

PART THREE

Questions 15 – 20

- Read the article below about pricing.
- For each question 15 – 20, mark one letter (A, B, C or D) for the answer you choose.

You've been framed

A new study for the Office of Fair Trading, Britain's main competition-policy watchdog, seems to confirm that the way prices are presented, or "framed", can tempt consumers into error. Its authors, Steffen Huck and Brian Wallace of University College London (UCL), and Charlotte Duke of London Economics, a consultancy, base that finding on a controlled experiment. They tested responses to five different price frames: "drip pricing", where only part of the price is revealed at first and extra charges are levied as the sale progresses (think of buying an airline ticket online); "sales", where the price is contrasted with a higher price (was \$2, now \$1); "complex pricing", such as three-for-two offers, where the unit price has to be worked out; "baiting", where a cheap deal is advertised but restricted to a few lucky shoppers; and "time-limited offers" that are available for a short period.

The experiment's subjects were 166 UCL students who played at being shoppers in a computer game. Shoppers were faced with a choice between two stores selling identical goods and were given a score for each purchase. The greater the difference between the rewards for owning the goods and the prices they paid, the wiser their purchases, and the higher the score, or "pay-off". Since consumers obtain less satisfaction from buying more of the same stuff, the rewards dropped for each extra purchase they made, from 120 points for the first unit to 80 for the second and so on up to a maximum of four purchases per round. A "search cost" was also levied each time a shopper visited a shop to ask about prices. The prices in each shop (and for each frame) were selected at random from between 60 and 120. All prices in that range were equally likely. Each subject played ten rounds of a "baseline" game where goods were sold at "straight" per-unit prices, and a further ten rounds each for two of the five price frames.

How did shoppers fare? Faced with per-unit prices, shoppers made the right choices four times out of five. But when errors were made they were costly. The average lost pay-off per round compared with the best strategy was enough to cut the maximum score by a quarter. The errors were still larger in the rounds where prices were framed differently. The authors calculated the additional loss each subject suffered in response to each price frame compared with the baseline case. The average extra loss was then used to rank the five price frames. Shoppers were worst off under drip pricing, followed by time-limited offers, baiting, sales and complex pricing.

Shoppers made two sorts of mistakes. Less than 10% were purchasing errors—buying too little when the price was right or too much at steep prices. The most frequent mistake was to shop around too much or too little. Under straight per-unit pricing, consumers tended to over-search. This pattern was reversed for the price frames: shoppers tended to snatch at the deals offered in the first shop. In the drip-pricing frame, for instance, more than a quarter of consumers bought at the first shop when it would have been wise to continue the search.

The study shows that consumers learn lessons: they made better decisions as the experiment progressed. The best remedy, it seems, is for consumers to be better informed and wary about special deals.

- 15 What is said about the way prices are framed?
- A Consumers buy too much because of price framing.
 - B The Office of Fair Trading is prosecuting some companies.
 - C A consultancy conducted research on the ethics of price framing.
 - D Consumers can make mistakes due to the way prices are presented.
- 16 Which of these is not a method of framing prices?
- A Competitions for lucky shoppers.
 - B Initially giving limited information about prices.
 - C Special prices for multiple purchases.
 - D Comparing a high and a low price.
- 17 Which of the following were not part of the game?
- A random prices
 - B two shops
 - C a reward for the best score
 - D a fee for searching
- 18 How many rounds did the students play?
- A 10
 - B 20
 - C 30
 - D 40
- 19 According to paragraph 3,
- A players with a poor strategy had a 50% reduced score.
 - B without price framing, shoppers had an 80% success rate.
 - C time-limited offers caused the most problems.
 - D framing prices made no difference.
- 20 The writer says that shoppers
- A can develop better judgement.
 - B are smarter than the shops.
 - C will always be fooled.
 - D need to be trained by an expert.

PART FOUR

Questions 21 – 30

- Read the article below about supermarkets.
- Choose the correct word to fill each gap from **A, B, C** or **D**.
- For each question **21 – 30**, mark one letter (**A, B, C** or **D**).
- There is an example at the beginning, **(0)**.

A grocer goes

Sir Terry Leahys, the 54-year-old Liverpoolian, who **(0)** on June 8th that he would **(21)** next year after a lifetime at the company and 14 years as chief executive, has **(22)** the once down-at-heel British grocery chain into the world's third-largest retailer, behind America's Wal-Mart and France's Carrefour. But he is leaving unfinished business to his **(23)** Philip Clarke, in the form of a troubled American venture first billed as "transformational".

Despite a recession, Tesco's underlying pre-tax **(24)** rose by 10% to £3.4 billion (\$5.4 billion) in the year to February 27th, on global sales of more than £62 billion. Although Tesco operates in 14 countries, "this is still today a local industry", Sir Terry says. So Tesco pioneered loyalty **(25)** not just for marketing but also for data mining. They allow individual stores to tailor their **(26)** more closely to local tastes—right down to stocking, say, ready-made curries next to claret, if those items tend to be purchased together.

Such detailed knowledge helped Tesco cater to Britons' increasingly upmarket tastes, staking out the **(27)** middle ground between the cheaper Asda, which is owned by Wal-Mart, and the fancier Sainsbury's. Tesco has also led in expanding beyond groceries. It **(28)** all manner of general goods, from clothing to televisions – of which it **(29)** to sell 300,000 for the World Cup. It is now **(30)** from insurance and credit cards into banking.

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|----|-------------|-----------------|---------------|---------------|
| 0 | A renounced | B told | C announced | D claimed |
| 21 | A resign | B rebuild | C remove | D reform |
| 22 | A allied | B risen | C reduced | D transformed |
| 23 | A follower | B successor | C predecessor | D ancestor |
| 24 | A profits | B benefits | C money | D success |
| 25 | A projects | B plans | C schemes | D strategies |
| 26 | A wares | B shopping | C delivery | D staff |
| 27 | A luxury | B wealthy | C lucrative | D leisure |
| 28 | A arranges | B ranges | C directs | D stocks |
| 29 | A believes | B expects | C confirms | D makes |
| 30 | A walking | B restructuring | C moving | D arriving |