GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Level
Unit 3: Business Behaviour

Wednesday 18 January 2017 – Morning
Time: 2 hours

Paper Reference
WEC03/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **two** questions from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer TWO questions from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

1 In May 2015, National Australia Bank announced its intention to sell off UK-based Clydesdale Bank.

Discuss possible reasons why some businesses demerge.

(Total for Question 1 = 20 marks)

2 'A firm which cannot cover its costs of production will shut down'.

Critically examine this statement.

(Total for Question 2 = 20 marks)

3 To what extent might firms in an oligopolistic market compete using non-price strategies?

(Total for Question 3 = 20 marks)

4 Governments can intervene to restrict the monopsony power of large retailers.

Assess the costs of such intervention to firms and consumers.

(Total for Question 4 = 20 marks)

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Put a cross in the box ☒ indicating the question from Section A that you have chosen for your FIRST essay. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

You must answer TWO essays in this section. Please start your second essay response on page 8.

Essay Choice 1: Question 1 ☐ Question 2 ☐ Question 3 ☐ Question 4 ☐

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(Total for Question = 20 marks)

Put a cross in the box ☒ indicating the question from Section A that you have chosen for your SECOND essay. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Essay Choice 2: (This must be different from your first essay response)

Question 1 ☒ **Question 2** ☒ **Question 3** ☒ **Question 4** ☒

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(Total for Question = 20 marks)

TOTAL FOR SECTION A = 40 MARKS

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QUESTION 5 BEGINS ON THE NEXT PAGE.

SECTION B

Answer EITHER Question 5 OR Question 6.

You should spend 60 minutes on this section.

If you answer Question 5 put a cross in the box ☒ .

Question 6 starts on page 26.

5 Royal Dutch Shell plc (Shell)

Extract 1 Shell hopes to acquire BG Group

Shell, one of the world's largest companies, is planning to takeover its UK rival BG Group for around US$68 billion. The deal would expand its operations in some of the world's most significant oil and gas regions. Shell's main business activities involve the extraction of oil and gas, refining of fuels, and the distribution and retailing of fuels. BG Group's main business activities involve the exploration and extraction of oil and gas, employing 5 200 staff in 24 countries.

Acquiring BG Group would give Shell access to significant reserves of oil and gas, avoiding the cost of trying to increase its own reserves through exploration, which is becoming increasingly expensive. For example, Shell has spent about US$6 billion on its search for oil off the north coast of Alaska, but has yet to extract any oil.

The takeover would also provide Shell with significant ownership rights in an offshore area of Brazil, which has one of the world's largest reserves of oil, as well as a large stake in the Australian liquefied natural gas (LNG) market.

BG Group is one of the world's largest producers and traders of LNG, a form of gas that is super-cooled to a liquid state and exported around the world in tankers. It has recently completed work on a US$20 billion LNG facility in Australia. Shell will dominate the global trade in this fuel if it acquires the company.

(Source: adapted from http://www.ft.com/cms/s/0/a290ff8a-dd6f-11e4-bc0d-00144feab7de.html?ftcamp=crm/email/201548/nbe/GlobalBusiness/product#axzz3WhuGUtUq)

Extract 2 Takeover approval and government concerns

Even if the shareholders of Shell and BG Group agree to the takeover bid, the proposed acquisition needs the approval of relevant anti-monopoly and regulatory authorities around the world. This includes those in the USA, European Union, China, Australia and Brazil. It is possible that one or more of these authorities may decide to block the bid on the grounds that it would give Shell too much market power. However, Shell has cleared its first anti-monopoly barrier by receiving approval from the USA regulators, the Federal Trade Commission.

Other government concerns relate to issues such as Shell's environmental policies and its employment practices in certain countries.

(Source: adapted from http://www.ibtimes.co.uk/us-clears-47bn-mega-merger-between-shell-bg-group-1506552)

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Extract 3 Opposition to Shell's activities

Shell's non-fuel operations, which include retail, are estimated to generate annual revenue in excess of US$6 billion. Globally, Shell has 45 000 petrol stations, providing the opportunity for a wide ranging retail network. In the UK, the firm has about 1 000 petrol stations and it has links with several well-known UK businesses including Waitrose food stores and Costa Coffee. In 2015 there were 15 Waitrose stores located at Shell's UK petrol stations.

Shell's link with Waitrose has angered the environmental pressure group, Greenpeace, which objects to Shell's Arctic drilling programme. When Shell first started drilling in the Arctic, Greenpeace tried to shut down 100 of their petrol stations in London by using the emergency shut-off switch to stop petrol being delivered to the pumps. Initially, in 2012 Waitrose stated that it would not open any more stores in Shell petrol stations. However, by 2015 Waitrose had decided to extend its link with Shell and now plans to open several new stores in Shell's petrol stations.

In response to the opposition of Greenpeace, a Shell spokesman said, "Everyone has the right to their opinion. We've tried to have dialogue with them and we're open to further dialogue on how to do things better if they come to us."

(Source: adapted from http://www.ibtimes.co.uk/beyond-oil-how-shell-cashing-convenience-stores amid-plummeting-oil-prices-1513523 and http://www.sevenoakschronicle.co.uk/ Greenpeace-campaigners-considering-protest-new/story-20954605-detail/story.html)

(a) With reference to Extract 1, explain what type of integration will occur if Shell takes over BG Group.

(4)

(b) With reference to Extract 1 and Extract 2, evaluate the likely benefits to Shell of its proposed takeover of BG Group.

(12)

(c) With reference to Extract 1 and Extract 2 and your own knowledge, discuss the likely impact of the takeover of BG Group by Shell on employees and consumers.

(12)

(d) With reference to Extract 3, assess the likely impact of Greenpeace's campaign on Shell's costs, revenues and profits.

(12)

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(Total for Question 5 = 40 marks)

If you answer Question 6 put a cross in the box ☒ .

6 The Indonesian economy

Figure 1 Foreign Direct Investment (FDI): Net Inflows 2010–2014 US$ billion

2010	2011	2012	2013	2014
15.29	20.56	21.20	23.34	25.89

(Source: adapted from www.data.worldbank.org)

Extract 1 Indonesia rises to 38 on the Global Competitiveness Index (GCI)

The GCI for 2013–2014, released by the World Economic Forum, shows positive signs for Indonesia, Southeast Asia's largest economy. After three consecutive years of decline, Indonesia rose from a rank of 50 to 38 out of a total of 148 countries.

Indonesia made progress in 10 of the 12 measures that are included in the GCI, but its overall performance remained uneven. Indonesia improved the most on the infrastructure measure, where it rose 17 places to 61 resulting from increased Government infrastructure spending to upgrade roads, ports and power plants. Despite these improvements, about 17% of a company's total costs in Indonesia are accounted for by transport costs but in other comparable countries in the region, this proportion is less than 10%.

The efficiency of its labour market also improved considerably, although from a very low base. Labour costs grew at an annual average rate of 12% from 2011 to 2014 whilst productivity growth averaged only 4%. Labour market inflexibilities, in terms of wage setting and hiring and firing procedures, continued to undermine Indonesia's performance.

An area where the situation deteriorated was health. The incidence of communicable diseases and the infant mortality rate were among the highest outside Sub-Saharan Africa.

Indonesia is classed as a lower middle income country according to the World Bank.

(Source: adapted from http://www.indonesia-investments.com/news/news-columns/indonesia-jumps-to-no.-38-in-global-competitiveness-index-2013-2014/item1067 and http://data.worldbank.org/country/indonesia)

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Extract 2 Education in Indonesia

Historically, education has been underfunded in Indonesia. The 2015 Human Capital Report ranks the country 69 out of 124 in terms of human capital development. Indonesia's placement in the ranking falls below Singapore (24), the Philippines (46), Malaysia (52), Thailand (57), and Vietnam (59). However, the Indonesian Government has increased investment in education in recent years resulting in increased secondary school enrolment, and a doubling of higher education students in the last five years.

A 2014 employer survey highlights the difficulty that employers have in recruiting skilled staff. For example, 30 000 engineers graduate each year, but Indonesia needs 50 000 annually. Hiring skilled workers is difficult because less than 10% of Indonesians receive higher education, almost the lowest in Southeast Asia.

(Source: adapted from http://monitor.icef.com/2015/05/indonesia-looks-to-education-to-help-drive-growth/)

Extract 3 Transnational companies (TNCs) in Indonesia

Large TNCs are keen to invest in Indonesia to benefit from rising consumer demand and highly profitable returns. Indonesia's appeal to investors has led to an American business consulting group calling it "Asia's next big opportunity". It is the largest country in Southeast Asia, with an economy worth US$1.3 trillion and an economic growth rate of more than 6% per annum between 2011 and 2013. However, some analysts have raised concerns as to whether Indonesia's economic growth is sustainable in the long run.

Strong domestic demand is supported by a growing middle class, which consists of wealthy young people who are willing to spend. The majority of the country's population are within the age range of 25–60 years old. Indonesia is expected to be one of the world's ten biggest economies by 2030 when its population will have grown by about 90 million.

Indonesia offers significant potential for foreign investment, but poses serious challenges too. Investors have to deal with issues such as poor infrastructure, corruption, excessive bureaucracy, and weak institutions. It can take up to three years for TNCs to obtain the necessary permits and licences to set up in Indonesia. Rising labour costs and strict labour market regulations are other factors which can limit Indonesia's attractiveness to foreign investors.

(Source: adapted from http://www.globalindonesianvoices.com/10257/growing-business-opportunities-and-foreign-investments-in-indonesia/)

(a) Comment briefly on the trends in the FDI net inflows shown in Figure 1.

(4)

(b) With reference to the information provided, discuss why a TNC might choose to invest in Indonesia.

(12)

(c) With reference to the information provided and your own knowledge, assess policies the Indonesian Government could adopt to further improve the competitiveness of its economy.

(12)

(d) Evaluate the likely impact of measures that a government might take to control the operation of TNCs.

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TOTAL FOR PAPER = 80 MARKS

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