

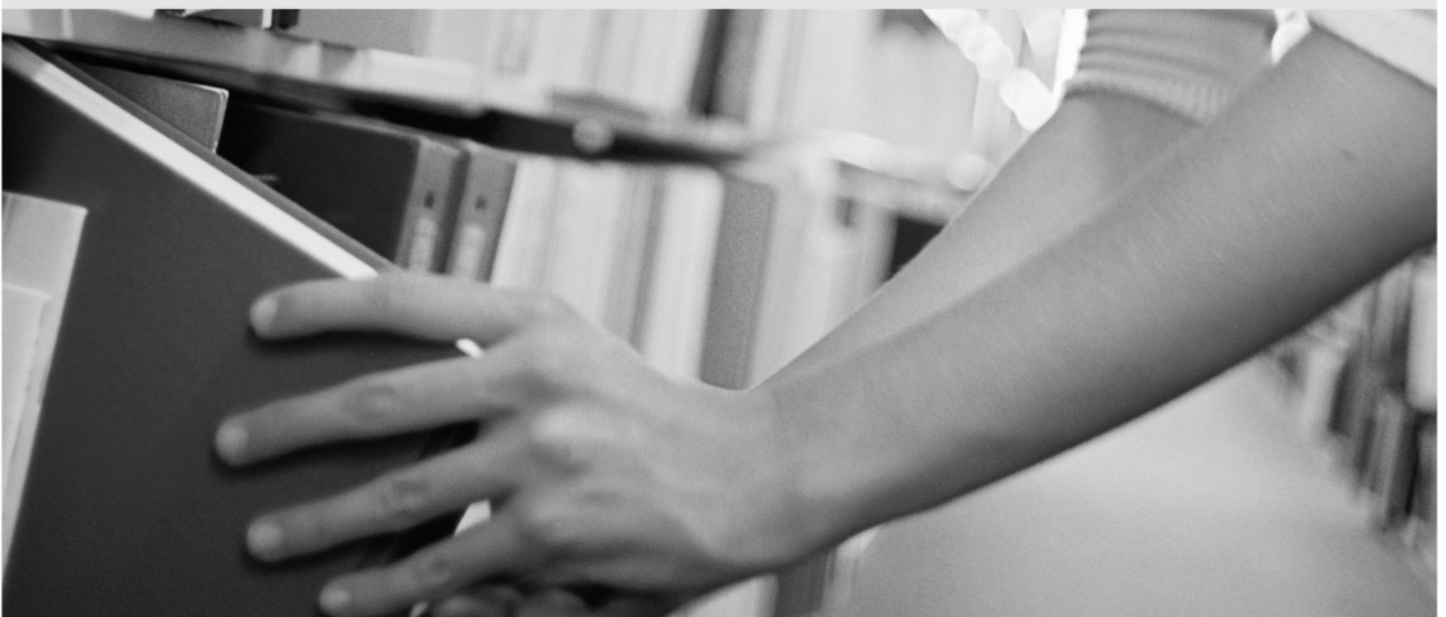
Teacher Resource Bank

GCSE Economics

Unit 12 – Investigating Economic Issues

- Additional Specimen Question

Dominant Firms



Total for this question: 23 marks

1 Read **Item A** and then answer the questions that follow.

Item A

UK Energy Market

In the UK, six major companies compete to supply gas and electricity to households. The ‘big six’ – British Gas, Scottish Power, Scottish and Southern, npower, e-on and EDF – control about 99% of the gas and electricity supplied.

With only six companies dominating the market, many people question whether there is enough competition. Households complain that the companies have too much control over gas and electricity prices and that when one company changes its prices the others do the same thing. Higher energy prices are causing increased hardship on households on low incomes who find it increasingly difficult to afford high energy prices.

Ofgem, the energy regulator, and consumer groups have criticised the big energy companies for making their pricing too complicated to understand. This makes it difficult for households to compare prices charged by different suppliers. Recent research has found that 85% of consumers never consider switching to another supplier of gas and electricity. So the government wants the big six to provide simpler tariffs so it is easier for consumers to shop around for lower prices and switch their energy supplier.

The government is very concerned about the recent increases in gas and electricity prices and the damage this is having on consumers. In October 2011, Ofgem calculated that Britain’s big energy companies were making profits of £125 a year from every household in the UK. This was just £15 in June 2011.

British Gas has said that household energy bills are likely to keep going up because the price of gas on the international market is rising. This is something it cannot control. Industry profits as a whole last year were not high, given the huge investments needed to supply energy.

1 (a) Explain **one** reason why the big energy companies can make such high profits.

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(3 marks)

1 (c) Ofgem is considering how it might reduce the power of the big six energy companies to help the consumer. It has a number of options.

- Option 1: force the companies to reduce their prices
- Option 2: make them simplify their pricing information
- Option 3: encourage new companies to supply energy

Which option do you think it should use? Give reasons for your recommendation. Use **Item A** and what you have learnt from your investigation of this topic to give reasons for your answer.

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