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

Monday 23 October 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 'A small firm is likely to be less efficient than a large firm.'

Critically examine this statement.

(Total for Question 1 = 20 marks)

2 'The internet has resulted in a significant reduction in the barriers to entry of new firms into markets'.

Discuss how a reduction in barriers to entry might affect the behaviour of firms already operating in a market of your choice.

(Total for Question 2 = 20 marks)

3 To what extent are a firm's cost curves determined by diminishing marginal productivity?

(Total for Question 3 = 20 marks)

4 'Large supermarket businesses may use their market power to exploit their suppliers'.

Evaluate the impact of government policies to protect suppliers on the business behaviour of monopsony firms.

(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 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 Non-price and price competition

Extract 1 Non-pricing strategies

In the pharmaceutical industry, firms tend to avoid price competition preferring to adopt non-price competition. The ingredients of many branded medicines are identical to their cheaper, non-branded equivalents. However, by promoting a brand name's supposed superior quality and spending heavily on marketing, the result can be higher profit for the firms.

Apple also applies a branding strategy to boost its profits. According to market research, Apple's customers think of themselves as "members of the Apple family" and they are prepared to pay more for an Apple product.

Starbucks, the global coffee shop chain, applies a non-pricing strategy of selecting convenient and prominent locations for its stores to develop brand image and increase customer loyalty. This then enables Starbucks to charge premium prices.

(Source: adapted from http://smallbusiness.chron.com/pricing-nonpricing-strategies-different-companies-12898.html)

Extract 2 New car prices: UK compared to European Union (EU)

A 2016 price comparison survey carried out for the European Commission (EC) revealed substantial price differences for new cars between member states. The UK remained the most expensive for 52 of the 81 car models covered in the survey. There were price differentials for exactly the same model in different geographical markets of up to 51.6% on an Opel Astra, 48.5% on an Opel Vectra and 33.1% on a Volkswagen Golf.

UK consumers, attempting to take advantage of much cheaper car prices in Europe, were being obstructed by car retailers abroad who were unwilling to sell the right-hand drive versions that UK consumers demanded.

Car manufacturers were allowed to maintain one-brand only showrooms, fixing different prices for different EU markets. Technically, this was a breach of EU rules on free competition. However, it had been approved because of the highly specialised nature of cars which, according to the car industry, require special sales and after-care service and should not be treated like any other consumer product. In return, car makers were supposed to maintain competitive prices for the same car in different national markets. The EC had warned that the future of this arrangement was in doubt unless unjustifiable price differentials were removed.

(Source: adapted from http://www.dailymail.co.uk/news/article-61870/UK-car-prices-highest-Europe.html)

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Extract 3 Car hire prices in the EU

Car rental companies were investigated by the EC after it emerged that drivers were charged different prices online for the same car hire based on where they lived in Europe. Price discrimination based on residence breaks EU single market rules. Therefore the EC wrote to the Chief Executives of six major rental companies asking them to stop practising price discrimination.

The consumer may be given a different price after having entered his or her country of residence on the website of the car rental company concerned. For example, a consumer from Germany noticed a price increase of 100% for renting a car in the United Kingdom after entering her country of residence.

The EC stated that governments of each member state were likely to use their powers to ensure that EU and national laws were being applied to protect consumer rights.

(Source: adapted from http://www.acfo.org/news/details/14-08-2014/car-hire-companies-targeted-by-european-commission-over-price-discrimination)

(a) With reference to Extract 1, explain whether branding is likely to affect the price elasticity of demand for a product.

(4)

(b) With reference to Extract 1 and your own knowledge, discuss the likely benefits to consumers when businesses use non-price methods of competition.

(12)

(c) With reference to Extract 2, discuss the extent to which the conditions necessary for price discrimination are likely to be met in the market for new cars.

(12)

(d) Assess whether government intervention to end the practice of price discrimination would benefit consumers.

(12)

(a) With reference to Extract 1, explain whether branding is likely to affect the price elasticity of demand for a product.

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(c) With reference to Extract 2, discuss the extent to which the conditions necessary for price discrimination are likely to be met in the market for new cars.

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(Total for Question 5 = 40 marks)

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

6 The competitiveness of Brazilian industries

Extract 1 Price fixing investigation

The Brazilian Government is investigating 18 different companies to establish if anti-competitive practices are being applied. The investigation is looking into allegations of price fixing in relation to construction projects and the maintenance of train networks.

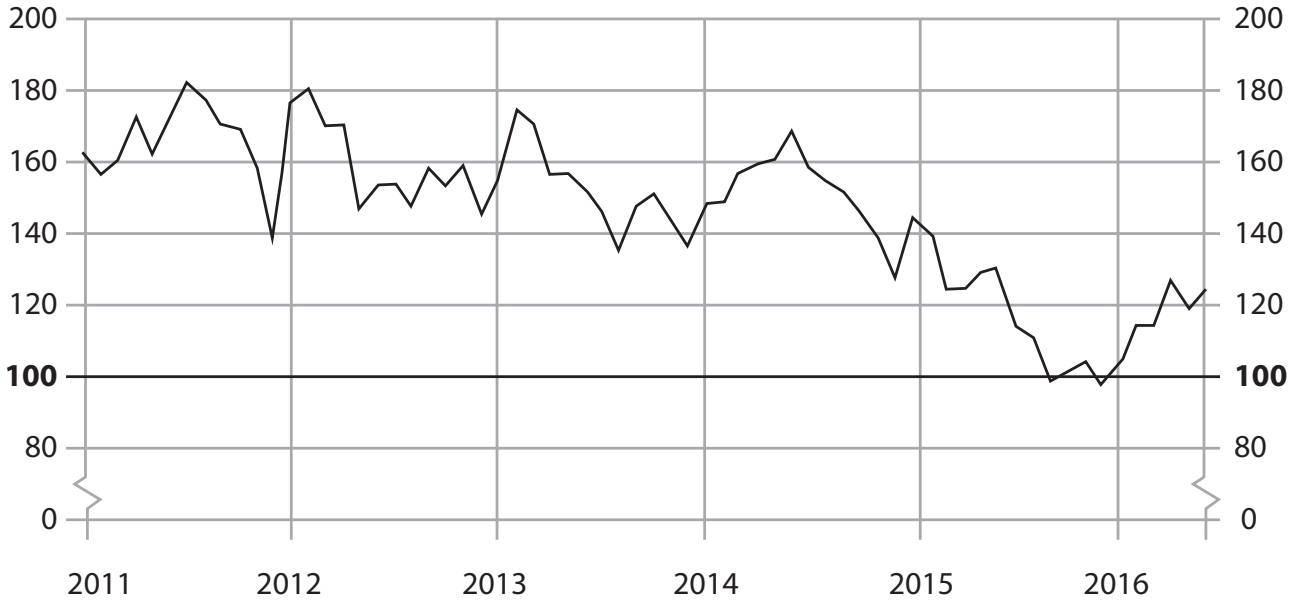
One part of the investigation concerns the tendering process for Government contracts.

It is claimed that there was collusion to ensure that particular companies won contracts in the bidding process. Allegedly, the companies formed a cartel which agreed that only one company would bid on each project to ensure that it received the contract. This allowed the bidding company to inflate prices and overcharge the Government.

A further claim is that bribes were given to Government officials in order to win contracts.

(Source: adapted from http://www.valuewalk.com/2014/03/done-brazil-launching-anti-corruption-campaign-mncs-targeted/)

Figure 1 Labour productivity Jan 2011 – June 2016 (1994 = 100)



(Source: http://www.tradingeconomics.com/brazil/productivity)

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Extract 2 Brazil and international competitiveness

In terms of international competitiveness, the Brazilian economy has continued its downward trend, dropping 18 places to 75th out of 140 economies by the end of 2015. It deteriorated in most of the competitive measures. With a large fiscal deficit (government spending greater than tax revenues) and rising inflationary pressure, Brazil's weak macroeconomic performance (down 32 places to 117th) is having a negative effect on the country's competitiveness. Brazil has high tax rates and a confusing tax system. In 2011 spending on education per student was the second lowest of all OECD* countries.

However, Brazil's most important competitiveness strength is its extremely large market size (7th). It benefits from a relatively high level of technological readiness (54th), especially ICT use, and it showed a significant improvement in the quality of its air transport and infrastructure (95th, up 18 places). Wage costs have fallen from an index of 154 in July 2014 to 125 in June 2016.

*OECD – Organisation for Economic Co-operation and Development

(Sources: adapted from:
http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=BRA and
http://csis.org/publication/dilma-getting-brazil-back-track and
https://www.oecd.org/brazil/EAG2014-Country-Note-Brazil.pdf)

Figure 2 Exchange rate: value of the Brazilian real (BRL) in US dollars (US$) – all figures for July

Year	2013	2014	2015	2016
1 BRL =	$0.47	$0.45	$0.31	$0.28

(Source: http://www.xe.com/currencycharts/?from=BRL&to=USD&view=5Y)

Figure 3 Spending on education 2011

	Brazil	OECD average
As a % of total government spending	19%	13%
As a % of GDP	6.1%	5.6%
Expenditure per student (purchasing power parity)	US$2 985	US$8 952

(Source: https://www.oecd.org/brazil/EAG2014-Country-Note-Brazil.pdf)

Extract 3 Exporting from Brazil

Brazil's index of export prices fell from 157 in July 2014 to 114.8 in June 2016.

Economic analysts expect Brazil to increase its exports of soya beans, one of its main agricultural crops, for the fourth straight year following a further depreciation of the currency.

Brazilian exporters are faced with high interest rates on loans of between 25% – 35% and an inadequate transport system for exports. "Shipping from the interior of Brazil is highly inefficient due to poor roads and long distances to reach the country's ports", according to Gerardo Copello, a spokesman for an agricultural consulting agency.

(Sources: adapted from http://unitedsoybean.org/article/brazilian-soybean-boom-continues-despite-challenges/ and http://csis.org/publication/dilma-getting-brazil-back-track)

(a) Comment briefly on the trends in labour productivity between January 2012 and December 2015, as shown in Figure 1.

(4)

(b) With reference to Extract 1 and your own knowledge, discuss the likely impact of government policies aimed at increasing competition between firms tendering for contracts.

(12)

(c) With reference to the information provided, discuss how Brazilian businesses could respond to the changes in Brazil's international competitiveness.

(12)

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

(12)

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

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