

Answer **all** questions.

Question 1

London Olympics 2012

Table 1: Visitors to London

	2008	2009	2010	2011	2012
Total Visits (000s)	14,753	14,211	14,706	15,289	15,461
Total Nights (000s)	90,815	85,686	90,318	91,498	94,300
Total Expenditure (£)	8,126	8,238	8,741	9,411	10,075

Source: Office for National Statistics

Table 2: Price of Tennis Olympics Tickets

All values in £

	Category 1	Category 2	Category 3	Category 4
Preliminary	85	65	55	40
Quarter-Final	115	75	65	45
Semi-Final	115	75	65	45
Final	225	150	110	95

Source: www.ticketslondon2012.com

Extract 1: The battle of the Sportswear market

It is not only the athletes that will be competing for first place at next summer's Olympic Games. Adidas, the German sportswear brand, plans to use the games as a springboard to overtake its arch rival Nike as the biggest sportswear company in the UK.

Nike is currently market leader in the UK with an 18 percent share of the ultra-competitive £4.3bn sportswear market. Adidas is in second place with a 15 percent share, but hopes that its status as official sportswear partner of the Games will help it achieve its goal of overtaking Nike by 2015 at the latest. As well as kitting out the athletes in 25 of the 26 Olympic sports – equestrianism requires very specialised equipment – Adidas will dress the 70,000 Olympic volunteers, provide the outfits for the pre-games torch relay and create clothing for the athletes to wear in the Olympic Village.

Adidas is also the Games' official clothing licensee, and will sell Olympic-themed and branded clothes through its own stores and third-party retailers, such as Tesco and Asda. On top of this, it has appointed Stella McCartney, the designer and daughter of Sir Paul, as the creative director of Team GB. She will provide the team with garments such as their signature tracksuits and has also designed more fashionable "capsule" ranges that will be available on the high street. There will be a big sustainable and environmentally-friendly

element to the clothing, Adidas said. It is not inconceivable that some of the athletes' kit will be at least partially made from recycled plastic drinks bottles.

Adidas has invested around £100m in the 2012 Olympics. This figure is split between the cost of becoming an official partner, the cost of manufacturing the clothes for the athletes, the volunteers and the retailers and the cost of marketing the ranges and the company. Even if the company achieves its desired top line sales of £100m, it will only go some way to paying off the £100m bottom-line investment. Mr Hainer admitted that if looked at purely on a profit and loss basis, the investment is a "big loss". However, he said that the positive benefits to Adidas's brand and standing in the UK are manifold.

Source: *The Telegraph*, 29 May 2011

Extract 2: Olympic Tickets

The International Olympic Committee has launched an inquiry into allegations that Olympic officials and agents have been caught selling tickets for the London 2012 Games on the black market. The IOC has held an emergency meeting of its ruling executive following an undercover newspaper investigation. It has referred the allegations to its independent ethics commission, which could lead to a review of how Olympic tickets are distributed among member countries in the future.

Sunday Times reporters posing as envoys of a Middle Eastern ticket tout claim to have found 27 officials and agents representing 54 countries who were willing to breach the rules on selling tickets. One, from Serbia, offered 1,500 tickets for £80,000, while China's official ticket agency agreed to sell the best seats in the stadiums for up to £6,000 each, according to the newspaper.

Adapted from: *The Observer*, 17 June 2012

Extract 3: Olympic athletes could be impaired by London Pollution

Olympic runners, cyclists, swimmers and even sailors arriving in London on Monday could be taken ill or see their performances impaired by air pollution, health experts have warned. According to Keith Prowse, respiratory consultant and medical adviser to the British Lung Foundation, a summer smog like any of the five already experienced this year in the capital could lead to some athletes needing medication and experiencing chest pains, sore throats and shortness of breath.

The effect of air pollution on athletes came to the fore during the 1984 Los Angeles Olympics, where British middle-distance runner Steve Ovett collapsed with respiratory problems after the 800-metres final, citing air pollution as a major trigger for his "exercise-induced" asthma. At the Beijing Olympics in 2008, China banned half the cars in the city and closed down hundreds of polluting factories to avoid medical problems from air pollution. Official advice to the public during smog incidents is to reduce physical exertion, and stay indoors.

Air pollution experts say levels of Nitrogen Dioxide (NO₂) in London are comparable to those in Beijing before it banned 50% of the cars. But rather than ban traffic for the duration of the games, Mayor Boris Johnson has opted to try to keep people and cars out of the city with a campaign to encourage them to work from home. A recording of Johnson warning of long delays and congestion is now being played over public address systems at many commuter stations and on the London Tube.

Transport for London has said it will wash the busiest streets with a machine similar to a road dust sweeper and then spray a solution of calcium magnesium acetate that literally

sticks the particulate matter to the carriageway and prevents it recirculating in the air. Fears that the 600 miles of Olympic lanes will increase pollution by shifting traffic to other roads have been largely dismissed by Transport for London, which predicts that some areas may see "a slight and temporary increase" in PM10 and NO2 emissions. "Changes to road management during the Games are likely to have "broadly neutral impact on air quality," said a spokesman.

Adapted from: *The Guardian*, 16 July 2012

Extract 4: Post-Olympics Surge in Tourism

The Britians have had some good economic news to celebrate over the past few months. Unemployment is falling, house prices in England hit a record high in July and economic output appears to be growing at its fastest pace since 2010.

At first glance Britain's tourism industry appears to be contributing to the economic bounce. Data released this month by the Office for National Statistics suggest that there has been a big increase in foreign tourists visiting Britain since London hosted the Olympics last year. In the first seven months of 2013, foreign visitor numbers rose by 4%, compared with the same period in 2012, and spending was up 12%. In July 2013 foreign visitors spent 30% more than in July 2012, setting a new record.

Hotels and attractions nationwide say they are benefiting from the unexpected boost in the tourist trade. According to data produced by STRGlobal, a consultancy, hotel-occupancy rates rose in nearly every English region in the first half of 2013. London, in particular, has seen a surge in foreign tourists since the Olympics ended: hotel-occupancy rates in the capital jumped by seven percentage points to 89% in June compared with a year earlier.

The government has been quick to attribute the tourism boom to the Olympics, in an effort to justify some of the £8.9 billion (\$14.3 billion) spent staging them. There may be some truth in this. Visits from countries keen on the Olympics increased the most: up by 24% from Latin America and 11% from China, compared with growth of 1% from Europe and a fall of 4% in visitors from North America, according to VisitBritain, a tourism quango.

Adapted from: *The Economist*, 28 September 2013

Questions

- (a) Compare the trends between total visits and total expenditure of Visitors in London between 2008 and 2012. [2]
- (b) What can you conclude from the evidence in Table 2 about the existence of price discrimination in the tennis matches? [2]
- (c) Using a diagram, explain why black markets exist for the tickets in London Olympics. [4]
- (d) Explain the impact of the London Olympics on UK's Balance of Payments. [4]
- (e) Discuss Mayor Boris Johnson's decision to try to keep people and cars out of the city with a campaign to encourage them to work from home, rather than to ban traffic for the duration of the game. [8]
- (f) Assess why Adidas decide to invest £100m in the 2012 Olympics even though it is regarded that "the investment is a big loss" [10]

[Total 30 marks]

Suggested Answers

(a)	(i)	Compare the trends between total visits and total expenditure of Visitors in London between 2008 and 2012. [2]
		<p>Both have increased [1 mark] However, total expenditure increased at a faster rate. [1 mark]</p> <p>1m: Similarity 1m: Difference</p>
	(ii)	What can you conclude from the evidence in Table 2 about the existence of price discrimination in the tennis matches? [2]
		<p>Price Discrimination refers to the charging of different prices to different consumers that is not due to cost differences. [1 mark]</p> <p>For the Tennis matches, the price of the Preliminary Matches in Preliminary and Finals are different, and it is unlikely that it is driven by cost differences. Hence, it is evident that there is price discrimination in the tennis matches. [1 mark]</p> <p>1m: Definition of Price Discrimination 1m: Application of Concept</p>
	(c)	Using a diagram, explain why black markets exist for the tickets in London Olympics. [4]
		<p>The tickets in London Olympics have been set below the price in the free market to protect consumers and to allow the lower income consumers to attend the Olympic events. [1 mark]</p> <p>With reference to Figure 1, the government will set a price ceiling (maximum price) at P_{\max} and it has to be below the equilibrium price. Producers are allowed to set a price at or below the maximum price. However, at the minimum price P_{\max}, quantity demanded is greater than quantity supplied ($OQ_D > OQ_S$), creating a shortage. At price P_{\max}, consumers pay a lower price than equilibrium price P_e. [2 marks with well explained diagram]</p> <div data-bbox="627 1630 1337 1966" data-label="Figure"> <p>The diagram is a standard supply and demand graph. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. A downward-sloping demand curve 'D' and an upward-sloping supply curve 'S' are plotted. They intersect at the equilibrium point, which corresponds to price P_e and quantity Q_e on the axes. A horizontal line labeled 'Price ceiling' is drawn at a lower price level, P_{\max}. This line intersects the supply curve 'S' at quantity Q_S and the demand curve 'D' at quantity Q_D. Since $P_{\max} < P_e$, it follows that $Q_D > Q_S$, representing a shortage. Other price points P_b are marked above P_e on the price axis. Dashed lines connect the intersection points to their respective values on the axes.</p> </div> <p>Figure 1: Price ceiling</p>

		<p>However at P_{\max}, quantity demanded exceeds the quantity supplied ($0Q_D > 0Q_S$) and a shortage is created. A black market may emerge to fulfill the needs of people who do not get the goods since at output $0Q_S$, some consumers are willing to pay up to price P_b. [1 mark]</p> <p>1m: State the reason for price being below free market outcome 2m: Explain the diagram of price ceiling 1m: Explain the impact of shortage and black markets</p>
	(d)	<p>Explain the impact of the London Olympics on UK's Balance of Payments. [4]</p>
		<p>With an increase in tourists and athletes entering London, there will be an improvement in service balance, and consequently Current Account. This is because there will be an increase in visits to Tourist Attractions, as well as transportation via the London Tube.</p> <p>There will be an increase in Foreign Direct Investments and consequently, Capital and Financial Account. This is because foreign investors would be keen to build hotels and other infrastructure in anticipation of the influx of tourists and athletes taking part in the London Olympics.</p> <p>1m: State the impact of 1 component in the BOP 1m: Elaborate the above impact</p> <p>1m: State the impact of 1 other component in the BOP 1m: Elaborate the above impact</p>
	(e)	<p>Discuss Mayor Boris Johnson's decision to try to keep people and cars out of the city with a campaign to encourage them to work from home, rather than to ban traffic for the duration of the game. [8]</p>
		<p><u>PCCP Framework:</u></p> <p><u>Problem with excessive people and cars in the city:</u> Marginal External Cost (MEC) exist → lead to Negative Externalities → output is not socially optimal and subsequently, deadweight loss in the economy (<i>Elaborate with diagram</i>)</p> <p><u>Policy</u> <i>Thesis: Encourage to work from home, rather than ban traffic</i> <i>Anti-Thesis: Ban Traffic, rather than work from home</i></p> <p><u>Policy 1: Encourage them to work from home</u> Moral Suasion → Encourage Output to be at Q_s. Whether Output can be at Q_s depends on the responsiveness of the people</p> <p><i>Link back to the diagram to show the differing deadweight loss due to the different output level being achieved</i></p>

	<p><u>Policy 2: Ban Traffic</u> Ban traffic for the duration of the game → Output = 0, lead to deadweight loss if MEC is not very high.</p> <p>Hence, banning of traffic is not recommended unless MEC is huge</p> <p><i>Draw diagram to show the impact of the differing deadweight loss due to the different MEC.</i></p> <p><u>Conclusion</u> The best policy depends on how successful is the Government able to persuade people to work from home, as well as the size of the MEC.</p> <p><u>Other evaluative Comments</u></p> <p>Other policies such as taxation could be more appropriate as taxes are a form of efficient, market-based solution. In addition, the government could earn tax revenue to offset the expenditure in the Olympics.</p> <p><u>Marking Scheme</u></p> <table><tr><th>Level</th><th>Description</th><th>Mark</th></tr><tr><td>3</td><td>A balanced view with reasoned judgment demonstrated between the different policies in solving market failure</td><td>7-8</td></tr><tr><td>2</td><td>Highly analytical in terms of market failure that exist due to traffic congestion. However, there is little comparison between the different policies.</td><td>4-6</td></tr><tr><td>1</td><td>Mere listing of points. No attempt to link back to market failure and the relevant policies involved.</td><td>1-3</td></tr></table>	Level	Description	Mark	3	A balanced view with reasoned judgment demonstrated between the different policies in solving market failure	7-8	2	Highly analytical in terms of market failure that exist due to traffic congestion. However, there is little comparison between the different policies.	4-6	1	Mere listing of points. No attempt to link back to market failure and the relevant policies involved.	1-3
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	<p><u>Marginal Thinking Framework:</u></p> <p><u>Objectives of Adidas:</u></p> <p>Profit Maximization in the context of an oligopolistic market structure.</p> <ul style="list-style-type: none">➔ Define Profits = TR-TC➔ Elaborate that strategies such as non-price competition is pivotal in this market structure <p><u>Benefits: Elaborate reasons for investment in Olympics</u></p> <ol style="list-style-type: none">1. Increase Demand (AR shift outwards)2. Increase Brand Loyalty : Demand more price inelastic3. Improve reputation: Non-Price Competition4. Increase Cost Savings : Reap EOS due to higher market share												

Costs: Cost of Investment is immaterial in the decision making

1. Investment is a fixed cost (will only affect AC, NOT MC, AVC etc)
2. Short run pain vs Long run gain

Conclusion:

Adidas conducted Cost-Benefit Analysis and must have concluded that the potential benefits outweigh the cost involved.

Marking Scheme

Level	Description	Mark
2	Evaluative assessment of Adidas' decision making processes using the oligopolistic market structure. Clear diagrams showing how Adidas is able to earn super-normal profits in the long-run.	5-6
1	Little attempt to relate to question. Lack of economic analysis and did not use economics framework to explain profits in the long-run.	1-4
Level	Evaluation	Marks
E2	Well-justified evaluation	3 - 4
E1	Some attempt to evaluate but may not be supported by sound economic reasoning	1 – 2