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Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Level
Unit 3: Business Behaviour

Friday 17 January 2014 – 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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your 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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5/3/6/1/E2

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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 benefits of growth to businesses are so great that no business should aim to remain small.' Explain and critically examine this statement.

(20)

2 To what extent would perfect competition in all markets maximise economic efficiency?

(20)

3 Critically examine the benefits to businesses **and** consumers of a business having monopsony power over its suppliers in an industry of your choice.

(20)

4 Discuss the likely effects on a business's behaviour of an increase in contestability in its market.

(20)

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Do not use pencil. Use black ink or ball point pen.

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 questions 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)

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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 IS ON THE NEXT PAGE.

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Section B: Answer either Question 5 or Question 6.

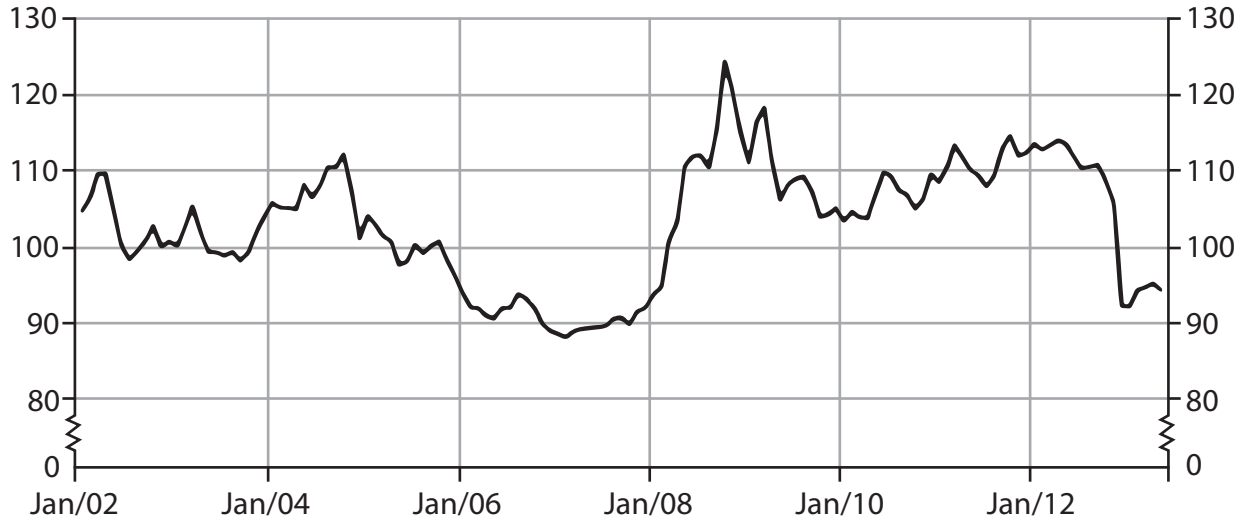
If you answer Question 5 put a cross in this box ☒ .

Question 6 starts on page 28.

You should spend 60 minutes on this section.

5 The international competitiveness of South Korea (the Republic of Korea)

Figure 1 Index of export prices for South Korea



(Source: www.tradingeconomics.com, The Bank of Korea)

Extract 1 South Korea – other measures of international competitiveness

Labour productivity and costs

In 2011 South Korea's labour productivity was just below $30 PPP (Purchasing Power Parity) per worker, per hour, compared with the OECD* average of $43.

However, over the period 2000–2011, South Korea displayed the strongest annual growth in labour productivity of any OECD country (4.5% per year against an OECD average of 1.5% per year). Wage and non-wage costs per worker, per hour grew by 3.3% per year on average for the OECD countries as a whole over the period 2000 to 2011, but by 6.2% per year in South Korea. 5

Figure 2 Investment rates in South Korea and the OECD (2002–2011)

	Investment (annual percentage change)									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
South Korea	7.1	4.4	2.1	1.9	3.4	4.2	–1.9	–1.0	5.8	–1.1
OECD average	–1.0	2.4	4.6	4.6	4.6	2.8	–2.5	–12.3	2.5	No data

* the Organisation for Economic Cooperation and Development (OECD) has 34 member countries from across the world. Most are high-income, developed countries, but the group also includes some emerging economies.

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Figure 3 Educational attainment

South Korea has the highest proportion of young adults (25–34 year-olds) with tertiary attainment of all the OECD countries, with 65.0% having reached this level of attainment.

	Percentage of total population with tertiary education			
	25–34 year-olds	35–44 year-olds	45–54 year-olds	55–64 year-olds
South Korea	65.0	46.9	26.7	12.8
OECD average	37.8	33.2	27.5	22.9

(Source: adapted from *OECD Factbook 2013: Economic, Environmental and Social Statistics*, OECD © 2013 http://dx.doi.org/10.1787/factbook-2013-en)

Extract 2 Market structure and competition

South Korea's economy has been substantially liberalised over the course of the past two-and-a-half decades, with the most recent wave of liberalisation occurring after the financial crisis of 1997. There are no significant entry or exit barriers to domestic companies, and entry barriers to foreign companies have been significantly lowered since the 1990s. Smaller companies face difficulties in accessing finance – a problem deepened by the credit crunch resulting from the recent global financial crisis – and in finding adequate employees. However, these problems are not, or are only slightly, caused by government restrictions.

The presence of large-scale conglomerates means that there is still a high degree of industrial and market concentration. Government efforts to control the activities of the conglomerates have had limited effect since the 1990s, because the government has avoided putting too much pressure on businesses that are vital to the country's economic development.

(Source: adapted from BTI 2012, South Korea Country Report, http://www.bti-project.org/countryreports/aso/kor/)

Figure 4 Average market share of the three largest companies in each industry in South Korea

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average market share	75.3%	71.5%	68.5%	64.6%	61.4%	59.4%	59.1%	64.3%	67.0%	67.8%

(Source: *Statistical Yearbook of 2010*, 2011, Fair Trade Commission, Republic of Korea)

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(a) With reference to paragraph 2 of Extract 1, explain what has happened to unit labour costs in South Korea over the period 2000–2011.

(4)

(b) With reference to the data provided, assess the factors that have influenced the international competitiveness of South Korea.

(12)

(c) With reference to the information provided, evaluate the success of the South Korean government's intervention to promote competition since the 1990s.

(12)

(d) Discuss **further** measures that the South Korean government might take to improve its economy's international competitiveness.

(12)

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(12)

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(12)

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(Total for Question 5 = 40 marks)

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QUESTION 6 IS ON THE NEXT PAGE.

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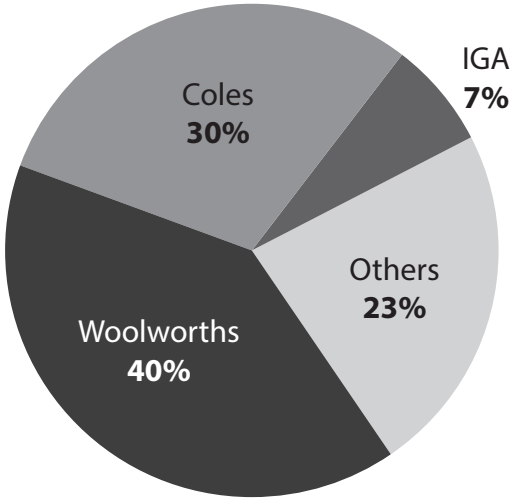
If you answer Question 6 put a cross in this box ☒ .

6 Australian supermarket industry

Figure 1 Supermarket market share by revenue, 2009



Extract 1 Coles and Woolworths must allow competitors in shopping centres

Changes introduced in September 2009 could mean cheaper grocery prices, with Coles and Woolworths banned from restricting competition in shopping centres. The breakthrough, brokered by the Australian Competition and Consumer Commission (ACCC), means that Coles and Woolworths will be unable to prevent shopping centres from leasing out space to competitors.

During its Grocery Inquiry in 2008, the ACCC identified more than 700 supermarket leases where shopping centres were prevented from leasing space to competitors of Coles or Woolworths. This has led to a situation where many Australian shopping centres have only a Coles or Woolworths supermarket, with the smaller chains locked out from leasing space.

This means that the big two supermarket chains will begin to lose the monopoly positions they enjoy in many shopping centres, said Professor Michael Beverland, a lecturer in marketing from RMIT University. "You may see more price competition as the supermarkets will be side-by-side and they will be forced to match discounts," he said.

The move to end anti-competitive practices was expected to open up shopping centre space to Aldi, Franklins, Foodworks and IGA stores. ACCC chairman Graeme Samuel proclaimed the ban was "a major breakthrough for grocery competition in Australia". He said that "reducing the barriers to entry for new and expanding players opens the possibility for Australian consumers to have greater choices in where to shop and potentially pay lower prices as a result".

(Source: adapted from 'Coles, Woolworths must allow competitors in shopping centres', Edmund Tadros, news.com.au, 18 September 2009 http://www.news.com.au/business/coles-woolworths-must-allow-competitors-in-shopping-centres/story-e6frfmbi-1225776670699#ixzz2TjP3hYuV)

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Extract 2 Regulating supermarkets does not check out

The likely impact of the Australian government's policy of stopping Coles and Woolworths being able to prevent shopping centres from leasing out space to competitors was analysed by the Institute of Public Affairs in 2010. Treasury data showed that out of 30 surveyed supermarkets, the 20 least expensive were Coles and Woolworths stores. The 10 most expensive were those that the competition policy tried to help the most – Supabarn and IGA.

Using the data, the analysis concluded the mean price of an average basket of groceries was likely to rise by around $1.05 because of the policy. As the Head of the ACCC conceded in an interview with the *Australian Financial Review* in early 2013, increases in regulation often lead to higher prices for consumers at the checkout.

The policy is also based on the incorrect assumption that retailers only compete on price. Competition is also achieved through the different products that the supermarkets offer. Aldi and Costco both meet the demands of price-sensitive consumers. Supabarn, Coles and Woolworths provide for consumers who want a mix of low prices, convenience, parking and location. IGA stores are mainly used by customers who value convenience over price. So while IGA and Supabarn prices may generally be higher, people shop there because they want to support a local retailer, or because they are open later at night.

(Source: adapted from 'Regulating supermarkets does not check out', Tim Wilson, 10 May 2013, *The Canberra Times*, http://www.canberratimes.com.au/comment/regulating-supermarkets-does-not-check-out-20130509-2jb33.html#ixzz2TYkZVVYb)

(a) With reference to Figure 1, explain the market structure of the Australian supermarket industry in 2009.

(4)

(b) Examine the likely effects on Woolworths and Coles of them being 'unable to prevent shopping centres from leasing out space to competitors'. (Extract 1, lines 4–5). Use an appropriate diagram to support your answer.

(12)

(c) With reference to the information provided, discuss possible reasons why out of 30 surveyed supermarkets the 10 most expensive were branches of Supabarn and IGA. (Extract 2, lines 4–6)

(12)

(d) Examine the likely effects of government intervention to protect consumers. Refer to the supermarket industry, or another industry of your choice in your answer.

(12)

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(a) With reference to Figure 1, explain the market structure of the Australian supermarket industry in 2009.

(4)

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(b) Examine the likely effects on Woolworths and Coles of them being 'unable to prevent shopping centres from leasing out space to competitors'. (Extract 1, lines 4–5). Use an appropriate diagram to support your answer.

(12)

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(c) With reference to the information provided, discuss possible reasons why out of 30 surveyed supermarkets the 10 most expensive were branches of Supabarn and IGA. (Extract 2, lines 4–6)

(12)

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(d) Examine the likely effects of government intervention to protect consumers. Refer to the supermarket industry, or another industry of your choice in your answer.

(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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