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

Tuesday 6 June 2017 – Afternoon
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 'Business objectives vary greatly depending on the type and ownership of business organisations'.

Discuss this view.

(Total for Question 1 = 20 marks)

2 'Large firms such as Apple, Tata and General Motors can benefit from cost advantages compared to small firms'.

Discuss the extent to which a large firm can maintain its cost advantages as it continues to grow.

(Total for Question 2 = 20 marks)

3 'A perfectly competitive firm is always more efficient than a monopoly firm'. To what extent do you agree with this statement?

(Total for Question 3 = 20 marks)

4 'Global markets are becoming increasingly competitive'.

Evaluate government measures to promote the international competitiveness of businesses in its country.

(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 Pricing policies and product differentiation

Extract 1 Pricing and costs of production

Some firms choose to use predatory pricing. In the short run this is likely to benefit consumers but, in the long run, consumers may suffer if prices rise again once competitors are eliminated from the market. However, evidence suggests that this strategy rarely results in the removal of smaller competitors.

(Source: adapted from www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/single-firm-conduct/predatory-or-below-cost)

Extract 2 Online selling of services in China

In China some businesses provide online bookings for services as diverse as manicures, food delivery and taxi rides. The appeal of such online booking services for Chinese consumers is the low price. For example, a Subway tuna sandwich and drink on the food delivery app Ele.me, is priced at 9 yuan including delivery, compared with 31 yuan at the nearest Subway shop.

Car8, a Chinese smartphone app, delivered carwash services to users in Beijing for a price of 10 yuan, a significant discount on the usual price of 20–30 yuan. The cost to Car8 for each carwash was 17 yuan. The aim was to build a base of loyal consumers and then raise the price. However, in July 2015, Car8 went bankrupt after it ran out of cash and failed to raise more funds.

Many businesses providing this type of service online are concerned about the potential profitability of this method of selling. Between 30% to 40% of such businesses have shut down in the past few months. Some estimates suggest that around 50% of the money raised from investors has been used to subsidise price discounts in order to attract more consumers.

(Source: adapted from http://www.wsj.com/articles/chinese-consumer-apps-burn-out-in-price-war-1443985203)

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Extract 3 Tuna fish and product differentiation

There are many small to medium-sized firms producing varieties of tinned tuna for the Spanish market. Representatives of the manufacturing and distribution sectors of the Spanish tuna fish industry want to prevent tuna becoming a commodity which competes only on price. They said that, at a time when Spanish consumers are spending less, the need to differentiate and target their products has become even greater.

Javier Martin Galvez from Carrefour warned that products like tuna fish can easily be mistaken for other products and overlooked by consumers if the product and the packaging is not distinctive. He gave examples of product differentiation such as a tuna and ketchup product aimed at younger consumers and stay-fresh packaging.

(Source: adapted from https://www.undercurrentnews.com/2013/09/09/tuna-industry-experts-see-need-for-product-differentiation/)

(a) With reference to Extract 1 and your own knowledge, briefly explain the meaning of 'predatory pricing'.

(4)

(b) With reference to Extract 2 and your own knowledge, assess the conditions under which it might be possible for a loss-making business selling services online to survive. Use an appropriate diagram to support your answer.

(12)

(c) With reference to Extract 3 and your own knowledge, assess product differentiation as a means of increasing profits for a small or medium-sized firm.

(12)

(d) Evaluate the extent to which a firm's decision to reduce prices will benefit consumers.

(12)

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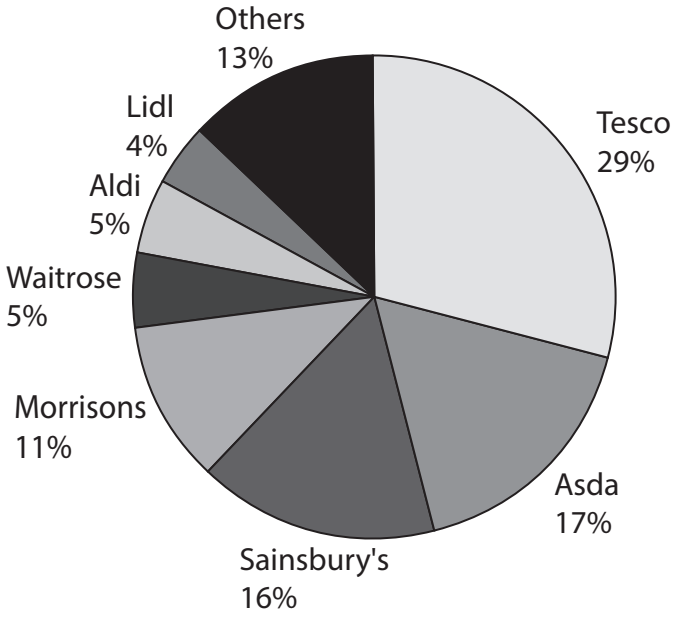
(Total for Question 5 = 40 marks)

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

6 The UK grocery market

Figure 1 Market share of UK supermarkets by value of sales in October 2014



(Source: adapted from http://grocerynews.org/2012-06-16-08-27-26/supermarkets-market-share/grocery-stores)

Figure 2 Annual % change in value of sales, November 2013 – October 2014

Tesco	Asda	Sainsbury's	Morrisons	Waitrose	Aldi	Lidl
–3.6	+1.0	–3.1	–1.8	+6.8	+27.3	+18.1

(Source: adapted from http://grocerynews.org/2012-06-16-08-27-26/supermarkets-market-share/grocery-stores)

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Extract 1 Recent trends in the UK grocery market

The UK's "Big Four" supermarket chains are suffering from falling sales. They are losing market share to Aldi and Lidl at the lower end of the market and to Waitrose at the top end of the market. The combined market share of the "Big Four" (Tesco, Asda, Sainsbury's and Morrisons) has dropped to its lowest level in 10 years.

Aldi's rapid sales growth is set to continue because it is opening more new shops than its rivals. While the "Big Four" have stopped opening new stores, Aldi plans to open 80 new shops between 2016 and 2018. It wants to double its number of stores in the UK to 1 000 by 2022. Both Aldi and Lidl entered the UK grocery market in the early 1990s, but it is only recently that they have experienced rapid growth.

Pressure on the "Big Four" supermarkets also comes from the rise of smaller convenience stores and online shopping. According to one grocery industry forecast, by April 2019 sales from convenience stores, discount grocery stores and the internet will overtake superstores and hypermarkets for the first time.

Amazon, the large international online shopping business, is set to enter the UK grocery market by taking over the lease on a warehouse previously used by Tesco. Amazon aims to target 2% of the UK's £149 billion grocery market, which is three times the market share of Ocado, the UK's biggest online only grocer.

(Sources: adapted from http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11522968/Five-facts-that-show-the-dramatic-changes-in-the-supermarket-industry.html and http://www.dailymail.co.uk/news/article-3192714/Online-shopping-giant-Amazon-gearing-superstores-Tesco-Sainsbury-s-entering-UK-grocery-market-Fresh-service.html#ixzz3vADv5je8)

Extract 2 The price of milk

Cuts to the retail price of milk, made by the largest UK supermarkets, have caused protests from UK dairy farmers. The latest price cut means that the average retail price paid for milk per litre has fallen to 23p, despite farmers' protests that the average total cost of production for dairy farmers is 32p per litre. Dairy farmers claim that many farms are close to bankruptcy. Nearly 10 000 dairy farmers have left the industry since 2002.

A sustained supermarket price war has reduced milk prices to their lowest level since 2007, which has put considerable pressure on farmers because their costs of production have risen by 36% over the same period. For several years, dairy farmers have been urging the UK Government to take action to control milk prices.

(Sources: adapted from http://www.independent.co.uk/news/uk/home-news/farmers-empty-supermarket-shelves-of-milk-to-protest-price-cuts-with-milk-trolley-challenge-10437700.html and http://www.independent.co.uk/news/uk/home-news/supermarket-price-war-leads-to-50-cut-in-dairy-farmers-9971293.html)

(a) With reference to Figure 1, what can be inferred about the market structure of the UK supermarket industry?

(4)

(b) With reference to the information provided, to what extent is the UK grocery market becoming more contestable?

(12)

(c) With reference to Extract 2 and your own knowledge, discuss why some dairy farmers have left the industry but others have survived. Use an appropriate diagram to support your answer.

(12)

(d) With reference to Extract 2 and your own knowledge, evaluate measures that a government could take to protect the interests of suppliers.

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(Total for Question 6 = 40 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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