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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

Tuesday 26 January 2016 – 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 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 Discuss the extent to which a divorce of ownership from control might influence the objectives of private sector organisations.

(Total for Question 1 = 20 marks)

2 To what extent might a monopolistically competitive market be more beneficial to consumers than a monopoly market?

(Total for Question 2 = 20 marks)

3 'A price war inevitably causes long term harm to consumers and the employees of firms within the industry.' Critically examine this statement.

(Total for Question 3 = 20 marks)

4 Assess the likely impact of government measures to protect consumers on business behaviour. Refer to types of government intervention in your answer.

(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)

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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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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 Reasons for integration

Extract 1 The Indian poultry industry

The poultry industry in Bangalore, India is going through tough times, with a decline in sales and a severe fall in profit.

TS Chitiyappa, owner of the Adi Shakti Poultry Farm, said that there had been a drop in sales by 10–15% in the six months ending in April 2014. He also commented that costs of production had risen significantly. Animal feed had become very expensive and there was a major shortage of labour. Currently the farm is making a loss, although revenue is managing to cover its variable costs.

In one part of Bangalore there are over 50 poultry farms within an area of 20 square kilometres. When the industry is not doing well the intense competition tends to reduce profit margins even more. Many small poultry businesses in the region are finding it makes sense to merge in order to survive.

(Source: adapted from http://www.thepoultrysite.com/poultrynews/32097/poultry-business-faces-tough-time-due-to-high-production-cost-slowdown)

Extract 2 Zara's supply chain

Zara, the Spanish clothing retailer, not only sells its own clothes, it manufactures them as well. Zara produces 69% of its own merchandise, whereas many clothing retailers outsource their production to cut labour costs.

Zara has an in-house design team of 300 employees based in Spain. This team converts the latest fashion trends into products to be sold in Zara shops at some of the fastest speeds in the industry. Clothing products can move from design concept to shops in just two weeks. Zara is able to work at such a speed because it sources a large proportion of the clothing from the factories which it owns across Europe.

Zara operates a just-in-time manufacturing system. About half of its clothing materials arrive in its factories uncoloured so that they can immediately adjust the colours as seasonal trends change.

(Source: adapted from http://mi021.wordpress.com/2013/03/24/a-complex-vertical-jump-pushing-for-vertical-integration/ and http://www.retail-week.com/companies/zara/company-profile-zaras-expansion-slowdown-boosts-profitability/5056954.article)

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Extract 3 Apple and vertical integration

Apple has consistently adopted a vertical growth strategy using an integrated hardware and software approach. For example, the innovative iPhone and iPad have hardware and software designed by Apple, which also designs its own processors for the devices. This integration has allowed Apple to launch new products for mobile computing in advance of its competitors.

According to David Hsu, a US management professor, "It can make sense to have everything under one roof, despite sacrificing some of the benefits of specialisation".

(Source: adapted from http://business.time.com/2012/03/16/how-apple-made-vertical-integration-hot-again-too-hot-maybe/)

(a) Explain **one** possible reason why firms in the Bangalore poultry industry experienced 'a severe fall in profit' (Extract 1, line 2).

(4)

(b) With reference to Extract 1 and your own knowledge, assess whether a business making a loss will be able to survive. Use an appropriate diagram to support your answer.

(12)

(c) With reference to Extracts 2 and 3 and your own knowledge, discuss non-pricing strategies which might be used by companies such as Zara and Apple.

(12)

(d) With reference to the information provided and your own knowledge, assess different ways in which businesses can grow.

(12)

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(a) Explain **one** possible reason why firms in the Bangalore poultry industry experienced 'a severe fall in profit' (Extract 1, line 2).

(4)

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(b) With reference to Extract 1 and your own knowledge, assess whether a business making a loss will be able to survive. Use an appropriate diagram to support your answer.

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(c) With reference to Extracts 2 and 3 and your own knowledge, discuss non-pricing strategies which might be used by companies such as Zara and Apple.

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(d) With reference to the information provided and your own knowledge, assess different ways in which businesses can grow.

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

6 Foreign direct investment (FDI) and transnational companies (TNCs)

Figure 1 China: Flows of FDI, 2009–2013 (US$ billion)

	2009	2010	2011	2012	2013
Inflows to China	114.2	185.0	228.6	253.4	258.2
Outflows from China	43.9	60.1	43.0	62.4	73.2

(Source: adapted from http://www.oecd.org/investment/FDI%20in%20figures.pdf)

Extract 1 Geely increases its investment in Sweden

In 2010 Geely, a Chinese car manufacturer, paid US$1.5 billion to buy Volvo, a Swedish car company. Following this acquisition, Geely funded a new research and development (R&D) centre in Sweden, expecting considerable cost savings in terms of development, testing and sourcing.

"For Chinese car makers an overseas R&D facility is necessary for them to compete with foreign players, and gives them a better understanding of the local markets, technology standards and policies," said Sun Muzi, an automobile analyst.

A common perception of Chinese TNCs, amongst European consumers, is that they lack transparency and openness and that their links with the Chinese state are too close. A high proportion of FDI outflows is still financed and supported by the Chinese Government.

(Source: adapted from http://www.chinadaily.com.cn/bizchina/2013-02/21/content_16242602.htm)

Extract 2 Thailand: How should the government attract FDI?

International competition to attract FDI has intensified. Thailand's ability to attract FDI is on a downward trend. In an attempt to reverse this trend, the Thai Government is encouraging the development and transfer of labour force skills, supporting R&D and encouraging innovation as a means of attracting FDI. In addition, the Thai Government is seeking to create a more competitive business environment, for example, through deregulation.

Investment promotion policies, such as tax incentives, are usually effective in the short-run but not sustainable in the long run. This is because rival countries can offer similar measures so that, in the end, no country genuinely benefits.

(Source: adapted from http://blog.nationmultimedia.com/print.php?id=1774)

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Extract 3 Associated British Foods (ABF) accused of tax avoidance in Zambia

ABF, a large TNC, has been accused of tax avoidance in Zambia after sending profits abroad according to ActionAid, an international pressure group. ABF paid less than 0.5% of its US$123 million pre-tax profits from 2007–2012.

The company benefits from generous capital allowance and tax-relief schemes granted by the Zambian Government in order to finance its expansion.

A spokesman for ABF's Zambian subsidiary company Illovo said, "We deny emphatically that Illovo is engaged in anything illegal, immoral or in any way designed to reduce the tax rightly payable to the Zambian Government".

The total losses to developing countries resulting from tax avoidance by TNCs are estimated to be around £70 billion a year. According to ActionAid, that is enough to save the lives of 85 000 children under the age of five in the world's poorest countries every 12 months. ActionAid is pressuring the Zambian Government to restrict tax avoidance.

(Source: adapted from http://www.lusakatimes.com/2013/02/10/zambia-sugar-plc-subsidiary-of-associated-british-foods-accused-of-tax-avoidance-after-sending-massive-profits-abroad/)

(a) Comment briefly on the trends in the FDI flows as shown in Figure 1.

(4)

(b) With reference to the information provided and your own knowledge, evaluate the likely benefits to Chinese companies, such as Geely, of becoming TNCs.

(12)

(c) With reference to Extracts 2 and 3 and your own knowledge, assess the likely impact of government measures to attract FDI into an economy.

(12)

(d) Evaluate the extent to which pressure group activities might influence the operations of TNCs.

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(a) Comment briefly on the trends in the FDI flows as shown in Figure 1.

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