

General Certificate of Education
January 2008
Advanced Level Examination



ECONOMICS **EC4W**
Unit 4 Working as an Economist: The European Union

Friday 25 January 2008 1.30 pm to 3.10 pm

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 40 minutes

Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is EC4W.
- Answer the compulsory question.
- **At the very start of the examination**, tear along the perforations in order to detach the question on page 2 from the extracts.
- **The extracts** are printed on pages 3, 4, 5 and 6, which can be unfolded.

Information

- The maximum mark for this paper is 84.
Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.

Advice

- You are advised to spend the first 20 minutes reading the Case Study.

Answer the compulsory question.

You may detach this page by tearing along the perforations.

Case Study:

THE EUROPEAN UNION

You are advised to spend the first 20 minutes thoroughly reading the Case Study before writing the report. The instructions below set the scene of the Case Study and explain what you should include in your report. The whole report will be marked out of 84.

Setting the scene

The European Commission has been concerned for some time about ‘roaming’ charges (the prices charged by mobile phone network companies for international calls). Attempts were made in 2006 to bring prices down, but these were not regarded as fully successful. It is now the summer of 2008 and the European Parliament is shortly to discuss further proposals from the Commission. As an economist, you have been asked to prepare a report, as a background briefing paper, for the information of MEPs (Members of the European Parliament).

When writing your report, you should make use of the information in **Extracts A to H**, together with any other relevant knowledge you possess.

Requirements of the report

You are to write a report entitled: ‘The economic implications of roaming charges’.

Your report should:

- explain how imperfect information and a lack of competition have enabled mobile phone companies to charge ‘unjustifiably’ high roaming prices to European citizens;
- give examples of the types of evidence that the European Commission could collect in order to show that mobile phone network companies operate in oligopolistic markets;
- suggest ways in which a lack of competition in the market for international mobile phone calls could affect the efficient working of the Single European Market;
- discuss whether mobile phone call prices should be left to market forces or whether there should be intervention at a national government or EU level;
- make a recommendation, with justifications, as to the most effective way in which the European Commission could intervene in the market to reduce roaming mobile phone call prices.

Use economic concepts and principles where appropriate. You will be given credit for demonstrating your ability to analyse, comment critically on, and make effective use of, the data provided.

(84 marks)

Extract A: Mobile roaming charges to be slashed

Extract A was a passage of text taken from the Metro Newspaper on 29 March 2006. It has not been reproduced here due to third-party copyright restraints.

Extract B: Price of holiday mobile calls to plunge

Extract B was a passage of text taken from the Daily Mail Newspaper on 29 March 2006. It has not been reproduced here due to third-party copyright restraints.

Extract C: Roaming through Europe

Extract C was a series of graphs and a map taken from the Guardian Newspaper on 28 March 2006. It has not been reproduced here due to third-party copyright restraints.

Extract D: Proposed EU regulation: benefits for customers

Roaming charges affect at least 147 million EU citizens (37 million tourists and 110 million business customers). If the EU regulation entered into force today, the results for consumers would be that:

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- the cost of using mobile phones abroad would be cut by up to 70%;
- *calling home from abroad or calling a third country* would cost a maximum of €0.49 per minute;
- for *local calls*, the retail price would be a maximum of €0.33 per minute;
- for *receiving a call*, the retail price would be about €0.165 per minute.

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Source: adapted from the European Commission, 'Flash note: The Proposed EU Roaming Regulation', <http://europa.eu.int>, accessed on 25 August 2006

Extract E: Anger at EU cap on mobile charges

Extract E was a passage of text taken from BBC News online on 22 August 2006. It has not been reproduced here due to third-party copyright restraints.

Extract F: IP-enabled services

Extract F was a passage of text taken from the US Federal Communication Commission's website on 22 August 2006. It has not been reproduced here due to third-party copyright restraints.

Extract G: VoIP: a new competitor

Skype is probably the best known provider of VoIP services. Its advertisements offer ‘free calls to anyone, anywhere in the world, forever’ over the internet, and ‘really cheap calls’ to ordinary telephones. 1

Subscribers to Skype download free software that allows them to make calls from their computer. Provided that both sender and recipient have internet access, Skype claims that it is possible to send cheap text messages, make free video calls, and talk for ‘as long as you like’ without worrying about the cost or the distance. 5

Extract H: Operators should act now

A leading retailer of mobile phone handsets has expressed the view that moves to reduce roaming charges are ‘long overdue’. A spokeswoman for the retailer said: “Mobile phone network providers need to act before the EU imposes regulations, not afterwards. Consumers are already expecting cheaper prices and are quickly gaining more options as new entrants erode the extra charges that operators can impose for their premium services. Operators will soon realise that the network with the lowest roaming charges will have a serious competitive advantage.” 5

At least one leading economist has agreed with this point of view, and has claimed that if roaming charges were more transparent and simple, customers might actually use their phones more when abroad. This in turn could offset the revenue lost by lowering charges. 10

Source: news reports, August 2006

END OF EXTRACTS

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Extract C: © Guardian News & Media Ltd 2006

Extract D: © European Communities, 1995–2007

Extract F: The data was obtained from the US Federal Communications Commission but has been adapted in some respects for the purposes of this examination.