



# ICM

JUNE 2016

ECONOMICS & HOSPITALITY

**Instructions to candidates:**

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
  - b) Answer any FIVE questions
  - c) All questions carry equal marks. Marks for each question are shown in [ ]
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1.
    - a) Briefly describe the main funds of long-term capital for a public limited company. [8]
    - b) Using a suitable current example, evaluate how an increase in inflation affects economic activity. [12]
  2. The United Kingdom is to hold a referendum in June, to decide on whether to remain in or leave the European Union. This has led to uncertainty in the currency exchange market for £Sterling. With the aid of suitable supply and demand diagrams, show the effect of a fall in the value of £Sterling against the Euro on:
    - a) the export of manufactured goods from the UK to the European Union
    - b) the supply of raw materials imported from the European Union by UK manufacturers [10 each]
  3. Discuss the implications of the following for the hospitality industry:
    - a) Continued low UK bank lending interest rates
    - b) Further government cutbacks in spending on public services
    - c) A reduction in the value of £Sterling on currency markets
    - d) A fall in the rate of inflation [5 each]
  4. Making due reference to the relevant major areas and with the aid of examples, explain how a large themed pub chain can take advantage of Economies of Scale. [20]
  5. Controlling public expenditure and inflation are two of the major economic goals of the UK Government. Evaluate TWO other major goals of the UK Government's macroeconomic policy and how they directly affect the hospitality industry. [10 each]
  6.
    - a) With the aid of examples, appraise the benefits a firm in the hospitality industry might achieve through vertical integration. [10]
    - b) Examine the reasons why companies like Subway have chosen to grow their business through franchising. [10]
  7. The UK economy is considered to be in a period of strength and growth. Unemployment has fallen as many new jobs have been created and the Bank of England has continued to maintain interest rates at 0.5% to encourage spending and investment in the economy. With the aid of examples, analyse how the hospitality industry has responded to these economic circumstances. [20]
  8. A number of large restaurant chains adopt a differential pricing policy to increase profits. With the aid of suitable examples, evaluate the effects of the following price differential policies:
    - a) 'Two for One' offers for adult meals
    - b) Discount voucher offers provided in partnership with large supermarket chain loyalty schemes [10 each]