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 5 June 2018 – 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 In June 2016 New Zealand Media and Entertainment (NZME) completed its demerger from Australia's APN News & Media.

Discuss possible reasons for demergers.

(Total for Question 1 = 20 marks)

2 In August 2014 twelve Japanese companies that supply car parts were accused of collusion by the Chinese Government's competition regulator.

Assess the extent to which collusion is a rational business strategy.

(Total for Question 2 = 20 marks)

3 In 2015 members of the National Farmers Union, a pressure group representing UK farmers, protested against the low prices being paid to them by large supermarkets.

Discuss how pressure group activity to protect the interests of suppliers may impact on the business behaviour of monopsony firms.

(Total for Question 3 = 20 marks)

4 In 2015 the French Government took legal action against transnational online companies, such as Netflix, Google and Amazon, that it claimed were avoiding paying tax on profit.

Assess the likely impact of government intervention to control the activities of transnational companies on their 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 Australia Post

Extract 1 Government regulation

Australia Post is a Government-owned postal delivery organisation. It has a legal monopoly over the delivery of standard letters, which weigh less than 250g and cost no more than AUD$2.80 to send. All other services provided by Australia Post are open to competition from large private sector companies such as DHL, FedEx and TNT Express.

As a monopolist in the delivery of standard letters, Australia Post is subject to Government regulation by the Australian Competition and Consumer Commission (ACCC). For example, in response to complaints by its competitors, the ACCC was given the power to monitor any cross-subsidisation by Australia Post. Rival providers claimed that Australia Post was damaging competition by cross-subsidising the services that are open to competition with revenues from its monopoly letter service.

However, in 2013-14 Australia Post's revenue from its monopoly letter service did not cover costs. Its financial accounts also showed that Australia Post's total revenue from all services was lower than its costs.

(Source: adapted from https://www.accc.gov.au/media-release/accc-report-finds-no-cross-subsidy-of-contestable-services-by-australia-post)

Extract 2 Customer service

A range of complaints from angry customers has appeared on Australia Post's Facebook page about lost letters, long waiting times and package delivery failures. Despite these complaints, Australia Post claims that its service is actually improving.

Australia Post is required by law to deliver 94% of letters on time or early. A spokeswoman for Australia Post said that, in 2014, it had delivered 94.8% of letters on time or earlier.

The Institute of Public Affairs, a free market organisation, has called for Australia Post to be privatised. It is a view shared by the ACCC and the Australian Productivity Commission.

(Source: adapted from http://www.news.com.au/finance/business/other-industries/what-exactly-are-we-paying-you-for/news-story/549c27918f3103e5c03fe1b98310ef1f)

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Extract 3 Losses, price and consumer demand

In 2014, Australia Post made its first annual loss for more than thirty years. According to the company's Chief Executive, letter posting by Australians is in long-term decline.

"We are a parcels company more than a letters company," he said. A decline in the posting of letters in 2014 resulted in a AUD$222 million after-tax loss, compared with a AUD$116 million profit a year earlier. Losses in its letters business were so big that they far exceeded the profits from Australia Post's parcels and retail businesses. The letters business reported a loss of AUD$381 million.

In 2015, Australia Post sought the approval of the ACCC to raise the price of postage stamps for letters from AUD$0.70 to AUD$1.00. The company claimed that the price increase was necessary to limit any further losses. Consumer demand for postage stamps for letters was predicted to fall by 20% if the price rise went ahead.

The Chief Executive warned that competition was intensifying in the parcel deliveries sector as several more international companies, such as Japan Post, have entered the national market.

(Source: adapted from http://www.smh.com.au/business/australia-post-posts-222m-loss-letter-posting-in-terminal-decline-20150925-gjup78.html)

(a) With reference to the third paragraph of Extract 3, explain whether the demand for postage stamps for letters is predicted to be price elastic or price inelastic.

(4)

(b) Discuss the extent to which the business objectives of a firm such as Australia Post may differ from those of large private sector companies.

(12)

(c) With reference to the information provided and your own knowledge, assess whether a monopoly is likely to operate efficiently.

(12)

(d) Evaluate the likely effects of the entry of more firms into the letter and parcel delivery industry on the behaviour of existing firms.

(12)

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(Total for Question 5 = 40 marks)

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

6 The market for taxi journeys in Nairobi, Kenya

Extract 1 The entry of new taxi businesses

There are more than 10 000 licensed taxis in Nairobi, the capital city of Kenya, as well as a large number of unlicensed taxi operators. In 2015, following the introduction of App-based Uber, the worldwide online transport company, Nairobi experienced increased activity and innovations in the taxi market. Safaricom, a highly successful Kenyan company, entered the market through two Apps, Little Cab and Sendy. Global taxi companies such as Mondo Ride and Taxify also entered the market.

Mondo Ride immediately chose to set its prices at 20% lower than its main rivals. Most taxi firms charge higher prices at peak times, but Mondo Ride does not. Little Cab has an IT system that allow users of regular phones to get their taxi at the same lower price available to App users.

Both Little Cab and Mondo Ride have a budget option where consumers pay lower prices for using older taxis.

In the future many more taxi firms are expected to enter the market in Nairobi.

(Sources: adapted from https://wolfganghthome.wordpress.com/2016/09/23/taxi-price-wars-get-hotter-again as-mondo ride-too-drops-tariffs/ and http://www.nation.co.ke/business/Battle-for-Kenya-e-hailing-market-share-moves-to-services/996-3423462-1fjgft/)

Extract 2 Customer reviews

In Nairobi it is now possible to step out of a taxi and almost instantly post a review, meaning that taxi drivers now have a vested interest in keeping passengers happy. The majority of App-based taxi services allow customers to monitor the progress of a taxi, as well as reference its driver by name. The days when a taxi driver could delay in responding to a call, or refuse to take certain jobs at certain times of the day, are gone.

(Source: adapted from http://haiafrika.com/why-taxi-apps-are-the-next-big-thing-in-nairobis-move-forward/)

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Extract 3 Reactions to increased competition

The increased competition between taxi firms has been welcomed by consumer bodies and residents in Nairobi. According to the Chief Executive of The Consumers Federation of Kenya, taxi companies will be forced to be innovative to maintain their market position.

An advertising executive in Nairobi says the arrival of new taxi companies has helped cut her travel costs and made prices more transparent. "Whenever I call a taxi I know exactly how far they are from my location. I know what I will be charged and I can get one at any time," she said.

It is unclear whether the growth in the number of taxis will help to reduce Nairobi's severe air pollution and congestion concerns. Uber maintains that it does not compete with public transport. It says many people use taxis to travel from a bus or train station. It also maintains that taxis reduce car use, and even car ownership, by making the taxi system cheaper and more convenient.

Environmental pressure groups remain unconvinced and are asking the Kenyan Government to introduce greater regulation of taxi firms in Nairobi. At present, the industry is subject to very little regulation.

(Source: adapted from https://www.theguardian.com/sustainable-business/2016/sep/16/uber-little-cabs-kenya-nairobi-battle-taxi)

(a) Explain **one** possible reason why 'most taxi firms charge higher prices at peak times' (Extract 1, line 9).

(4)

(b) With reference to the information provided, evaluate the extent to which a product differentiation strategy will enable a taxi company to increase its profit.

(12)

(c) Discuss the extent to which Nairobi's taxi market is contestable.

(12)

(d) Assess the case for more regulation of Nairobi's taxi market.

(12)

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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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