

3.5 Firms

Question Paper

Course	CIEIGCSE Economics
Section	3. Microeconomic Decision Makers
Topic	3.5 Firms
Difficulty	Medium

Time allowed: 140
Score: /110
Percentage: /100

Question 1

In 2017, the Brazilian paper industry was booming. Its total revenue increased and it employed both more, and better quality, factors of production. Brazil's largest paper producer merged with an Indonesian paper-producing firm at the end of 2017. The performance of Brazil's coffee industry differed from its paper industry. Brazilian coffee experienced a fall in demand and a fall in total revenue.

Analyse the possible effects on consumers of a merger between two paper-producing firms

[6 marks]

Question 2

More agricultural markets come close to perfect competition than markets for manufactured goods and for services. The goals of business organisations can vary between markets, and within markets. In 2017, the Nigerian government used supply-side policy measures to influence the goals and performance of firms in a range of markets and to lower firms' average costs of production.

Analyse the main reasons for the differences in the size of firms

[6 marks]

Question 3

The markets for cars and tyres are closely related. The five largest tyre firms used to make 66% of all tyres. The entry of more than 250 Chinese firms has reduced the global market share of the largest five firms to less than 50%. This also changed the price elasticity of demand (PED) for individual firms' tyres. Some of these firms are state-owned enterprises and some are in the private sector

Discuss whether a large firm will earn more profit per unit sold than a small firm

[8 marks]

Question 4

Moldova is Europe's poorest economy with many of its people living in poverty. It is mainly an agricultural economy with many small farms. Its shops are also small. The government has used a range of policies, including supply-side policy, to improve the economy's performance. It has mostly been successful. For instance, unemployment has fallen

Analyse the reasons why small shops may be easy to set up

[6 marks]

Question 5

Among the reasons for Malaysia's continued economic growth are rises in consumer spending and the country's ability to adapt to changes in global demand. For example, when the price of natural rubber fell, most rubber plantations changed to palm oil production. The government has tried to promote the growth of different sectors, including the primary sector.

State two sectors, other than the primary sector, in an economy.

[2 marks]

Question 6

In 2017, two firms in the chemical industry in China merged. This created the world's largest chemical group with approximately US\$100 billion revenue. The main aim of this integration was to control the domestic market for chemicals and fertilisers by creating a monopoly. The new firm is a multinational company (MNC) as it also produces in other countries such as Italy and Switzerland.

Define *industry*.

[2 marks]

Question 7

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Explain two types of integration (merger).

[4 marks]

Question 8

Angola is an African country without a stock exchange. In contrast, South Africa has the most active stock exchange in Africa. Firms in South Africa are also much larger than firms in Angola and South African firms undertake more borrowing from commercial banks. Both countries do, however, have a low saving rate which could be increased if the rate of interest was raised.

Discuss whether or not an economy will benefit from its firms getting larger.

[8 marks]

Question 9

Changes in the supply of enterprise result in the development of new firms. In 2016, a theme park in Hong Kong made a loss with visitor numbers falling by 9%. In 2017, the same public limited company opened another larger theme park in Shanghai. The new theme park is expected to benefit from both internal and external economies of scale.

Explain, giving examples, the difference between an internal economy of scale and an external economy of scale.

[4 marks]

Question 10

Non-renewable energy (e.g. coal) is thought to cause a higher social cost than renewable energy (e.g. solar or wind power). Excessive demand for non-renewable energy causes a failure of the market economic system. However, producers of renewable energy, some of which specialise in one form of energy, are beginning to produce on a larger scale.

Analyse how the ability of firms to produce on a larger scale is beneficial to consumers.

[6 marks]

Question 11

Explain two internal economies of scale referred to in the extract.

Refer to the [source material](#) in your answers.

[4 marks]

Question 12

The mobile (cell) phone industry is growing in Asia with more workers being employed. In March 2017, there was a merger between two mobile phone producers, both of which had relatively high fixed costs. This merger created one of the largest mobile phone firms and moved the Asian market further from perfect competition and closer to monopoly. It was expected that profits in the industry would increase as a result of the merger.

Discuss whether or not a merger will increase profits.

[8 marks]

Question 13

The largest airline in Pakistan was originally formed as a result of a merger between a state- owned airline and a private airline. In April 2016, the Pakistan government made this merged firm a public limited company. This was hoped to improve the productivity of this loss-making airline and also improve the overall economy of Pakistan.

Discuss whether or not a merger might make it easier for a firm to achieve its goals.

[8 marks]

Question 14

Productivity has fallen recently in Finland particularly in the public sector. The country has a relatively high number of small firms. In recent years the price elasticity of demand and the price elasticity of supply of the products made by Finnish firms have changed.

Discuss whether or not small firms are likely to survive in the long run.

[8 marks]

Question 15

In 2015, Spain experienced a higher death rate than birth rate for the first time since 1939. It is forecast that its population will fall by 5.6 million over the next 50 years. Such a decline would be likely to influence the number and size of the country's firms and have an impact on the environment. There are a variety of ways of increasing a country's population.

Discuss whether or not a firm that produces a wide range of products can take advantage of economies of scale.

[8 marks]

Question 16

Discuss whether or not commercial banks in Morocco would benefit from further mergers.

Refer to the [source material](#) in your answers.

[6 marks]

Question 17

In 2015, the Tripartite Free Trade Area (TFTA) was established. It covers 26 countries and is the biggest free trade area in Africa. Removing trade restrictions can enable economies to take greater advantage of economies of scale. Some economists argue that improving Africa's roads would be more beneficial and would do more to reduce a current account deficit on the balance of payments and raise living standards.

Define *economies of scale*.

[2 marks]

Question 18

Swaziland is a small African country where six in ten people live in poverty and most firms are small and use little capital equipment. In October 2015 it opened a new airport. Some economists suggest that the building of the airport involved a high opportunity cost and caused a range of external costs. The building of the airport is part of the government's plan to turn the country from a developing into a developed country.

Discuss whether people would prefer to buy a product from a small firm or a large firm.

[8 marks]

Question 19

Farms in the USA are getting larger. One dairy farm in the state of Indiana has over 38 000 cows. Farms in the USA compete with farms in both developed and developing countries. The value of the farms' exports of milk appears in the trade in goods section of the current account of the USA's balance of payments.

Analyse the economies of scale from which a farm may benefit.

[6 marks]

