GCE A Level Question

Question 1

Competition amongst airlines within the air passenger market is high and demand is rising but many airports are at near capacity. Both variable and fixed costs of production of passenger airlines continue to change over time. For example, airline jet fuel prices fell by 20.4% over the year ended 22 July 2016 while the price of passenger jet aircraft increased by around 1.1% between 2015 and 2016.

Source: International Air Transport Association, accessed 3 August 2016

Using economic analysis, discuss how airlines would likely respond to these changes. [25]

Question 2

**3.** In Australia, small and remote communities face high and stable prices for petrol. The petrol is supplied by one or two small petrol stations owned by small independent retailers. Prices are lower and more volatile in the large cities, where there are a large number of big petrol stations owned by a small number of big oil companies.

Source: Australian Institute of Petroleum

(a) Explain why less market competition might lead to higher and more stable prices. [10]

(b) Assess whether differences in the level of competition are likely to be the main reason for differences in the retail prices of petrol in rural and urban areas of Australia. [15]