1. If the price elasticity of demand for clothing is estimated to be –2.0, a 20% fall in the price of clothing will lead to a (1)
2. 20% increase in quantity demanded
3. 20% decrease in quantity demanded
4. 40% increase in quantity demanded
5. 40% decrease in quantity demanded

Answer [ ]

(b) Explain why this answer is correct (Show your working). (3)

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**Evidence A IKEA – A Global Furniture Brand**

* IKEA, the world’s largest furniture retailer, designs and sells ready to assemble furniture. For example, beds, chairs and desks. Its stores feature restaurants and food departments.



**Evidence B IKEA’s vision and business idea**

* “To create a better everyday life for many people”, this is the IKEA vision. Our business idea is to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.
* For us, good design is the right combination of form, function, quality, sustainability and a low price. Our designers have to find the right balance of these elements.
* It’s a unique challenge that keeps us innovative. What makes us unique is that our suppliers play a very important role. Early in the design phase, our designers work with teams of technicians, manufacturers and specialists – often on the factory floor.
* We work hard to achieve quality at affordable prices through maximising value. We build long-term supplier relationships and invest in highly automated production to produce large volumes. We ensure that high volumes of IKEA products are available to customers in perfect condition, at the right time and at minimum cost. This is a challenge that requires detailed planning and flexibility. Our objective is to increase sales and focus on growth in Asia and Australia.

**Evidence C A little bit of Sweden in the UK**

* Cathy Donnelly, IKEA’s Human Resources (HR) Operations Manager in the UK, says health and well-being for staff is key to IKEA’s success. Company policy is to have a 50/50 male female split in senior management. Three of the five members of IKEA UK’s top management team are women.
* IKEA has a decentralised organisational structure operating throughout all of its stores worldwide. Many employees work part time or have other forms of flexible working. In one store two HR Managers job share. Staff can work set rotas so they can drop their children at school and work later or earlier shifts.
* “As long as it works for the business, employees have the freedom to work flexibly,” says Cathy. One store manager in Manchester works flexible hours. “Her line manager is not interested in whether she starts at nine or 10 but in the store’s performance.”
* IKEA stores often have long opening hours so flexible working fits well into this. IKEA has contracts where people work longer hours in busy periods such as September when the new catalogue is launched. They can then work fewer hours in less busy periods. This may allow them to spend more quality time with the family.
* “We are keen to support women after maternity leave. The average IKEA customer is a 35-year-old female living with children. We need to have like-minded people working in our organisation and meeting these customers. It makes sense to attract and retain them.”

(a) Analyse **two** factors that may affect the price elasticity of demand for IKEA’s furniture products. (6)

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