



ICM

MARCH 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) With the aid of suitable examples, define the principle of **diminishing returns**. [10]
 - b) Evaluate the main funds available for long-term capital for both types of limited liability companies. [10]
 2. With the aid of suitable diagrams, show the effect of the following on the demand for restaurant services:
 - a) A fall in the price of food
 - b) An increase in labour costs
 - c) An increase in the number of wedding party bookings
 - d) A decrease in the number of bookings midweek [5 each]
 3. Two of the major economic priorities for the UK Government are to encourage economic growth and control inflation. Evaluate the impact that good economic growth and low levels of inflation would have on the hospitality industry. [10 each]
 4. Examine how the increase in fast food sales, e.g. for Thai tapas, is due to changing tastes rather than changing lifestyles. [20]
 5.
 - a) With the aid of examples, describe an **oligopoly market**. [5]
 - b) Evaluate the benefits of economies of scale to a large themed pub chain. [8]
 - c) Appraise the importance of hotel accommodation in an inner city. [7]
 6.
 - a) Evaluate the main benefits of vertical integration. [8]
 - b) With the aid of suitable examples, explain the benefits of franchising for the growth of a coffee outlet organisation. [12]
 7. In addition to announced cuts in public expenditure by the UK Government, the Bank of England has kept interest rates at an all-time low of 0.5% for the last six years. Evaluate the strategic changes that the hospitality sector has introduced to meet this challenge. [20]
 8. For the examples below, explain whether a policy of 'load pricing' and/or 'price discrimination' has been adopted:
 - a) Lower midweek prices at a country hotel
 - b) Three-night short break accommodation packages
 - c) Reduced 'happy hour' prices in a pub chain
 - d) Reduced menu prices for senior citizens at a local restaurant [5 each]