GradeMax

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 21 October 2019

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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Pearson

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 Subway is an American restaurant franchise that sells sandwiches and salads. In 2016 there were over 44 000 Subway restaurants globally. From its launch in 1965 to the present day, Subway has grown organically.

Discuss whether organic growth is always more beneficial to a business than growth by merger.

(Total for Question 1 = 20 marks)

2 The Tata Group is a transnational company (TNC), which has its headquarters in India and operates in more than 100 countries across six continents. Tata exports products and services to over 150 countries.

Discuss reasons why some companies become TNCs.

(Total for Question 2 = 20 marks)

3 The retail car market in the USA is oligopolistic. The four largest firms in the market are Ford, General Motors, Toyota and Fiat Chrysler Automobiles (FCA).

To what extent might firms in an oligopolistic market compete using non-price strategies?

(Total for Question 3 = 20 marks)

4 In 2016 the UK competition authorities ordered Tesco, a major UK supermarket, to stop exploiting its suppliers. For example, it was ordered to reduce the time it takes to pay suppliers.

Evaluate the likely impact of government policies to protect suppliers on the business behaviour of monopsonists.

(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 Co-operatives

Extract 1 Co-operatives in the Italian retail industry

Co-operatives are a common type of business organisation in Italy. In 2015, in Emilia Romagna, one of the richest regions in Italy, there were an estimated 8 000 co-operative enterprises. Collectively, they accounted for 40% of the region's GDP and were the region's major employers.

The National Association of Consumer Cooperatives, (COOP), had a revenue of €13 billion and an 18% share of the retail market. It had 7.4 million consumer members, more than 56 000 employees and about 1 400 shops ranging from small stores to large hypermarkets. Members of COOP have been able to share resources and provide employee training programmes across the group.

However, competitive pressures were growing because international retailers started to open stores in the COOP's traditional regions. For example, in Emilia Romagna, the Chinese company Yiguo increased its market share by undercutting COOP's prices. The German retail discount firms, Lidl and Aldi, both aim to challenge COOP's dominance in the retail discount store market. Consequently, co-operatives were under increasing pressure to cut costs and become more dynamically and productively efficient.

In 2015, three of the firms within the COOP network, Adriatica, Estense and NorthWest Consumers, merged to form Alleanza. Its considerable size and retail coverage meant that it established a dominant position in the COOP network. This larger firm was in a stronger position to compete more effectively in an increasingly competitive market. However, according to one financial analyst, it was likely that focusing on profits and increasing market share could only be achieved by sacrificing co-operative objectives.

The Italian Government has been urged by members of the co-operative movement to provide more support for co-operative enterprises such as employment subsidies and extra funding for training programmes.

(Source: adapted from https://www.thenews.coop/98972/sector/retail/italys-new-co-op-giant-remember-rich-history/)

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Extract 2 The Ugandan Government and co-operatives

In Uganda co-operatives are found in a variety of sectors including agriculture, energy and transport.

The Ugandan Government has made the development of co-operatives a top priority. It has introduced several policies including tax breaks, subsidies and low-cost loans. The Government is aware of the contribution that co-operatives make towards increasing household income and wealth creation. A statement from the Ministry of Trade, Industry and Cooperatives said, "Co-operatives play an important role in socio-economic development through the creation of jobs, improvement of member income and social stability."

The Government has initiated projects like the One Village One Product programme. This provides equipment to over 40 co-operative societies in 18 districts, as well as training members in business planning and other business skills.

(Source: adapted from https://www.thenews.coop/104254/sector/mutuals/ugandan-co-ops-thrive-government-support/)

(a) With reference to Extract 1 paragraph 3, explain what is meant by *productive efficiency*. Illustrate your answer with an appropriate diagram.

(4)

(b) With reference to Extract 1, evaluate the likely benefits of the merger between Adriatica, Estense and NorthWest Consumers to their consumers **and** employees.

(12)

(c) With reference to Extract 1, discuss the extent to which the business objectives of co-operatives may differ from those of other types of private sector companies.

(12)

(d) With reference to the information provided and your own knowledge, evaluate the likely impact of government intervention to support co-operative organisations.

(12)

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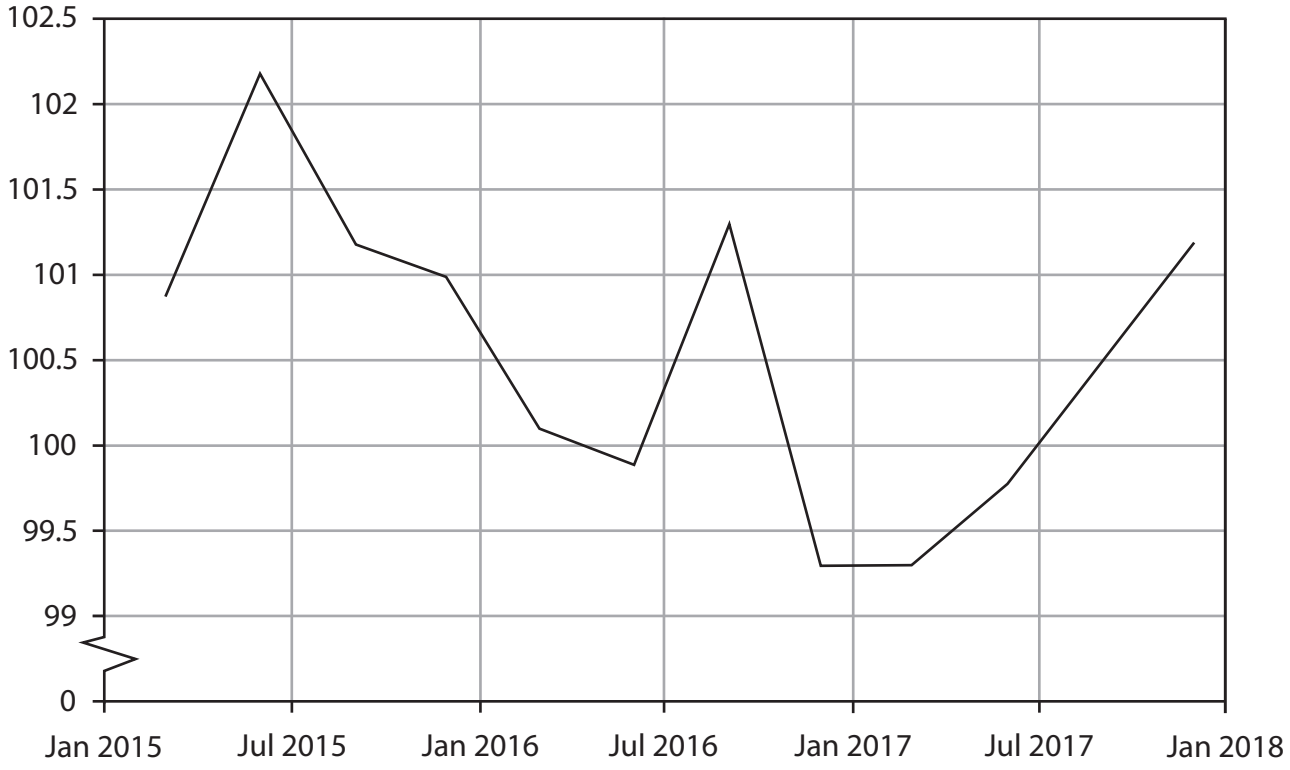
If you answer Question 6 put a cross in the box ☒ .

6 The Australian economy

Figure 1 Index of unit labour costs, March 2015 - December 2017, December 2011 = 100



(Source: https://tradingeconomics.com/australia/labour-costs)

Figure 2 The value of the Australian dollar (AUD) in terms of the US dollar (US$) - all figures for April

Year	2013	2014	2015	2016	2017
1 US$ =	AUD 0.97	AUD 1.08	AUD 1.28	AUD 1.29	AUD 1.34

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

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Extract 1 Australia's competitiveness

According to the 2017 World Competitiveness Yearbook, Australia rose one place to 21st out of 137 countries. Australia scored particularly well for its skilled workforce, high educational level and infrastructure.

However, there was a decline in Australia's competitiveness in several areas. Business efficiency fell from 17th to 27th between 2016 and 2017. This decline resulted from worsening performances in employee training and labour productivity.

Australia's infrastructure has benefited from the Government's expenditure on major investment projects. However, some important criteria in this sector were considered to be uncompetitive, such as energy infrastructure (56th), communications technology (54th) and internet connectivity (49th).

(Source: adapted from https://www.austrade.gov.au/news/economic-analysis/australia-has-remained-in-the-top-25-most-competitive-nations-among-63-economies)

Extract 2 Market concentration and government intervention

An independent economic report published in December 2017 found that 15% of the Australian economy is dominated by large firms. In electricity distribution one firm supplies the whole market. In other similar industries where firms are able to gain significant economies of scale, such as telecommunications, consumers have little choice of supplier.

On average, profit margins in markets with high barriers to entry were 20% greater than in markets with no significant barriers.

The report contains proposals for possible government actions. It suggests that:

- regulators could set price controls on charges made by airports on airline companies, rather than just monitoring price levels
- planning permission regulations could be reduced to make it easier for competing supermarkets to expand into different areas of the country
- the Government could also enable consumers to switch more easily to other providers in sectors such as banking and energy.

Whether highly concentrated markets in Australia are a problem depends on the impact on consumers. Less concentrated markets may not benefit consumers if smaller businesses have higher average costs. Government regulation that limits the size of the largest firms might lead to higher costs of production and higher prices to consumers.

(Source: adapted from http://theconversation.com/australia-isnt-dominated-by-big-businesses-that-gouge-customers-grattan-report-88465)

(a) With reference to Figure 1, comment briefly on the trend in the index of *unit labour costs* between July 2015 and January 2017.

(4)

(b) With reference to Figure 1, Figure 2 and Extract 1, discuss how Australian businesses could respond to changes in Australia's international competitiveness.

(12)

(c) With reference to Extract 2 and your own knowledge, discuss why 'profit margins in markets with high barriers to entry were 20% greater than in markets with no significant barriers' (lines 7-8).

(12)

(d) Evaluate government policies designed to protect consumers from exploitation by firms operating in highly concentrated markets.

(12)

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TOTAL FOR PAPER = 80 MARKS

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