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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 | | | | |

# Wednesday 16 January 2019

Morning (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** 'In large private sector organisations, such as McDonald's and Adidas, there is inevitably a separation between those who own the organisation and those who control it.'

Discuss how this divorce of ownership from control might influence the objectives of large private sector organisations.

**(Total for Question 1 = 20 marks)**

**2** Window cleaners and hairdressers typically operate in monopolistically competitive markets.

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

**(Total for Question 2 = 20 marks)**

**3** In New Zealand, two large supermarket firms, Foodstuffs and Progressive, control 95% of the market. This means that both firms have significant purchasing power over their suppliers.

Evaluate the likely impact of monopsony power on businesses **and** consumers.

**(Total for Question 3 = 20 marks)**

**4** Fashionara, an Indian clothing and footwear retailer, went out of business in 2016.

Evaluate whether a firm should shut down if it cannot cover its costs of production.

**(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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**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 28.**

### 5 International business expansion

**Extract 1 Charoen Pokphand Foods (CP Foods)**

CP Foods is a large company based in Thailand. Before 2016 it had expanded mainly through a process of vertical integration. CP Foods started out as a food processing business but by 2016 its business activities included the manufacture of animal feed, animal farming, meat processing, food retailing and restaurants.

Although CP Foods' major markets are based in Thailand, the company started to expand into overseas markets, including the USA and Europe. In 2016 it completed a US$1 billion acquisition of the US frozen foods manufacturer Bellisio Parent. In 2017 it acquired a 33% stake in the Polish chicken processer SuperDrob Capital Group for US$52.8 million. This acquisition was the company's first investment into European-based poultry operations.

CP Foods plans to acquire the UK-based poultry company Westbridge Food Group (WFG) for US$74.9 million. WFG has over 100 subsidiaries that have poultry import licences in many European countries.

(Source: adapted from http://asia.nikkei.com/Business/Deals/With-eye-on-Europe-CP-Foods-buys-UK-poultry-trader)

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**Extract 2 Transnational companies (TNCs) in China**

China is amongst the world's fastest-growing economies and its inhabitants make up almost 20% of the global population. TNCs have been expanding rapidly in China including:

- US-based Yum! Brands which owns Pizza Hut, KFC and Taco Bell
- Japanese car manufacturers Toyota and Mitsubishi
- South Korean manufacturers Samsung, Hyundai and Kia.

China is the third largest foreign direct investment (FDI) destination in the world. In 2016, while global FDI flows fell by 13%, FDI inflows to China increased by 2.3%. In part, this was as a result of government tax incentives, the easing of investment restrictions and simplified company registration procedures.

However, FDI trends in 2017 show that foreign investors are taking a more cautious approach to investing in China. China's credit rating has been downgraded for the first time in over 25 years leading to a weakening of the exchange rate.

The economy's GDP growth rate has been declining. In 2010 China's economic growth rate was 10.6%, falling to 6.7% in 2016. China's manufacturing industries are becoming less internationally competitive as wage rates have been rising faster than labour productivity.

(Source: adapted from http://www.investopedia.com/ask/answers/021015/how-many-multinational-corporations-operate-china.asp?lgl=rira-baseline-vertical and http://www.china-briefing.com/news/2017/05/30/fdi-trends-show-cautious-foreign-investment-china.html)

**Extract 3 Transfer pricing in the UK**

In 2015, as part of a European Union initiative, the UK Government adopted a tougher approach to TNCs in relation to transfer pricing. This started with Google's £130 million tax settlement after revelations that the company had been avoiding profit tax in the UK.

Starbucks faced protest campaigns from consumer pressure groups. Following this pressure Starbucks paid nearly as much profit tax in 2015 as it had in its first 14 years in the UK. However, the company continues to be criticised for a lack of transparency, making it hard to determine whether it is paying the correct amount of profit tax.

In 2016 there was a 15% reduction in the number of UK Government investigations into TNCs suspected of transfer pricing. This may have been because TNCs were becoming less aggressive in the methods they use to reduce their UK tax liabilities. It appeared that some TNCs were concerned about the impact of negative publicity over the use of transfer pricing.

Nevertheless, it was too early to conclude that the Government's new policy on tax avoidance was going to be effective in the longer term.

(Source: adapted from https://www.cchdaily.co.uk/negative-publicity-impacts-aggressive-corporate-transfer-pricing)

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(a) With reference to Extract 1, explain what is meant by *vertical integration*.

**(4)**

(b) With reference to Extract 1, assess the likely benefits to CP Foods of growth by takeover rather than by organic growth.

**(12)**

(c) With reference to Extract 2 and your own knowledge, discuss why TNCs may choose to invest in China.

**(12)**

(d) With reference to Extract 3, discuss how government measures **and** pressure group activity may impact on the business behaviour of TNCs operating in the UK.

**(12)**

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(a) With reference to Extract 1, explain what is meant by *vertical integration*.

**(4)**

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(c) With reference to Extract 2 and your own knowledge, discuss why TNCs may choose to invest in China.

**(12)**

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**QUESTION 6 BEGINS ON THE NEXT PAGE.**

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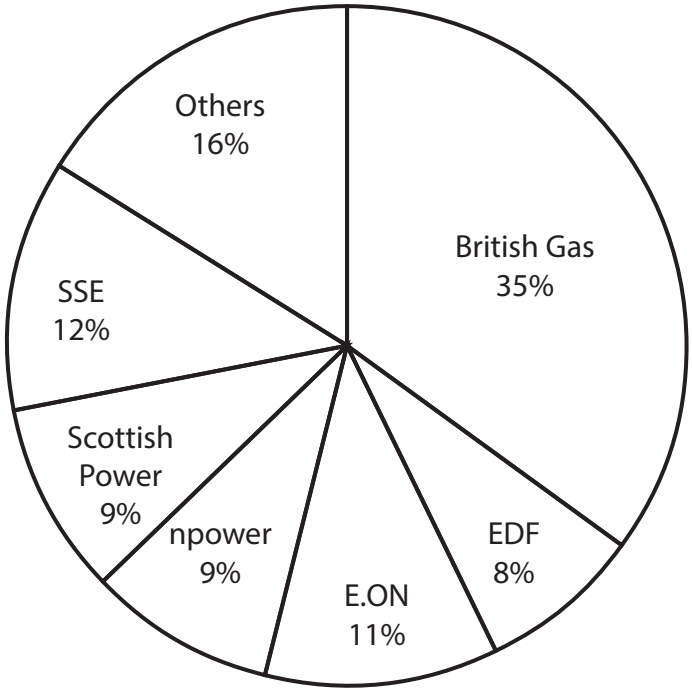
**If you answer Question 6 put a cross in the box ☒ .**

## 6 The UK energy market

**Figure 1 Market share of UK gas suppliers (figures for Quarter 3, 2016)**




(Source: https://www.ofgem.gov.uk/data-portal/all-charts?search_api_views_fulltext=gas+market+share)

**Extract 1 Consumer loyalty schemes**

British Gas is spending £100 million on a loyalty programme that offers new deals to existing customers. The promotion means that customers can choose from a range of incentives for staying loyal to the company. These include larger discounts on their gas bills, reduced subscription fees for Sky TV and lower prices for home insurance. A spokesperson for British Gas said that the company will improve customer service in all areas of the business including maintenance of customer home appliances, such as cookers and boilers, and after-sales service.

Other large companies in the market, including npower and EDF, are planning to introduce similar loyalty schemes. However, the Chief Executive of Citizens Advice, a UK consumer welfare group, said, "While offering rewards is one way to acknowledge how valuable loyal customers are, bringing down bills would make a bigger difference to more people's household finances."

(Source: adapted from http://www.cityam.com/259583/british-gas-rolling-out-new-loyalty-scheme-reduce-bills-and)

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**Extract 2 New entrant to the market**

People's Energy (PE) has received approval from Ofgem, the UK energy regulator, to start providing energy to UK consumers from the beginning of August 2017. The two co-founders of PE were so disappointed by the price rises of the 'Big Six' energy firms that they decided to start up their own energy company.

The ethically-minded energy firm, which uses only renewable sources of energy, aims to return 75% of its profits back to its customers. PE will also provide free shares to those consumers that remain with the company. Consumers will also have representation on the Board of Directors.

One of the co-founders said, "Energy comes from natural resources that should belong to us all, not private entities. We are absolutely passionate about returning ownership of this natural resource to consumers."

(Source: adapted from http://www.fifetoday.co.uk/news/couple-launch-energy-firm-to-challenge-the-big-six-1-4440908)

**Extract 3 Government intervention**

The UK Government is planning to set maximum prices for electricity and gas. The proposed intervention was welcomed by consumer groups and small energy firms. The Managing Director of energy firm First Utility criticised the 'Big Six' energy companies for keeping loyal customers on over-priced tariffs.

However, a spokesperson for one of the big energy companies stated that a maximum price would be bad for consumers as it would lead to a fall in the number of firms in the market.

There are several incentives available to encourage consumers to switch to cheaper energy suppliers, but the proportion who do switch is still relatively low. By providing consumers with more information, Ofgem aims to make it easier for consumers to find cheaper deals on price comparison websites.

(Source: adapted from http://www.telegraph.co.uk/news/2017/03/17/theresa-may-reveals-government-preparing-step-control-energy/)

(a) With reference to Figure 1, what can be inferred about the market structure of the UK gas industry?

**(4)**

(b) With reference to Extract 1 and your own knowledge, discuss the likely benefits to consumers of non-price competition by UK energy firms.

**(12)**

(c) With reference to Extract 2, discuss whether a small firm, such as People's Energy, can compete successfully against much larger UK energy companies.

**(12)**

(d) With reference to the information provided, evaluate government policies which aim to increase competition in energy markets.

**(12)**

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(a) With reference to Figure 1, what can be inferred about the market structure of the UK gas industry?

**(4)**

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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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