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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Monday 22 October 2018

Afternoon (Time: 2 hours) | Paper Reference **WEC03/01**

Economics

International Advanced Level
Unit 3: Business Behaviour

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 Rabobank is a co-operative bank based in the Netherlands. It operates on the basis of co-operative principles.

Discuss the extent to which the objectives of a co-operative organisation may differ from those of other private sector businesses.

(Total for Question 1 = 20 marks)

2 Coca-Cola, Nike and Volkswagen are examples of transnational companies (TNCs).

Discuss the reasons why companies become TNCs.

(Total for Question 2 = 20 marks)

3 Price discrimination is often used by theatres and cinemas when selling tickets.

Evaluate the extent to which price discrimination benefits producers **and** consumers.

(Total for Question 3 = 20 marks)

4 In September 2015 the Government of Angola extended its employment protection laws.

Assess the likely impact of government intervention to protect the interests of employees 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.

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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 India: International competitiveness and the television (TV) market

Figure 1 The value of the Indian rupee (INR) in terms of the US dollar (US$) – all figures for June

Year	2012	2013	2014	2015	2016
US$1 =	INR55.58	INR56.50	INR59.19	INR63.63	INR67.27

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

Extract 1 International competitiveness

In 2016 India rose 16 places to rank as 39 out of a total of 138 countries on the Global Competitiveness Index. India's competitiveness has improved in many areas of the economy, particularly in terms of efficiency in goods markets and in the rate of product innovation. Improved monetary and fiscal policies as well as lower oil prices contributed to the stabilisation and high growth rate of the Indian economy.

The Indian Government has introduced several measures to enhance the economy's competitiveness including a relaxation of foreign direct investment regulations and a reduction in business taxes.

However, the Indian Government needs to do more to reduce inflexibility in the labour market, including the immobility of labour. In addition, India has relatively low adult literacy rates in many parts of the country. There are also concerns about the rise in real wage rates relative to productivity growth. Labour productivity is also being constrained by the existence of many large government-owned enterprises.

(Sources: adapted from http://indianexpress.com/article/business/economy/global-competitiveness-index-india-jumps-16-ranks-for-second-time-second-most-competitive-brics-economy/ and http://currentaffairs.gktoday.in/india-ranks-39th-2016-17-global-competitiveness-index-09201636011.html and http://timesofindia.indiatimes.com/business/india-business/India-jumps-16-places-in-competitiveness-index/articleshow/54553047.cms)

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Extract 2 Samsung in India

In 2015 Samsung, the South Korean-based electronics transnational company, had a 31% share of the Indian TV market and a 46% share of the higher quality TV market segment. By the end of 2016 it aimed to increase its share of the TV market to 35% and the higher quality share to 60%. In 2016 Samsung launched 44 new TV models in India. This included introducing the innovative "Quantum Dot" display technology, which significantly improves picture quality.

Samsung's growth strategy focused on product differentiation and innovation to gain market share.

(Source: adapted from http://www.channeltimes.com/story/samsung-india-aims-35-market-share-in-tv-segments/)

Extract 3 Price cutting in the TV market

Three large firms, LG, Samsung and Sony, dominate India's television market with a combined market share of 80%. In March 2017 these three manufacturers reduced their prices for new TVs by up to 15%. This represented a major change in strategy, particularly for Samsung. They offered significant price discounts in an attempt to counteract the competition from the smaller firms in the market.

India's domestic TV manufacturers, VU, Micromax and Intex, have been increasing their market share by selling TVs that are between INR2 000 to INR10 000 cheaper than the equivalent TVs produced by LG, Samsung or Sony. For example, a consumer would pay INR18 000 for a 32-inch Samsung TV whilst a Micromax television of the same size and quality is priced at INR13 499. Consumers in India are increasingly choosing the cheaper discounted brands in preference to buying a TV with a well-established brand name.

A spokesperson for a major retail chain said that more than 25 different TV firms are now operating in the market. Firms such as Sanyo, Polaroid, LeEco and Kodak have recently entered the Indian TV market.

(Source: adapted from http://www.moneycontrol.com/news/business/companies/in-india-led-tv-price-wars-are-now-going-the-smartphone-way-2248009.html)

(a) With reference to Figure 1, explain **one** effect of the trend in the exchange rate of the Indian rupee on India's international competitiveness.

(4)

(b) With reference to Extract 1, assess the likely impact of policies designed to improve the international competitiveness of the Indian economy.

(12)

(c) With reference to Extract 2 and your own knowledge, discuss why Samsung may have focused on a product differentiation strategy before 2017.

(12)

(d) With reference to Extract 3, discuss whether the entry of more firms into the TV market will inevitably benefit consumers.

(12)

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(b) With reference to Extract 1, assess the likely impact of policies designed to improve the international competitiveness of the Indian economy.

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

6 The container shipping industry

Extract 1 Mergers of container shipping companies

In 2016 Japan's three biggest container shipping companies, Kawasaki Kisen Kaisha, Mitsui OSK Lines and Nippon Yusen Kaisha announced their intention to integrate their businesses. The three firms will invest a total of ¥300 billion (US$2.86 billion) in the merger, which is expected to generate a profit for the integrated company by the end of 2018.

The main reasons given for the merger were the effects on the world market of a large number of newly-built container ships; a fall in world demand; and historically low container freight rates. As independent firms, all three Japanese companies forecast increased losses for 2017.

In 2016 the bankruptcy of Hanjin Shipping, South Korea's largest container shipping line, highlighted the depressed state of the industry. Global shipping carriers have responded to the crisis through mergers and consolidation. For example, France's CMA CGM acquired Singapore's Neptune Orient Lines. Also, two of China's largest shipping companies merged.

The owner of Maersk, the world's largest container shipping line, said that these mergers provided relief to the industry that has been characterised by over-capacity. Maersk will not be buying any new ships. Instead, it intends to expand through external growth.

(Sources: adapted from http://www.seatrade-maritime.com/news/asia/japan-s-k-line-mol-nyk-to-integrate-container-shipping-business.html and http://gcaptain.com/worlds-biggest-shipping-company-wants-more-mergers-after-japan)

Extract 2 Market concentration and the size of container ships

In 2000 the top five shipping container companies controlled 35% of the world's container capacity. By 2008, market concentration had increased to 46% and by 2016 it had risen to 55%. Some analysts believe that higher market concentration results in greater efficiency and higher profitability.

A recent report forecasts that the average size of container ships on the Asia-North Europe route will continue to rise. In a low demand and over-capacity environment, the pressure to fill these ships is enormous, leading to price wars. However, fewer shipping container companies means that there may be less incentive to cut prices.

(Source: adapted from http://www.joc.com/maritime-news/container-lines/concentration-liner-shipping-step-towards-recovery-say-analysts_20161104.html)

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(a) Explain **one** possible reason why 'all three Japanese companies forecast increased losses for 2017' (Extract 1, lines 9–10).

(4)

(b) With reference to the information provided, evaluate the likely benefits of mergers between container shipping companies.

(12)

(c) With reference to the information provided, assess the likely impact of a higher market concentration ratio on consumers.

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(d) Evaluate policies governments could use to prevent exploitation of consumers by container shipping companies.

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

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