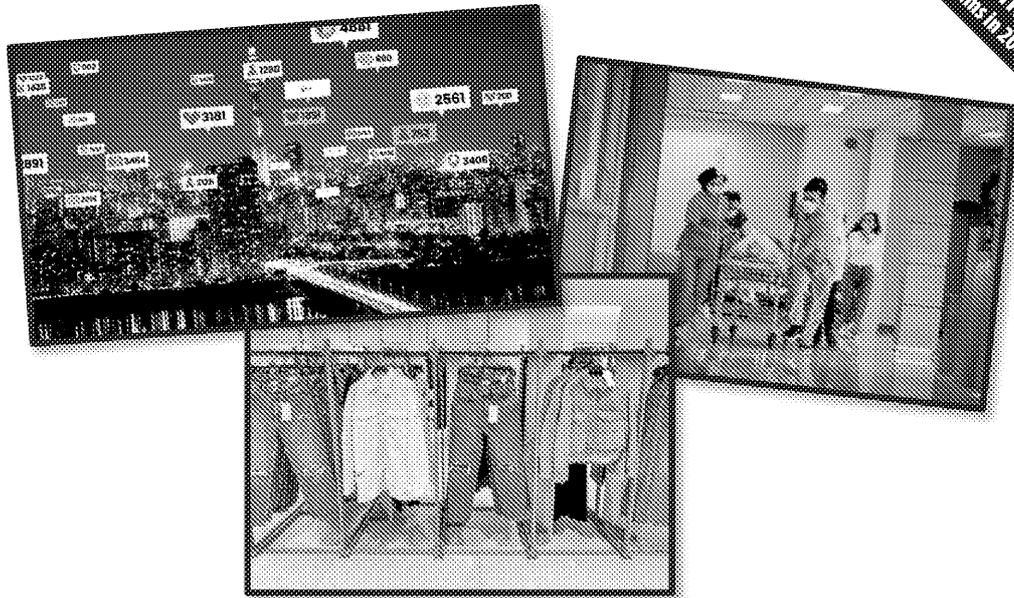


2015 specification  
first exams in 2017



# Data Response Case Studies Volume 2 (2022)

## Theme 3: Business Behaviour and the Labour Market

D Glover

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# Teacher's Introduction

The case studies in this series are designed to support students as they study the Edexcel A module *Theme 3: Business Behaviour and the Labour Market*. These case studies cover the Edexcel A specification perfectly, and are designed as real-world contexts to complement the theoretical content of the module.

**Remember!**  
Always check the exam board website for new information, including changes to the specification and sample assessment material.

Each case study contains:

- \* **Contextual information:** this is the body text of the case studies, providing the relevant information, facts and figures.
- \* **Data:** each case study contains data presented in a graphical format.
- \* **Data response questions:** for each case study, students are presented with two questions set in response to the data presented. Answers are included.
- \* **Test your knowledge questions:** for each case study, students are presented with two questions designed to mimic short-answer examination questions. Answers are included.
- \* **Extended-response question:** for each case study, students are presented with one question designed to mimic long-answer examination questions. Possible answers are included in summary form.

This resource is designed to be useful to students of all abilities. Students of the highest ability require up-to-date contextual information for use in examination, while for lower-ability students these case studies may complement class activity and help to ground theoretical content in real-world contexts.

These case studies are designed to be up to date for 2022 and provide as contemporary a snapshot of economic discussion as possible. However, it is likely that some themes which are relevant and topical at the time of teaching may not be included. It is therefore advised that these examples are used in tandem with the study of the most recent themes.

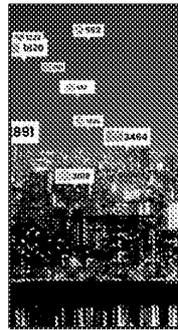
I hope this resource can contribute towards an engaging and rewarding learning environment. Best of luck with your teaching!

*D Glover, January 2023*

# Growth through acquisition: Facebook's market

## 3.1: Business growth

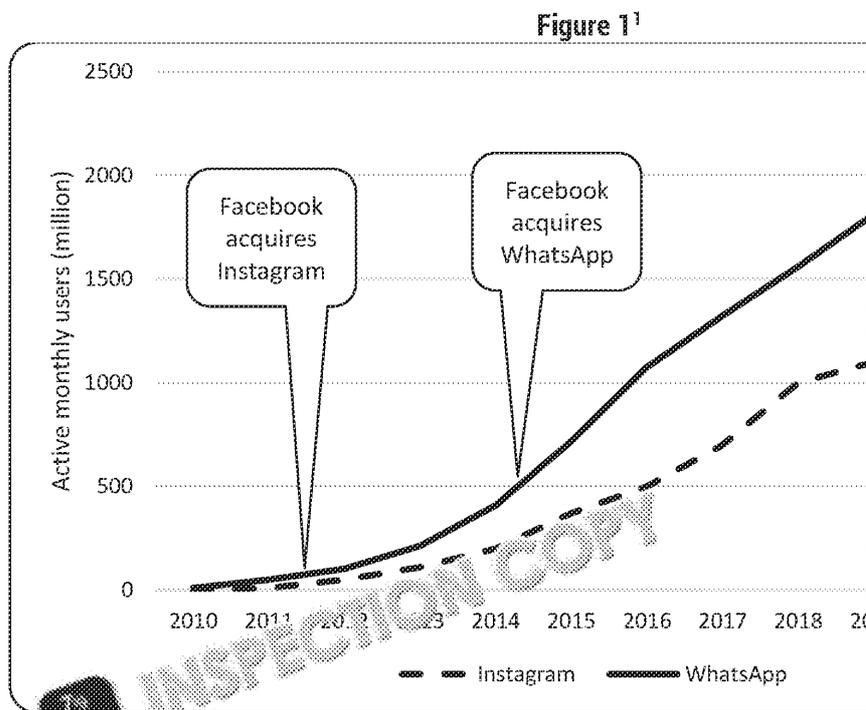
Facebook is the world's third most visited website, and the biggest social network. It outmanoeuvred market rivals such as MySpace and Friendster in the late 2000s to establish a monopoly position in the social network scene. But the key to maintaining its market position in the 2010s, when faced with emerging and established competition, has been two enormous acquisitions.



In 2012, Facebook purchased Instagram for the seemingly astronomical sum of \$1 billion. The move was widely viewed as a catastrophic overvaluation by some, though CEO Mark Zuckerberg. When purchased, Instagram had only 13 employees and less than 50 million unique users. This, at the regular use of the platform, was worth \$1 billion.

In 2014, Facebook purchased WhatsApp for the even more staggering sum of \$19 billion (the entire GDP of Iceland). The deal was viewed as make or break for Facebook – it was successful.

Both of the acquisitions were extremely well timed, and more than good value for more than \$5 billion a year for Facebook, while Instagram brings in a stunning \$20 billion demonstrates the huge growth of both platforms, which mostly took place after their



The savvy acquisitions have maintained Facebook's dominance of the social media younger generations, during a period in which the primary product's growth among them began to slow. It also prevented the emergence of key rivals, and thus maintained its market position. Google+, a social network launched by the online search giant in 2011 to compete with Facebook, was closed in 2019.

<sup>1</sup> <https://www.businessofapps.com/data/whatsapp-statistics/> and <https://www.demandsage.com/instagram/>

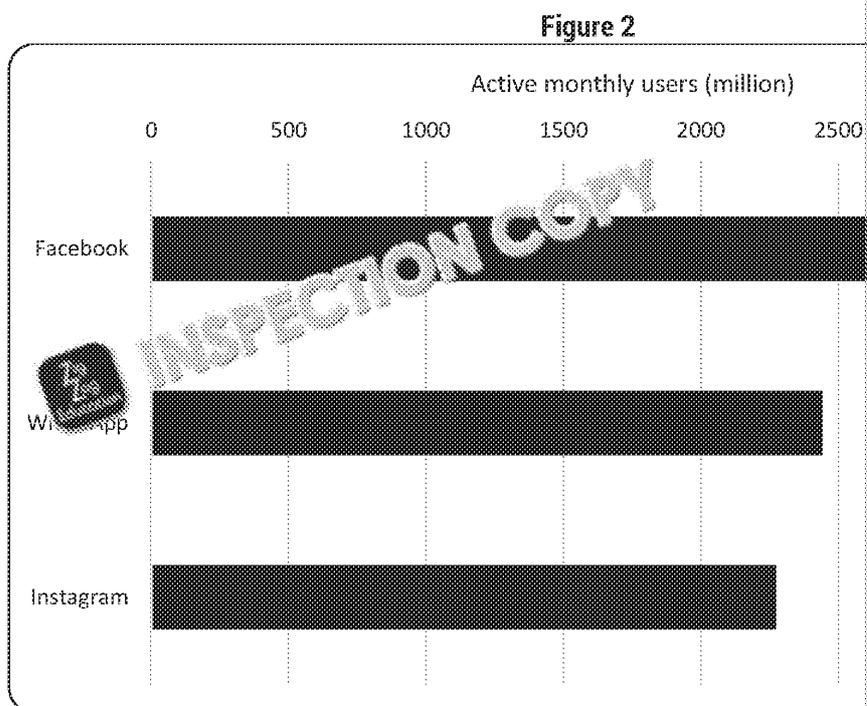
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In 2017, Facebook introduced the 'stories' feature across its platforms in a direct bid to compete with Snapchat, which it failed to acquire in 2013. The introduction of the 'reels' feature across its platforms is another attempt to halt the growth of TikTok, which has experienced rapid expansion among young people.

While Facebook continues to grow, its acquisitions are catching up quickly. Figure 2 shows the number of active monthly users of Facebook, WhatsApp and Instagram. Facebook approaches its three billionth user, WhatsApp and Instagram are both far past the two billion mark.



### Use the data

- Using Figure 1, calculate the percentage change in WhatsApp's monthly active users from 2018 to 2022.
- Figure 2 demonstrates the scale of Facebook's reach. Explain why this scale is a key feature of the free business model.

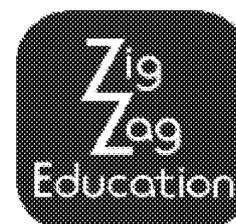
### Test your knowledge...

- Explain the term 'horizontal integration' in the context of Facebook.
- Which of the following objectives of Facebook is most likely to have pursued in 2022?
  - Sales maximisation
  - Shareholder wealth maximisation
  - Profit maximisation
  - Revenue maximisation

### Extended-response question

- Assess the costs and benefits of business growth.

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# Growth through demergers: Walmart breaks

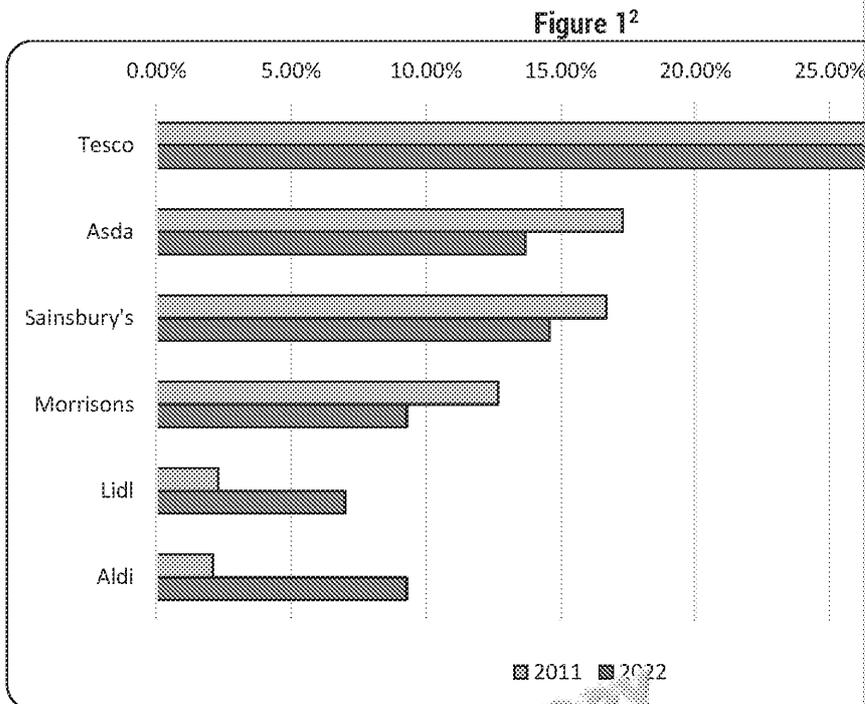
## 3.1: Business growth



Business growth does not always in order to expand, firms need to be inefficient or subject to an internal example of this dynamic at work is merger which has not performed

For an example of a major demerger of Asda in 2021. Walmart – one of the largest Asda in 1999 in order to enter Asda was the UK's second largest share, and the acquisition cost was

Walmart occupies a dominant position in the global retail market, and its purchase of the industry was seen as an attempt to become the UK's market leader. However market share under Walmart's tenure, instead gradually slipping into third place in the Figure 1 shows the market share of the six major supermarkets in 2011 and 2022.

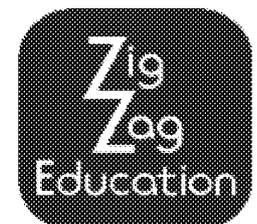


Though largely maintaining Asda's position in the market is hardly a failure, it fell well the store. Walmart's business model in the USA has been to open out-of-town mega undercut rivals on price. However the UK is less suited to the out-of-town model than to undercut the low price German discounters Aldi and Lidl.

Walmart – used to exerting market dominance – ultimately struggled to expand its in regulated and highly competitive UK supermarket industry. The megabrand has had in markets with fewer regulations and less established rivals. Figure 2 shows where concentrated in 2021, demonstrating that Asda was a relatively small part of the co

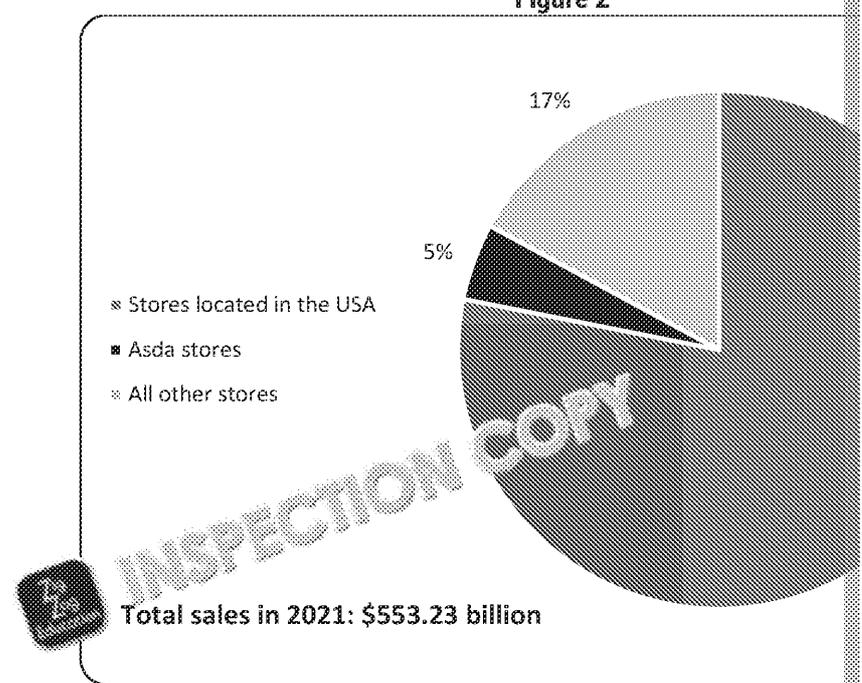
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<sup>2</sup> <https://www.kantar.com/campaigns/grocery-market-share>

Figure 2<sup>3</sup>



In 2018, Asda and Sainsbury's entered formal negotiations over a possible merger, which would conglomerate the UK's largest supermarket. The proposal was strongly favoured by the competition regulator, who argued that the merger would lead to higher prices for competition for retailers.

In 2021, Walmart sold Asda to for £6.8 billion – only marginally more than the price of the deal was seen as mutually beneficial. It allowed Walmart to exit the UK market without new owners are considered more committed to competing in the UK marketplace on

**Use the data**

1. If the merger had been approved in 2018, what would have been Asda–Sainsbury's market share?
2. Using Figure 2, calculate Asda's total sales in 2021.

**Test your knowledge...**

1. Using a demand and supply diagram, show the effect of a decline in Asda's market share since 2011.
2. Demergers are usually undertaken to increase competition in the market, which leads to lower prices for consumers. Do you think this is the case with Walmart and Asda's merger?

**Extended-response question**

1. Discuss whether horizontal or vertical integration is likely to be more beneficial for a firm.

<sup>3</sup> <https://dazeinfo.com/2020/07/16/walmart-annual-revenue-by-region-graphform/>

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# Growth at speed: The collapse of Carillion

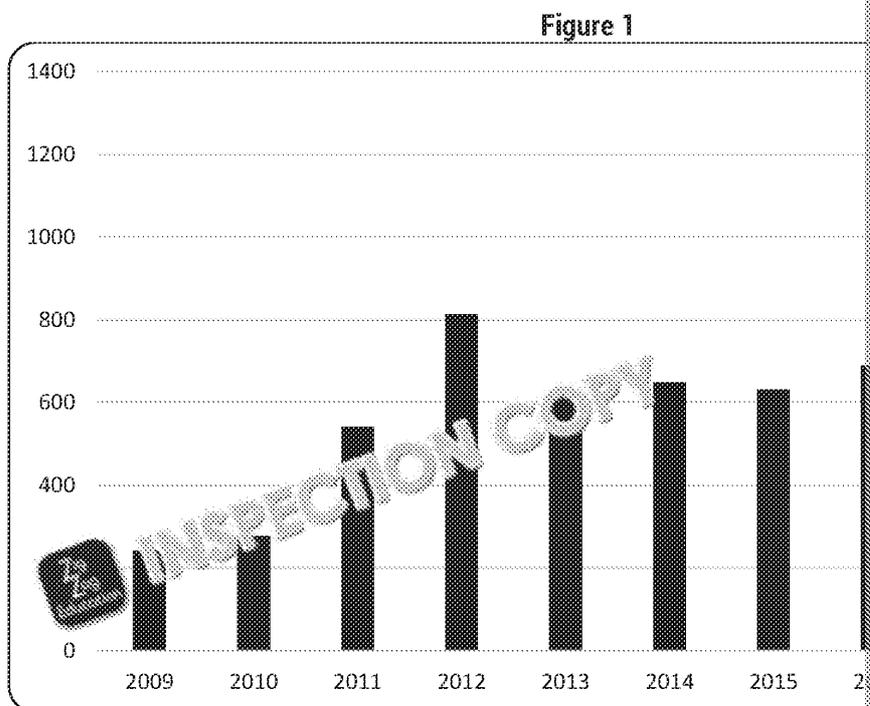
## 3.1: Business growth

Carillion, a large UK construction and services company, collapsed in 2018 after a serious mishandling of finances and failure to keep up with contractual repayments. The company was a frequent government contractor, with a number of large obligations to build and help operate public facilities. Carillion's responsibilities included building and providing services for schools, hospitals, prisons, housing and transport infrastructure. As a result of the company's collapse, many of these important public facilities were left in limbo, facing reduced levels of service and construction delays, of up to several years.

The collapse called into question the government's pursuit of public-private partnerships. Successive UK governments have contracted out responsibility for the construction of public facilities to private companies. This approach is designed to transfer the risk involved in construction from public to private hands. These sorts of projects are inherently risky because of the large scale of construction, and the frequency with which such projects exceed their initial budget and completion date.

Instead of the risk being handled by the government, the private sector is awarded a contract to build and operate a facility privately and thus also inherits the risks involved. Carillion would borrow the money to build the facility, which it would pay back in future revenue from the proceeds of operating the facility over a period of usually 25 to 30 years.

However, in this case Carillion overextended itself. It had piled up large debts from its operations, which quickly began to exceed its revenues from running facilities. Figure 1 highlights the revenue generated by Carillion in millions of pounds.



In July 2017 Carillion issued a profit warning, signalling that the company was in trouble. It issued another profit warning in September 2017, and another in November that same year. The company's unmanageable levels of debt, compounded by the profit warnings, led to its collapse.

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Figure 2



Carillion's quick expansion is seen as a key cause of the collapse. The firm took over firms at a rapid pace, including Citex, Mowlem, Alfred McAlpine, Vanbots and Eaga. To part to scale up Carillion's operations at pace, as they took on increasingly large numbers of projects, the firm's business model relied on constant growth – taking on large projects in order to cover borrowing costs.

### Use the data

1. What does Figure 1, along with information in the text, suggest about the pace of Carillion's expansion?
2. Explain how costs, cash flow and revenue were responsible for Carillion's collapse.

### Test your knowledge...

1. Explain which type of growth Carillion pursued.
2. How do public-private initiatives attempt to solve the free rider problem?

### Extended-response questions

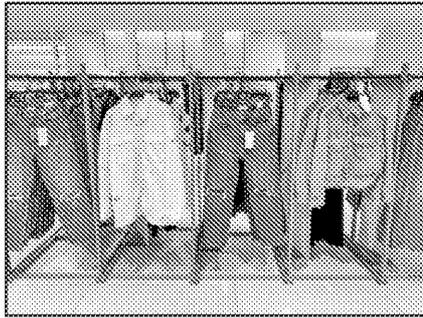
1. Evaluate the merits of using private finance to deliver public goods.

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# Shifting markets: Changing trends in fashion

## 3.3: Revenues, costs and profits

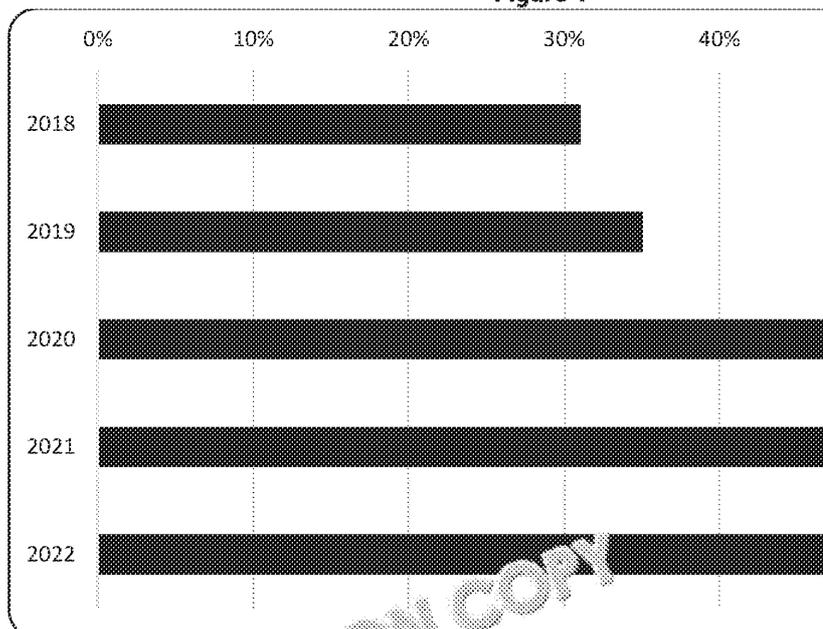


In November 2020 the Arcadia Group filed for bankruptcy. The Group owned a number of major UK retail clothing brands including Topshop, Burton and Dorothy Perkins. It was one of the largest retailers in the country with a workforce of 13,000. The firm's collapse was due to pandemic restrictions on the profitability of its stores, a sharp decline in sales, a collapse in business rates and changing consumer trends. The firm had reported huge losses of over 200 million pounds in the first half of 2020, and had closed several hundred stores.

While external factors no doubt played a major role in the collapse, the Arcadia Group also came under intense public scrutiny for its running of the business. Green's business strategy was based on heavy investment in his stores. He has also been accused of fatally mismanaging the company's finances, spending millions on expanding and maintaining his commercial property portfolio in urban areas at the expense of focusing on the burgeoning online retail market. In addition, his business – including tax avoidance and alleged abuse of staff – has been viewed as undermining the retail sector.

While Arcadia doubled down on bricks-and-mortar stores, the online fashion market grew its market share of online platforms as a percentage of total clothing sales in the UK.

Figure 1<sup>4</sup>



ASOS and Boohoo are now the UK's most popular online retailers, currently with a combined market share of 35%. In 2021 both companies made significant acquisitions. ASOS acquired the Arcadia Group's leading brands, including Topshop and Miss Selfridge, for a total of £1.2 billion. Later Boohoo acquired three further Arcadia brands – Dorothy Perkins, Wallis and Denham, and store Debenhams, for a total of £80 million.

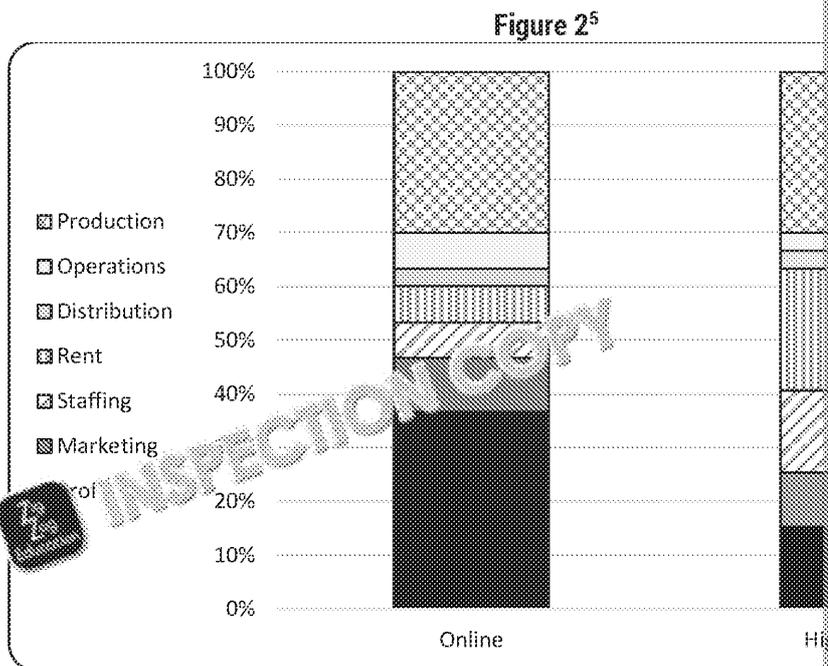
<sup>4</sup> Source adapted from [https://globalcitylogistics.org/?page\\_id=419](https://globalcitylogistics.org/?page_id=419)

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The cost structures in Figure 2 go some way to explaining why online retail has been high street.



All of these acquisitions focused on the purchase of the intellectual property associated with the brand rather than the rescue of their high-street operations. The purchase of these leading brands was a key point in the business strategies of both online retailers, which had previously been based on organic growth.

### Use the data

- Using Figure 2, calculate the percentage difference, as a share of total revenue, between online retailer costs and high-street retailer costs.
- Explain **two** non-price benefits of the online retail model for business growth.

### Test your knowledge...

- Explain what effect increasing prices will have on total revenue.
- Using a suitable diagram, discuss the impact of a takeover acquisition on a firm's cost structure.

### Extended-response questions

- Evaluate whether adopting a strategy of inorganic growth will be of benefit to a firm in the long and short term.

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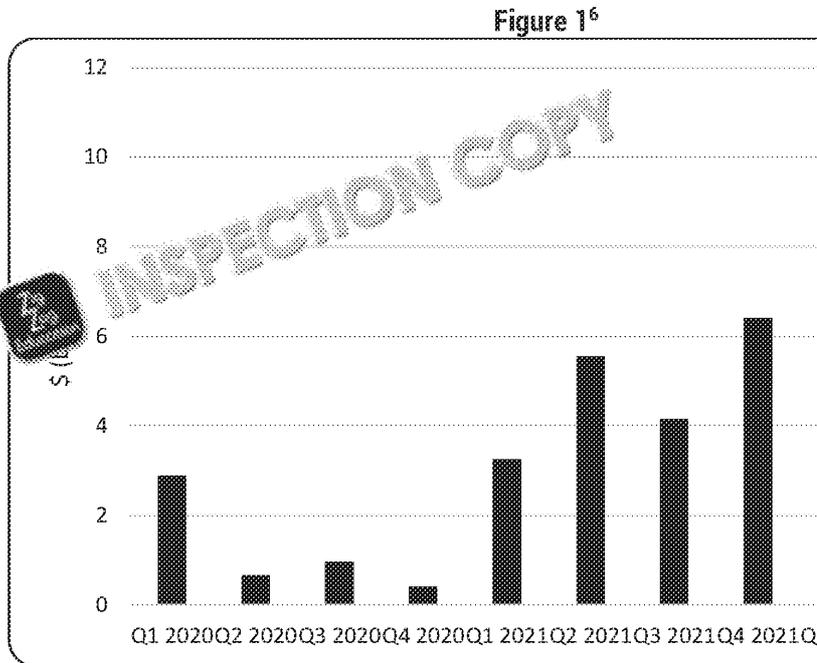


<sup>5</sup> Adapted from: <https://www.granthornton.co.uk/insights/hos-ecommerce-put-the-high-street-out-of-fashion/>

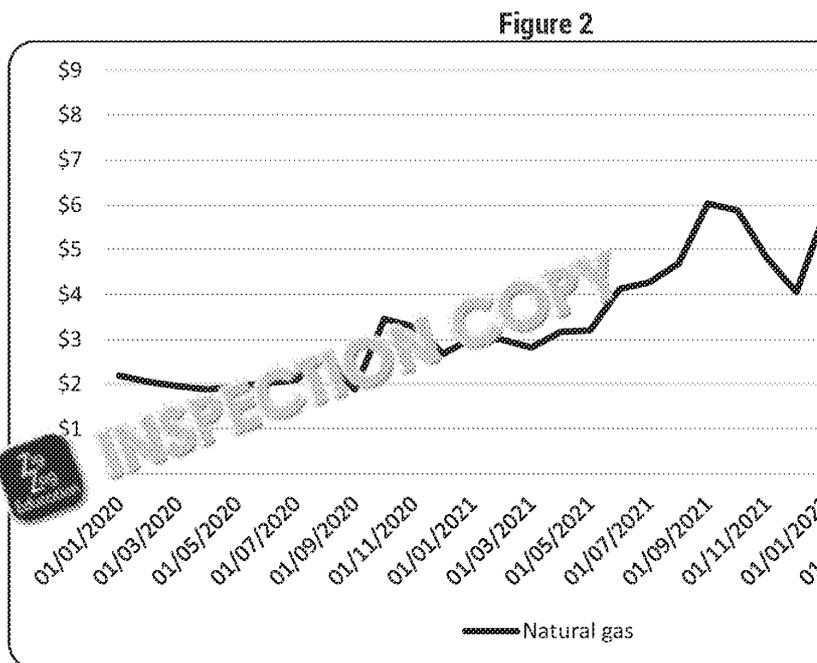
# Supernormal profits: Shell's booming

## 3.3: Revenues, costs and profits

As an energy supply crisis began to emerge in 2021, the price of natural gas increased. One of the main reasons for this crisis was that firms involved in the extraction and distribution of energy began to report supernormal profits. Figure 1 highlights the profits made by Shell between the start of 2020 and the start of 2022.



The significant increases in Shell's profits reflect geopolitical developments. Quickly following the coronavirus pandemic crisis, combined with declining supply in part due to the war in Ukraine, led to large increases in the price of natural gas. Figure 2 highlights the rapidly rising price of natural gas as above.



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<sup>6</sup> <https://www.bloomberg.com/news/articles/2022-05-05/shell-profits-rise-to-highest-in-decade-on-soaring>

Extraction and distribution of gas is a primary part of Shell's operations. Following the record-breaking quarterly profits of \$11.5 billion in July 2022, CEO Ben van Beurden

*'Our profits are very significant, I realise that. And our cash flows are also very fact that we have been working for 10 years to turn this company into a much*

*'At the same time, there is a responsibility with making money, and that is that energy security ... and in the energy transition.'*

In May 2022 the UK government introduced an excess profits tax, widely known as a 'windfall tax', on oil and gas companies. The tax was targeted at the supernormal profits of companies like Shell, and designed to help fund financial support for households facing unaffordable energy bills.

Supernormal profits can pose a problem for economic growth as they are often extraneous to the investment needs of a firm, meaning they will often be given to shareholders or stored as cash, thus representing a withdrawal from the national income.



### Use the data

1. What is the percentage change in Shell's profits between Q1 2020 and Q2 2020?
2. What does Figure 2 suggest about Shell's record-breaking profits?

### Test your knowledge...

1. What is the distinction between normal profits and supernormal profits?
2. Explain what happens to supernormal profits in the long run.

### Extended-response question

1. Assess whether a tax on supernormal profits is beneficial for the economy.

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# Contestable markets: Growth in postal c

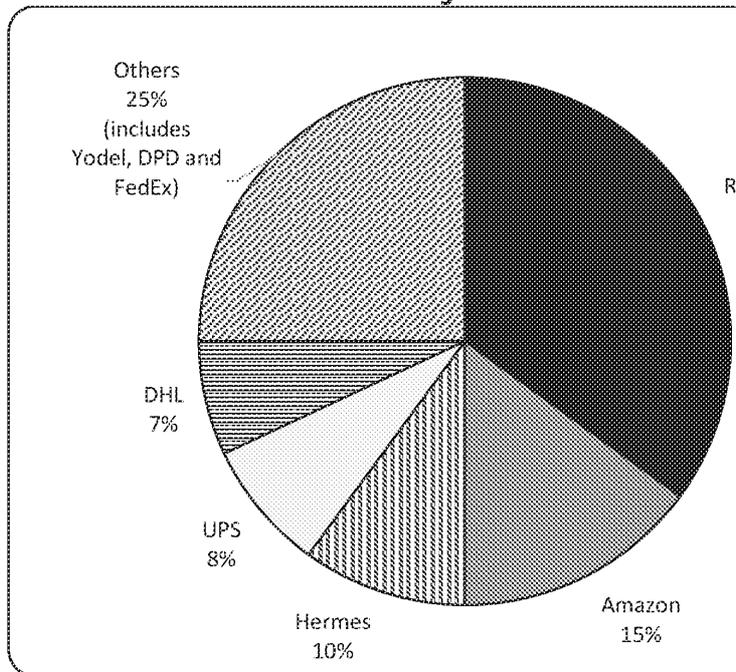
## 3.4.7: Market structures – contestability



An important feature of many are. A contestable market is to enter and exit the industry market has only a few firms contestable then existing play prices and output as if they are the threat of entry by other p

market that has become recent years is the delivery and postal industry. Previously, mail was regarded as something which in the UK was dominated by Royal Mail. However, the rise of online retail and changed the nature of the industry and lowered the barriers to entry. **Figure 1** shows the market share of the top firms in the industry.

Figure 1



The major reason for growing contestability in the market is the emergence of e-commerce. Consumers now make purchases online, and the industry had a value of £3 billion in 2019 – 0.01% of GDP. The rapidly growing industry creates a variety of opportunities for new courier

However, Royal Mail has also lost its market dominance in part due to its obligation to provide universal service during a period in which demand for letter deliveries has collapsed. The Universal Service Obligation is mandated by law and requires that Royal Mail must provide a six-day service for letters, even on Sundays, which is not permitted.

While this is seen as a valuable public good, it also limits Royal Mail's ability to compete as parcel deliveries are less profitable than parcel services.

The big market climber over the last decade is Amazon, which only launched delivery services in the UK market share as recently as 2014. Based on current trajectories, it is set to take on a significant share of the market over the next decade.

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## Use the data

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1. Using the article, identify one possible barrier to entry into the UK delivery service industry.
2. Can the UK's delivery service industry be regarded as an oligopoly?

## Test your knowledge...

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1. State two features of perfectly contestable markets.
2. Define the term 'sunk costs'.

## Extended-response question

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1. Evaluate the extent to which the market for delivery services is contestable.

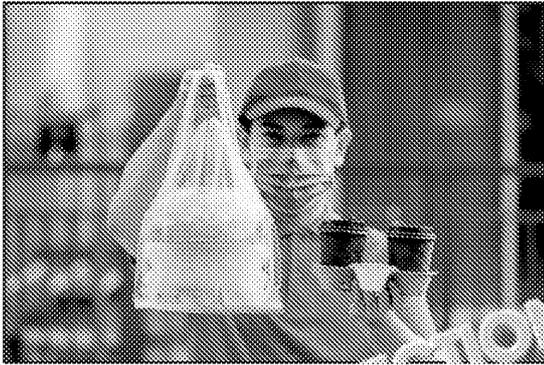
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# Perfect competition: Deliveroo competition

## 3.4.2: Market structures – perfect competition



Perfect competition is a theoretical world examples of markets that are possible contender is the stock exchange.

The stock exchange is a global market and sellers trade shares in companies. This means you have a small stake in the company. As well, the share becomes a company is essentially the total number of shares you own.

Companies benefit from going on the stock market as it gives them access to funding. Canny investors using stock market information freely available on the Internet, can guess the movement of share prices. Buying and selling at the right time can be very profitable. In April 2021, Deliveroo went public on the London Stock Exchange (LSE). It opened at a price of 390 pence per share, with an initial value of £7.6 billion. However, by April 2022, the firm's shares had fallen to around 80 pence, suggesting that going public was a mistake.

Figure 1



Deliveroo's value has fallen significantly since its initial valuation. One argument made to explain this is that the company was overvalued prior to going public. Investors were put off by Deliveroo's 'gig economy' model, which is increasingly facing scrutiny from regulators due to the treatment of workers in similar ways to employees. The initial price set for shares didn't reflect the fact that the company was already becoming less attractive to investors.

As such, once subject to the realities of supply and demand that are laid bare on stock exchanges, the price fell considerably, before eventually stabilising at a much lower level of around 80 pence.

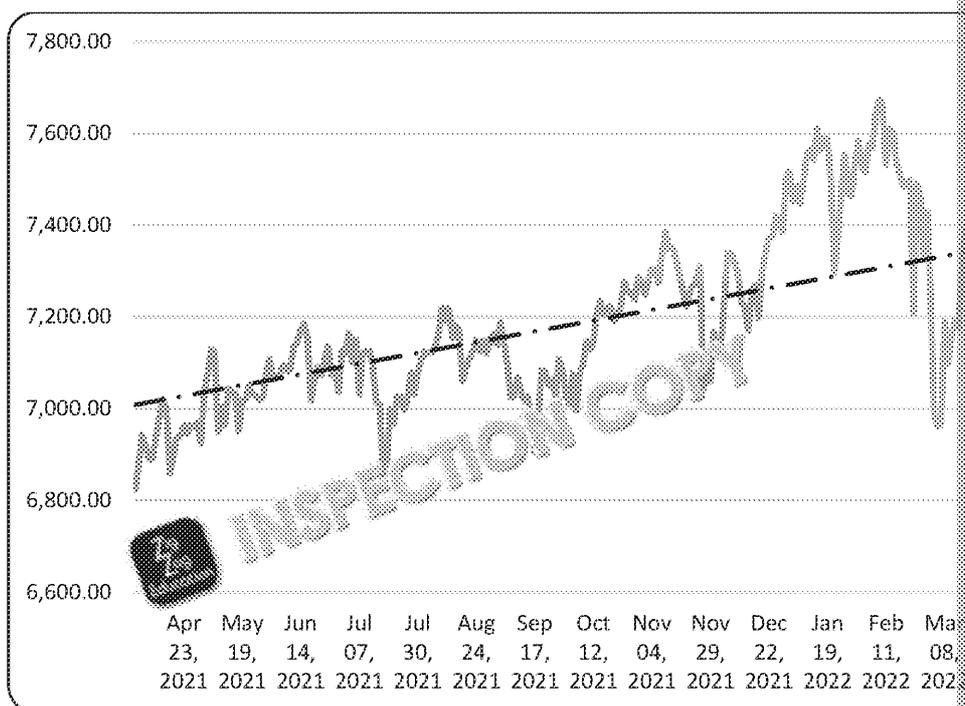
Deliveroo points broadly to an unfavourable economic environment to explain the collapse. But how can we bear this out? Figure 2 shows the overall performance of the FTSE 100 – an index of the top 100 companies on the London Stock Exchange – over the same period.

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Figure 2<sup>7</sup>



In stock market jargon, a 'bear' market is one in which prices have fallen to 20% below their previous peak. A bull market is characterised by rising prices.

As we can see, the FTSE 100 has fluctuated quite significantly in this time, but the general trend is an increase in the overall value of the firms, though also a sharp decline from September 2022 could be entering a bear market.

### Use the data

- (a) Look at Figure 1. In December 2021 do you think there were more sellers or buyers of Deliveroo shares?

(b) Suppose you owned 500 shares in Deliveroo. Calculate the change in value of your shares from April 2021 and October 2022.
- If the FTSE 100 index reached 8,500, what number would it have to reach to return to its previous peak?

### Test your knowledge...

- Name two possible examples of perfectly competitive market (other than agriculture).
- Using revenue and cost curves, show the long-run equilibrium of a firm in a perfectly competitive market.

### Extended-response question

- Evaluate how well the stock market exhibits the characteristics of perfect competition.

<sup>7</sup> <https://www.core-econ.org/the-economy/book/text/08.html>

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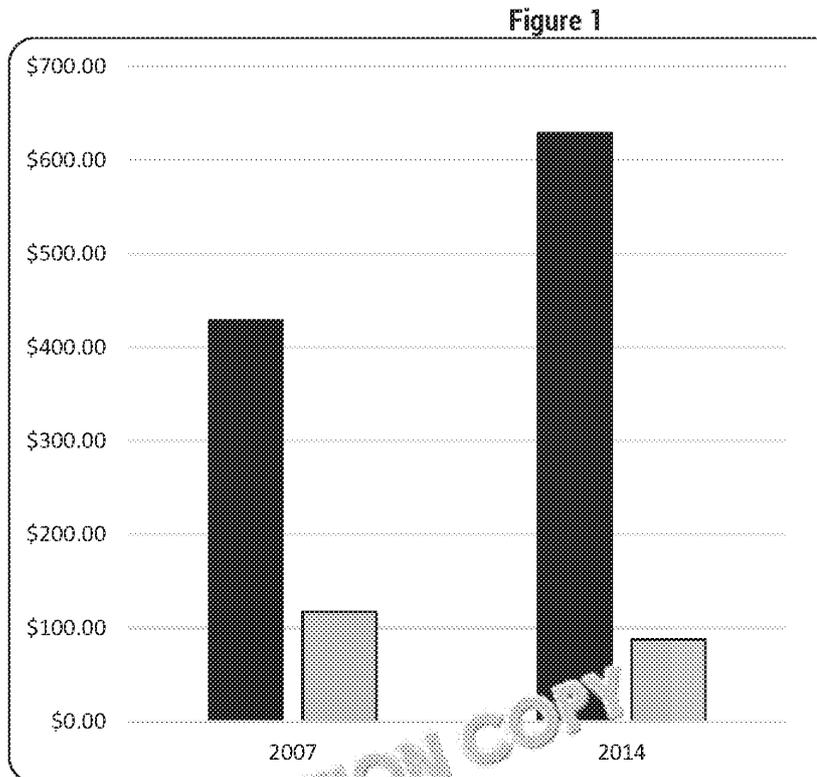
## End of a monopoly: Intel's emergence

### 3.4.5: Market structures – monopoly

For decades, technology company Intel has exerted monopoly power over the manufacture and distribution of microprocessors: the central unit upon which computers function.

Intel's position in the microprocessor industry bears hallmark features of a monopoly in a number of ways. Firstly, Intel is a vertically integrated organisation: unlike its competitors, it controls the full supply chain of its products from production to sales. Secondly, Intel operates in a high-tech market with particularly large barriers to entry. Thirdly, Intel exerts considerable market power, with over 200,000 patents around the world protecting its intellectual property from competitors. This has allowed Intel to act as a price setter.

Rival AMD responded to the rising price of Intel microprocessors, in an industry where technological advances should lead to falling prices. Figure 1 shows the average price of an Intel server chip rose by 47% over a seven-year period. In the mobile computer market, where Intel faces greater competition, the average price of its products fell by 33% over the same period.



Intel argues that the rising price of server chips simply reflects high consumer demand. A 2007 study by the Congressional Budget Office found that Intel earned more than \$60 billion dollars of so-called 'monopoly rents' attributed to its market setting – between 1996 and 2006.

Intel has previously acted determinedly against AMD to maintain its market position, making payments of hundreds of millions of dollars to computer manufacturers Dell, Acer and others to prevent them from switching to AMD chips in the production of future products.

However, in 2018 – in a seemingly unassailable position – Intel's dominance began to erode. While Intel controlled more than 80% of CPUs at points over the last decade, this figure fell to around 60%.

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Figure 2<sup>8</sup>



While still a comfortable market leader, the decline represents a serious loss of market share. Some see it as a story of complacency: Intel had become too reliant on its market dominance, while AMD's pace of investment in research and development. This gave AMD the opportunity to launch a competitive new generation of microprocessors at a lower price point than Intel's.

As the competition from AMD increases, the expectation is that consumers will benefit from increased competition.

**Use the data**

1. Explain two reasons why consumers are expected to benefit from AMD's increased market share.
2. Which market structure best characterises the microprocessor market in recent years?

**Test your knowledge...**

1. Explain the difference between monopoly and monopsony.
2. Explain two possible benefits of monopolies.

**Extended-response questions**

1. Using the data in Figure 2, assess why there may be a natural monopoly in some markets.

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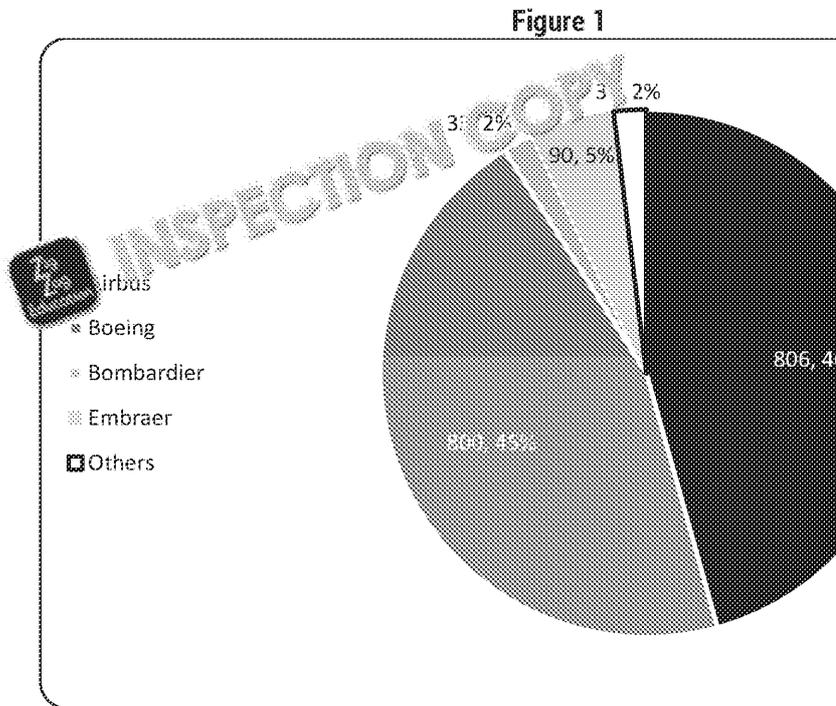


<sup>8</sup> <https://www.statista.com/statistics/735904/worldwide-x86-intel-amd-market-share/>

# Regulatory capture: Airbus pulls ahead

3.4: Market structures and 3.6: Government intervention

Competition between the world's two largest aircraft manufacturers, Airbus and Boeing, is fierce. The two companies represent a duopoly in the industry and compete directly. The competition is also at the forefront of an economic rivalry between Europe and the USA. Figure 1 shows global aircraft deliveries by companies in 2018.



One of Airbus's most recent airliners, the A320neo, is widely considered to have been a runaway success, becoming the fastest-selling commercial airliner in history. A major factor in its strong performance has been an increased industry-leading level of fuel efficiency. Boeing's 737 MAX airliner was intended as a response and direct competitor to the bestselling aircraft.

However, in 2019, aviation authorities worldwide made the decision to ground all of Boeing's flagship 737 MAX airliners. The decision came after two deadly crashes within five months, tragically leading to 346 people losing their lives. Both crashes were caused by unfamiliarity with the plane's on-board software. Pilots were said to have been given little to no training by the company on how it works, with reports indicating that crucial information about the new system was not included in the pilot's manuals.

Questions are being asked as to why Boeing did not act more quickly following the first crash by declaring the 737 MAX grounded prior to a full investigation being completed. One suggestion is to lose out on major contracts with airlines to the A320neo, the production process was slowed by as much as double the standard pace of production, according to some reports.

Figure 2 highlights the intense competition between the rivals since 2000. It shows each firm annually, with Airbus beginning to pull ahead after the release of the A320neo, and Boeing collapsing after the 737 MAX was grounded.

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Figure 2



The United States aviation authority, the Federal Aviation Administration (FAA), has prioritise safety and prevent further loss of life by not grounding the 737 MAX earlier.

Following the airliner's second deadly crash, aviation authorities around the world by the Civil Aviation Administration of China making the decision within hours of the in FAA's immediate response was to declare the aircraft safe and airworthy, a position authorities in Europe, Canada, India, Korea and around the world came to the opposite unusual for foreign aviation authorities to declare a specific aircraft unsafe, with the falling to the regulator that corresponds to the country of the aircraft's manufacture.

The aircraft was not grounded in the United States for two more days, until the US P be, followed by a statement from the FAA confirming the decision. Crash investigator relationship between Boeing and the FAA, as it emerged that Boeing was able to test thorough oversight from the safety regulator.

**Use the data**

1. What does Figure 1 suggest about the market control of Airbus and Boeing of manufacture?
2. What is the percentage decrease in aircraft delivered by Boeing between 2001 and 2003?

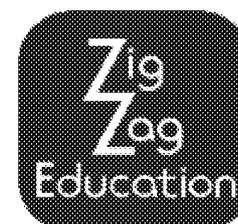
**Test your knowledge**

1. What is meant by regulatory capture?
2. Explain two reasons why the FAA might have been subject to regulatory capture.

**Extended-response question**

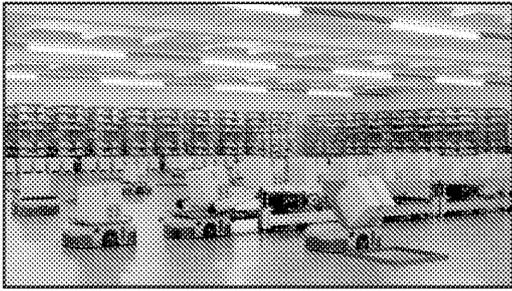
1. Evaluate whether regulation can be a constraint on the business growth of a firm such as Boeing.

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# Monopsony power: The Amazon war

3.4.6: Market structures – monopsony and 3.5: Labour



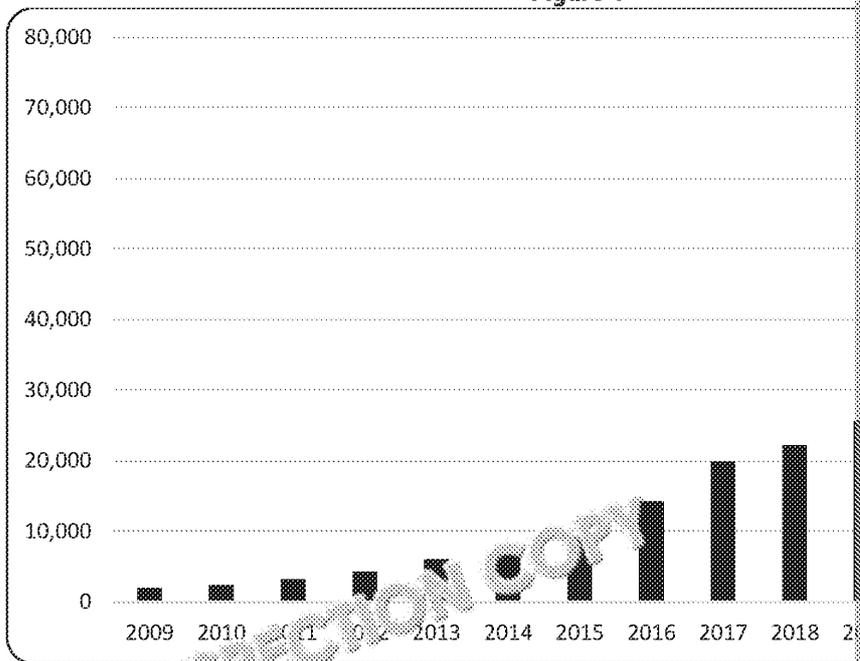
A monopsony is a marketplace in which there is only one buyer. When applied to labour markets, monopsony refers to a large employer which dominates the labour market in a population centre. The traditional example is the coal-mining community in industrial Britain where workers were employed by the coal extracting company.

A modern equivalent to the industrial monopsony is the Amazon warehouse. Distribution centres are located around the world, often in rural areas with low land values and strategic location, they are frequently not sited near small towns – but as a big employer can exercise monopsony power through a smaller number of local people who end up working in the area.

In 2017 Amazon opened a distribution centre in Tilbury, Essex. The centre boasts a workforce of 12,000, which is more than the entire population of Tilbury only 12,000. However, the workforce is highly seasonal during the festive period. As such, it is a major employer in the area and can be said to exercise monopsony power over wages.

This can be seen as an increasingly common phenomenon. Figure 1 shows the large number of employees of Amazon in the UK since 2009.

Figure 1



In theory, a large employer moving into a relatively economically inactive area should boost the local economy. Workers should boost local consumption, and the substantial investment they make should create a multiplier effect and generate a more prosperous local economy.

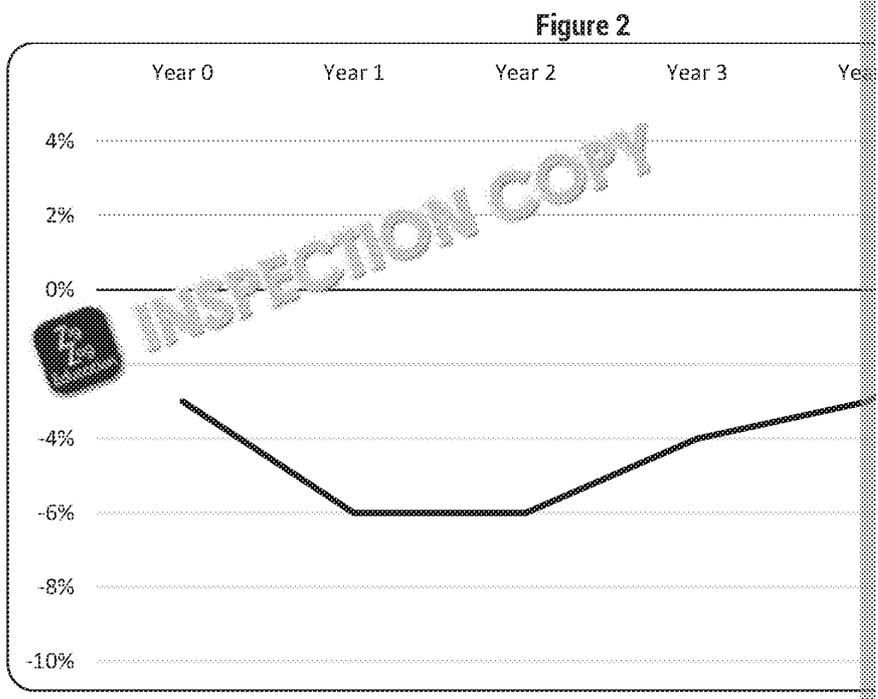
However, monopsony power distorts this dynamic. Monopsonists would be expected to exercise monopsony power in order to minimise their costs. As a result, local labour markets may experience deteriorating working conditions.

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There is evidence of this taking place in areas where Amazon warehouses have moved. Amazon warehouses<sup>9</sup> found that labour income decreases in the local area by 2.4% as a distribution centre. Moreover, the study identifies a decrease in local sales of 4% as a warehouse, with consumers becoming more likely to buy online than visit local businesses. This consumption leads to a greater loss of local employment than that which is generated, further cementing monopsony power within the labour market. Figure 2 demonstrates the change in local employment each year, relative to the previous, in a local area following the arrival of an Amazon warehouse.



Claims of poor working conditions in Amazon warehouses are also well documented. In 2018, workers in Tilbury went on strike, complaining of low pay, excessively demanding work, and on short-term employment contracts that leaves workers insecure. Their strike mirrored the UK and the world by Amazon employees. The GMB union has demanded a £15 million pay rise for its employees,<sup>11</sup> stating the current wages 'fall well short of current rates of pay in logistics'.

Amazon denies that its operations reduce local levels of pay, or that its warehouses create poor working conditions. But economic logic suggests that a firm with monopsony power is likely to do as much as it can.

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<sup>9</sup> NBER (2022), <https://www.nber.org/papers/w30077>  
<sup>10</sup> Bloomberg (2020) [bloom.bg/3r07CUS](https://www.bloom.bg/3r07CUS)  
<sup>11</sup> GMB (2022), <https://www.gmb.org.uk/network/commercial-services-section/retail-and-distribution-notice>

## Use the data

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1. If a worker was earning £12 an hour five years ago, what would they earn now?
2. Based on the passage, identify **one** type of unemployment that might be associated with Amazon warehouses.

## Test your knowledge...

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1. Explain **two** key differences between monopoly and monopsony power.
2. Using a suitable diagram, demonstrate the impact of Amazon warehouses on the market for labour according to Figure 2.

## Extended response question

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1. Evaluate the impact of a monopsony, such as Amazon in Tilbury, on different economic stakeholders.

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# Labour markets: Understaffing in the NHS

## 3.5.1 and 3.5.2: Supply and demand of labour

In the UK, around 17% of workers are in the public sector. Of this workforce the largest contingent – 32% – work in the National Health Service. This is around 1.4 million people, making the NHS the largest employer in the UK.

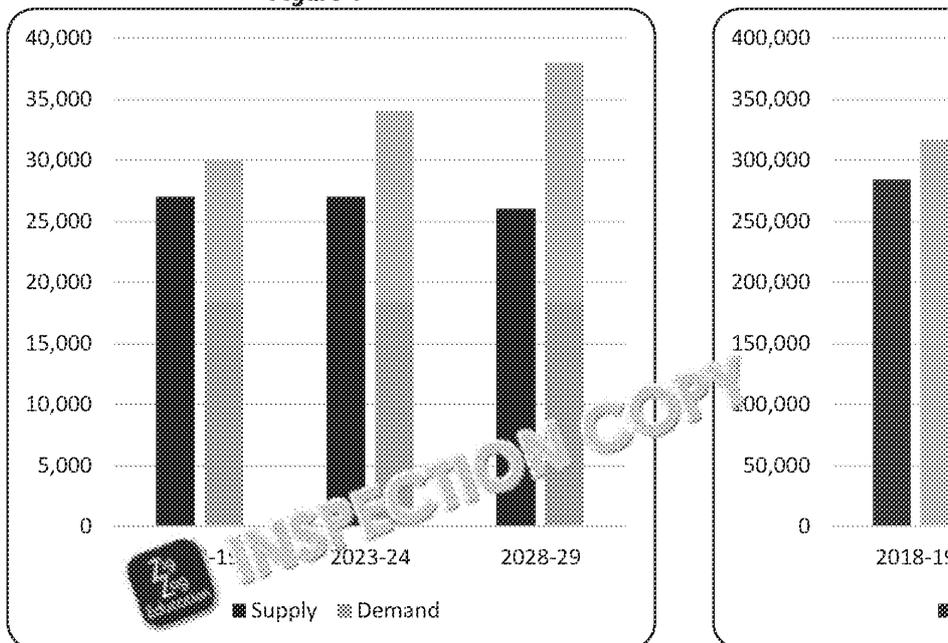
Despite this, the NHS suffers from chronic understaffing – and it is a problem that is getting worse. Part of the reason for this is on the supply side.

The NHS has a problem with both retention and recruitment. On retention, the average annual turnover rate among NHS staff is estimated to be as high as 15%. The reasons frequently given are the need to work excessive hours by understaffing – as well as working in a high-pressure environment with insufficient resources.

On recruitment, the government's decision to scrap bursaries for student nurses led to a significant drop in the number of prospective medical students. Other prospective medical students are similarly put off by the high costs and heavy workload at medical school. At the same time public sector cuts to education and training budgets have reduced capacity for new recruitment.

The combination of poor retention and low recruitment is a perfect storm for NHS staffing. A report published in July 2022 stated that NHS England is short of 12,000 doctors and 50,000 nurses. Understaffing is projected to get worse in the coming years. Figures 1 and 2 highlight the projected supply and demand to become.

Figure 1



However, it is not just supply-side issues fuelling the staffing crisis. On the demand side, there is a structural problem: a rapidly ageing population. This means that demand for NHS services is likely to surge in the coming years.

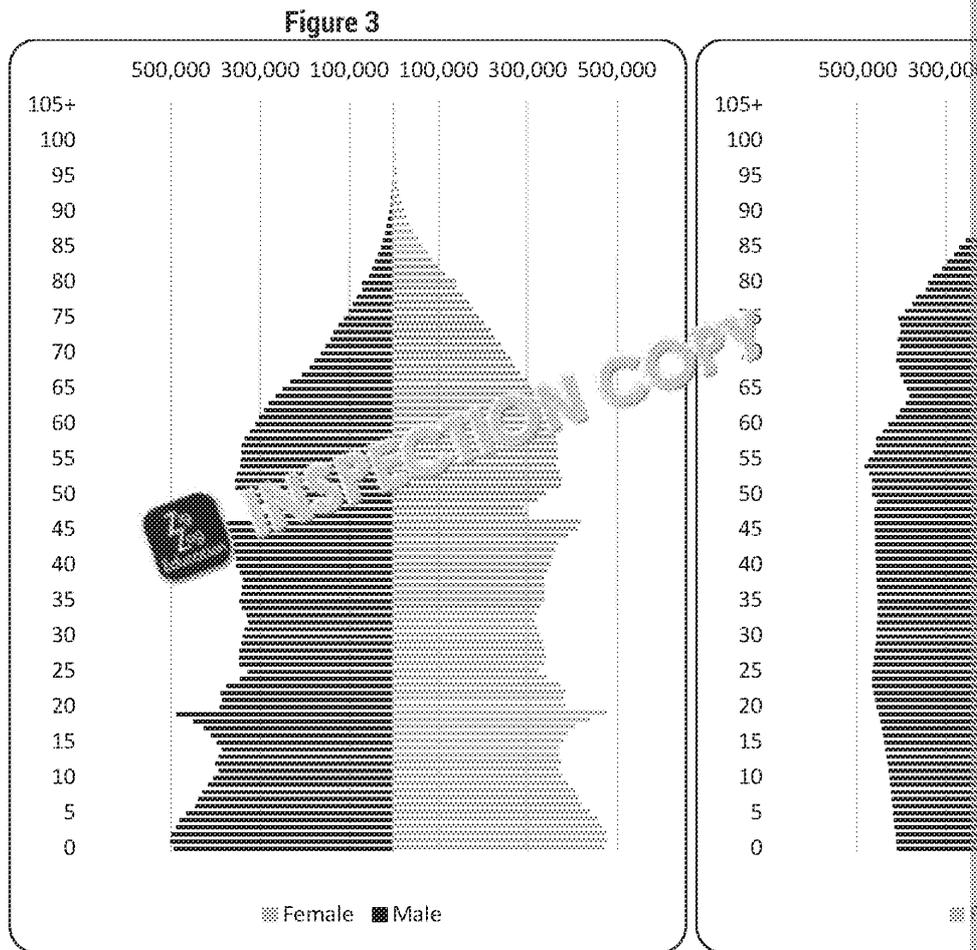
<sup>12</sup> <https://www.bbc.co.uk/news/health-47616491>

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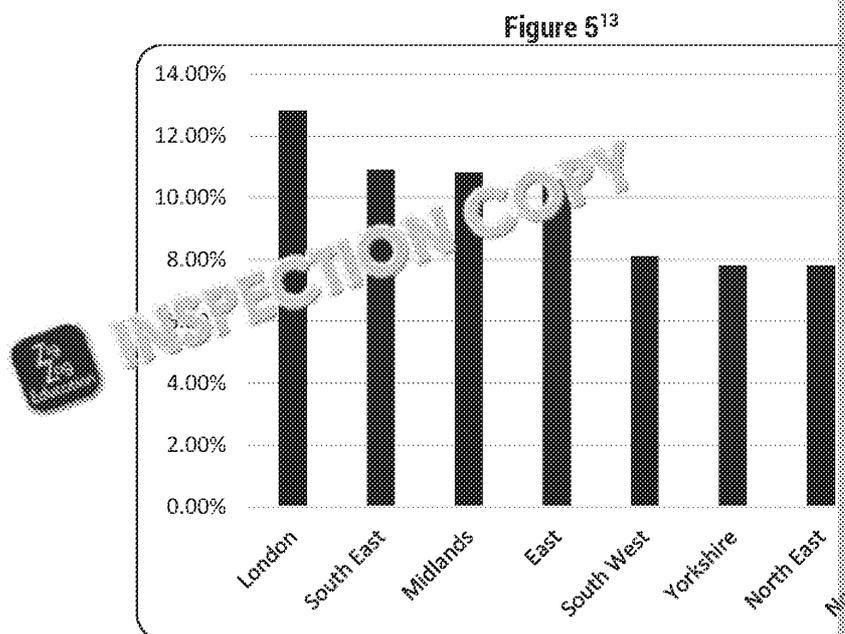


Figures 3 and 4 show us the projected population – distributed by age – of the UK in earlier in 1966.



Faced with declining supply and growing demand for labour, NHS services and staff in the coming years.

And the shortages are notably worse in some places, compared with others. Figure 5 shows the gap between the supply and demand of nurses in England. It shows vacancies as a percentage each area.



<sup>13</sup> <https://www.londonworld.com/health/chronic-nurse-shortages-london-suffering-worst-nhs-staffing-crisis/>

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## Use the data

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- (a) Look at Figure 3. Can you identify roughly where the 'baby boom' period is on the graph?  
(b) Can you explain a possible reason for the demographic change seen between 1945 and 1965?
- Based on the article, explain how geographical immobility of labour might mean that there are shortages of nurses in certain areas.

## Test your knowledge...

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- Aside from location, name two other factors that affect the supply of nurses.
- Using a demand and supply diagram, show how there might be a shortage of nurses if the wage set by the government is too low.

## Extended-response question

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- Discuss the effectiveness of the government increasing the salaries of all nurses by 10% per year to try to increase supply.

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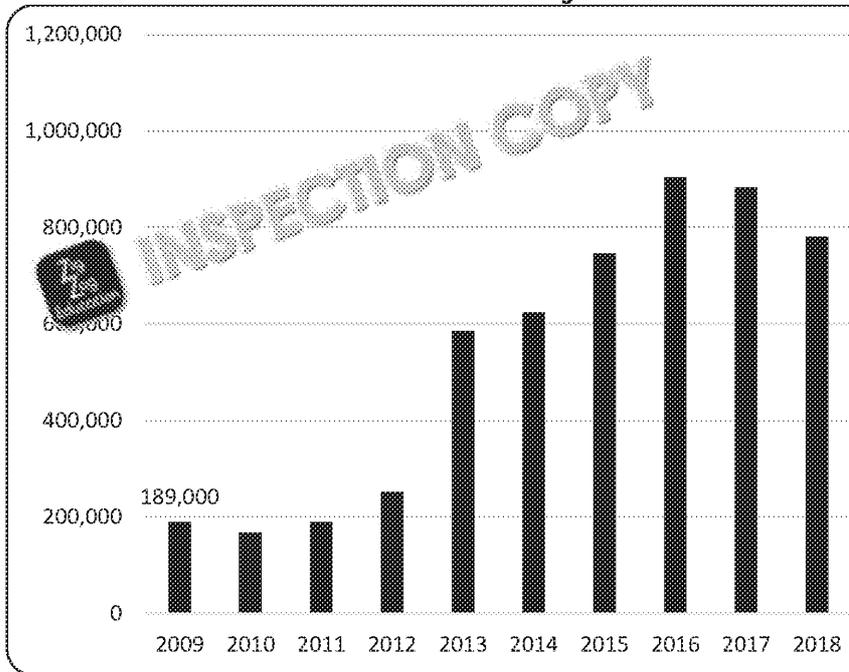


# Wage suppression and zero-hours contracts

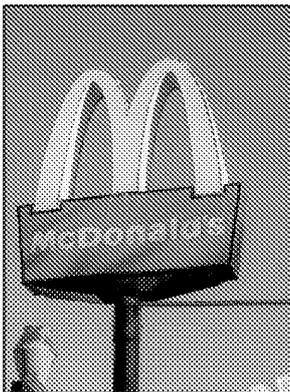
## 3.5.3: Labour markets and wage determination

Zero-hours contracts are employment contracts with no minimum guarantee of work in the economy since the 1990s, the use of zero-hours contracts has expanded over the last decade. The use of such contracts – amounting to 3.2% of the workforce in 2022.

Figure 1



Zero-hours contracts are particularly prevalent in the hospitality and health and social care sectors. Workers are often called on or relinquished of duties depending on levels of demand. Critics, such as the Trades Union Congress, argue that zero-hours contracts are an exploitative employment practice and a leading cause of job insecurity, underemployment, and low wages. However, proponents of the practice disagree, highlighting the increased flexibility of the labour market.



Fast-food chain McDonald's is one of the biggest practitioners of zero-hours contracts, with over 80,000 of its workers employed on such a basis. In a series of trials offering employees the choice between a full-time contract, with 80% of workers choosing to remain employed on a full-time basis.

However, there is also evidence that workers on zero-hours contracts receive a lower wage than their colleagues with guaranteed hours. This may be contributing to the suppression of wages in the labour market because firms invest less effort into training workers that are seen as more dispensable. Similarly, it may reduce the incentive or motivation to develop their skills either through formal or informal training.

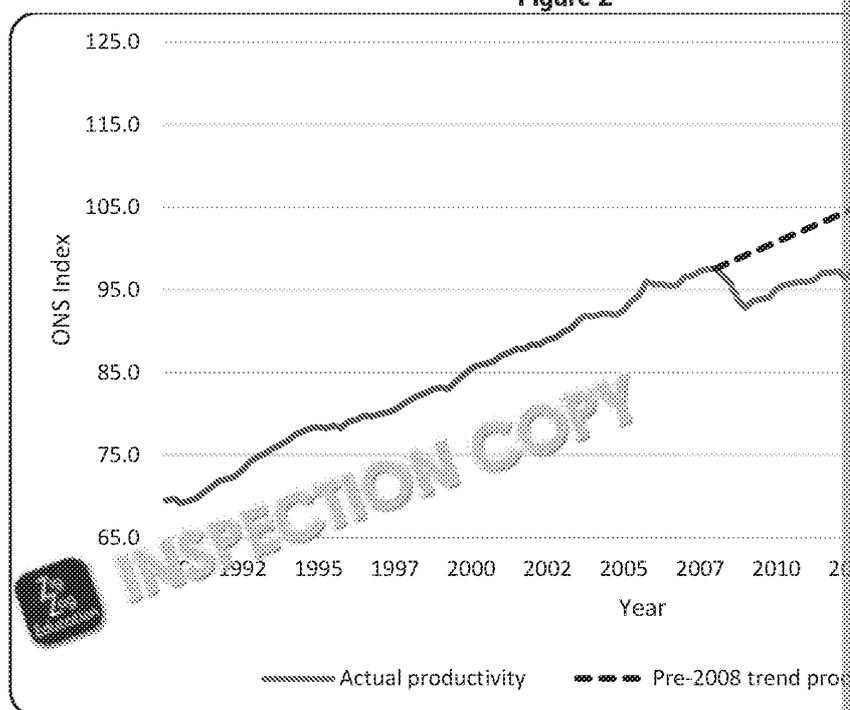
Along with other flexible labour practices, the result is a growth in the insecure and underemployed. The increased supply of unskilled labour places a downward pressure on wages in all sectors, leading to lower levels of productivity across the economy. Figure 2 shows that labour productivity recovered from the 2008 recession.

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Figure 2



### Use the data

1. Based on the passage and Figure 1, calculate the size of the UK workforce in 2008.
2. Explain the likely elasticity of supply for labour in a low-skilled labour market.

### Test your knowledge...

1. Give two reasons why workers at McDonald's might favour a zero-hours arrangement.
2. Using a labour market diagram, demonstrate the impact of rising productivity.

### Extended-response question

1. Evaluate the extent to which banning zero-hours contracts could increase unemployment.

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# Answers

## Growth through acquisition: Facebook's market dominance

### Use the data

1. In 2014, when acquired by Facebook, WhatsApp had 500 million monthly active users under 2.5 billion monthly active users. This is an increase of just under 400%.
2. Facebook's business model is based on advertising. The more active users on Facebook, the more advertisers will be willing to pay to run their ads.

### Test your knowledge...

1. Horizontal integration is when two firms in the same industry, and offering the same product, are taken over by the same firm. Facebook in 2012, when it acquired Instagram, and in 2017, when it acquired WhatsApp.
2. The most likely answer is sales maximisation. In 2012, the social media landscape featured a number of potential competitors to Google+. Facebook's potential competitor. Based on the large acquisitions made, it would appear that Facebook is more concerned with 'market share' at this point in its development in order to prevent competition. 'Sales maximisation' refers to the expansion of the social media site's user base. We could also argue that Facebook's development, such as that highlighted in Figure 2, Facebook is already so dominant that it is more concerned with profit maximisation.

### Extended-response question

1. A possible answer may highlight:
  - Economies of scale are the primary benefit – increasing output helps to bring about greater efficiency in the production process and leads to higher profits. Success also leads to greater credibility among lenders, which can help when trying to access credit. Facebook's business model, which gives a firm greater resilience when encountering market downturns. Another answer might be that growth can give a firm more market control.
  - The main cost is the level of risk that is taken on when expanding a business. If the entire business is likely to become vulnerable. Growing too quickly can lead to burden a business with excessive debts. Diseconomies of scale can also emerge if the business becomes less efficient and costs increase. It might also become hard to retain staff once it is growing at pace.

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## **Preview of Answers Ends Here**

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This is a limited inspection copy. Sample of answers ends here to stop students looking up answers to their assessments. See contents page for details of the rest of the resource.