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 17 January 2018 – 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 'The major factor limiting the growth of any business is the size of the market in which it operates'.

To what extent do you agree with this statement?

(Total for Question 1 = 20 marks)

2 'A firm must always charge a price at least equal to its average cost of production'.

Critically examine this statement.

(Total for Question 2 = 20 marks)

3 'Firms operating in the travel and tourism market often use price discrimination as a pricing strategy'.

Discuss the view that price discrimination **never** benefits consumers.

(Total for Question 3 = 20 marks)

4 'Governments often intervene to protect workers from exploitation'.

Assess the likely impact of such intervention on business behaviour.

(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.

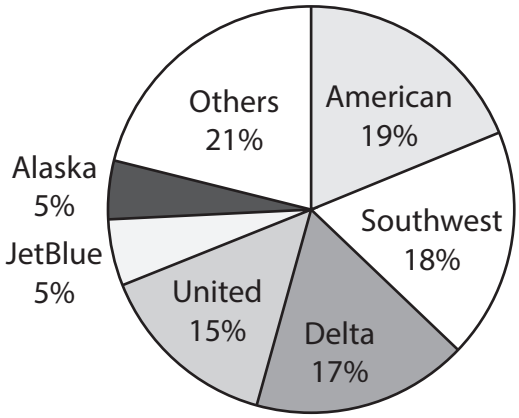
You should spend 60 minutes on this section.

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

Question 6 starts on page 26.

5 The United States (US) airline industry

Figure 1 US domestic flights, market share of airlines



(Source: http://www.transtats.bts.gov/)

Extract 1 Norwegian Airways targets the US market

Norwegian Airways has been named Europe's best low-cost airline for the fourth consecutive year by the leading consumer air travel website Skytrax. The airline was also named as the best long distance low-cost airline in the world.

The expansion of the company's subsidiary, Norwegian Air International (NAI), into the USA is a major step for the airline. Currently, NAI has a very small share of the transatlantic market with flights to and from the USA. The major US airlines, and their European alliance partners, have more than 1 000 large long-haul aircraft and are responsible for more than 80% of transatlantic flights. In contrast, NAI operates just 10 smaller aircraft on these routes.

NAI plans to expand rapidly by offering direct flights to small cities in the USA from cities in Northern Europe without transatlantic routes. This will not only undercut US airlines' international business, it may also threaten their control over US domestic flights.

The transatlantic routes have traditionally operated using large jumbo jets. The smaller jets used by NAI are cheaper to buy and cheaper to operate. NAI is based in Ireland where employment laws are significantly less strict than in Norway. Consequently, NAI can hire pilots and crew members on lower wage rates to fly transatlantic routes. As a low-cost airline NAI provides only a basic range of services for passengers. NAI is unlikely to attract the business traveller on whom the major US airlines depend. These customers fly frequently and pay full business or first class prices.

(Source: adapted from http://uk.businessinsider.com/norwegian-air-international-nai-us-2016-7)

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Extract 2 US Government investigates the domestic airline industry

Air fares continued to rise in the USA despite the sharp fall in fuel prices and an ongoing US Government investigation. The four major airlines have been removing unprofitable flights and slowing capacity growth despite a rise in ticket sales. Since 2008, these airlines have charged fees for services that were previously included in the airfare. In 2015 the major North American airlines achieved average net profit margins of 7.5%, which was twice the worldwide average.

The US airline industry has undergone several high-profile mergers such as United Airlines and Continental Airlines in 2010, Southwest and AirTran in 2011, and American Airlines and US Airways in 2013. The entry of low-fare foreign competition such as Norwegian Air International and the expansion of smaller domestic airlines has been actively discouraged by the biggest airline companies.

In July 2015, the US Government launched an investigation into the industry. Copies of all communications to airline executives, shareholders and investment analysts concerning capacity plans had to be submitted to the US competition authorities. The key issue was whether or not airlines had been communicating strategy with each other through their major common shareholders. Airline executives may have stopped expanding capacity or reducing prices, as it was against the interests of their biggest shareholders, who also own shares in their competitors.

The current investigation is proving costly for the airline industry. Even if airlines avoid having to pay huge fines, they face spending millions of US dollars in legal fees.

(Source: adapted from http://www.investopedia.com/articles/investing/030716/airline-industry-becoming-cartel.asp)

(a) With reference to Figure 1, explain the market structure of the US domestic flights industry.

(4)

(b) With reference to Extract 1, discuss how a small airline, such as NAI, may be able to compete successfully against much larger US airlines.

(12)

(c) With reference to Extract 2, to what extent is collusive behaviour rational for large firms in the US airline industry?

(12)

(d) Evaluate policies a government could use to control anti-competitive business behaviour. Refer to the US airline industry or to an industry of your choice.

(12)

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(4)

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(Total for Question 5 = 40 marks)

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

6 International takeovers

Extract 1 China National Chemical Corporation (CNCC) and Pirelli

CNCC is a state-owned chemical company. It is also China's largest producer of automotive brake hose and high-strength conveyor belts, in addition to being the leading domestic producer of tyres. Its US$7.9 billion takeover of Pirelli, the Italian tyre manufacturer, has been approved by the European Union (EU). Pirelli is the fifth largest tyre manufacturer in the world and the takeover will increase CNCC's share of the global tyre market to around 10%.

The takeover is the latest example of many acquisitions by Chinese investors in Italy and is the largest so far. Pirelli's senior management team was concerned that, without such a takeover, many jobs would have been lost.

Those opposed to the takeover are worried that the Chinese Government may use its financial power to gain a major influence in Europe by gradually buying up other successful European firms. Pressure groups, including trades unions and consumer organisations, have raised similar concerns in Africa. In this continent many transnational companies (TNCs) have gained significant market power and influence. Pressure groups have also protested about environmental and human rights issues in connection with the activities of some TNCs.

(Sources: adapted from http://www.dw.com/en/eu-paves-way-for-chinese-pirelli-takeover/a-18558181 and http://www.ft.com/cms/s/0/b0bd4680-d0c8-11e4-982a-00144feab7de.html?ftcamp=crm/email/2015323/nbe/GlobalBusiness/product&siteedition=uk#axzz3VCCQACc3)

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Extract 2 Mobile telephone bid blocked by the EU

Hutchison Whampoa (HW), the Hong Kong based owner of mobile telephone operator Three, planned to take over O2, the UK's second largest mobile operator for £10.25 billion. The deal would have meant that the combined firm controlled 36.5% of the UK mobile phone market, becoming the UK's largest mobile operator, with 31 million customers.

However, the takeover has been blocked by the EU. Its regulators had been scrutinising the proposed deal for several months since HW entered into talks to buy O2 from the Spanish mobile phone company Telefonica back in January 2015.

A spokesperson for HW said, "We strongly believe that the merger would have brought major benefits to the UK". Whereas a spokesperson for the UK consumer pressure group 'Which?' said that the merger, "could adversely affect competition and the level of service that consumers receive in the UK". 'Which?' is the largest consumer body in the UK, with over 680 000 members who subscribe to a monthly magazine and over 335 000 online subscribers.

Comparable takeovers by HW of O2 Ireland and Orange Austria, which both reduced the number of operators from four to three, had previously been allowed. However, the EU imposed conditions on each deal, such as the sale of airwaves and guarantees of access to other providers in the market.

(Sources: adapted from: http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/telecoms/11492775/Telefonica-agrees-10.25bn-sale-of-O2-to-Hutchison-Whampoa.html and http://www.thisismoney.co.uk/money/markets/article-3584636/Hung-European-Commission-blocks-10-3bn-takeover-O2-Three-opening-door-likely-bid-Virgin-Media-owner.html and http://www.which.co.uk/about-which/company-info/what-is-which/)

(a) With reference to Extract 1, explain what type of integration occurred when CNCC took over Pirelli.

(4)

(b) With reference to Extract 1 and your own knowledge, evaluate the likely benefits to CNCC of its takeover of Pirelli.

(12)

(c) With reference to Extract 2, examine the factors that would have been considered by the competition authorities when investigating the proposed takeover of O2 by HW.

(12)

(d) Evaluate the extent to which pressure group activities might influence the business behaviour of TNCs such as CNCC and HW.

(12)

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(c) With reference to Extract 2, examine the factors that would have been considered by the competition authorities when investigating the proposed takeover of O2 by HW.

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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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