firm in the country. In 2014 the two firms announced they were planning to merge, if they could get the approval of their shareholders. Both firms are listed on the country's stock exchange.

The relative share of the global market that a shipbuilding firm has is influenced by a number of factors. These include the quality and quantity of the labour force employed. In 2013 China's total labour force was 800 million, in comparison to South Korea's 26 million. China's unemployment rate of 3% was slightly lower than that of South Korea at 4%. A country's exchange rate also influences how many ships are built and sold. In 2012 the value of the South Korean currency, the won, was 1126 won per dollar. This changed to 1107 won per dollar in 2013. This trend in the value of the won was expected to continue into 2014, with changes in the relative price of South Korean ships and a possible change in South Korea's economic growth rate.

While shipbuilding is increasing in a number of countries, including China and South Korea, it is falling in other countries such as the UK. Some economists welcome the decline, stating that producing fewer ships has reduced noise pollution in a number of cities and has reduced traffic congestion in the areas where the shipyards used to operate. Other economists regret the decline in the shipbuilding industry, which they claim is the result not only of a failure of UK shipbuilders to respond to change but also to the subsidies that foreign governments pay to their shipbuilders.

- (a) Using information from the extract, explain whether the average cost of building the largest container ships in China rose or fell between 2012 and 2013. 2
- (b) Comment on the nature of marginal cost on the basis of information given in the first paragraph of the extract. Use diagram 4
- (c) If the two ship producing firms enter in the merger then comment on the likely market structure in which they will be operating. 2
- (d) Explain how the quality of labour force in a country can influence the average and marginal cost of production of commodities. 4
- (e) Discuss whether the average cost of production always decreases when a firm increases the total output that it produces. 8

STRUCTURED QUESTIONS

- Q 1) (a) Differentiate between TFC and TVC giving two examples of each. 2
 (b) Explain using diagram, the relationship between AC and MC when output increases in the production process. 4
 (c) From the following data estimate AC, AFC, AVC and MC 6

Quantity	0	1	2	3	4	5	6	7
TC	60	100	136	168	204	250	300	357

- (d) Explain the ways in which a firm can increase its total profits. Also discuss the efficiency of such techniques in increasing the profits of the firm. 8
- Q 2) (a) Explain the meaning of free entry and exit of firms in perfect competition. Also analyze its impact on the profits earned by the firms under long run. 6
 (b) From the following data estimate the profit maximization output for a competitive firm 6

Quantity	AC	Price
1	70	50
2	53	50
3	46	50
4	44	50
5	44	50
6	45	50
7	46	50

- (c) Discuss whether consumers would always want to be supplied by firms in perfect competition rather than by a monopoly. 8
- Q3) (a) Explain what can cause an increase in the costs of production. 4
 (b) Explain two types of internal economies of scale that a growing bank can enjoy. 4
 (c) On the basis of following table estimate AVC, AC and MC if the AFC of producing 4 units of output is Rs. 5 6

Output	1	2	3	4	5	6
TC	50	65	75	95	130	185

- (d) Analyse why price can be lower in a monopoly market than in perfect competition. 6
- Q 4) (a) Analyse the impact of the assumption "Perfect Knowledge" in perfect competition market structure 6
 (b) Define a 'monopoly'. 2
 (c) From the following data estimate the profit maximization output for a competitive firm 6

Quantity	TC	Price
1	70	60
2	98	60
3	135	60
4	184	60
5	244	60
6	319	60
7	409	60

- (d) Analyse why price can be lower in a monopoly market than in perfect competition. 6