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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

Thursday 11 June 2015 — Afternoon
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 To what extent are the objectives of public sector organisations different to those of organisations in the private sector?

(Total for Question 1 = 20 marks)

2 Discuss whether a business is likely to benefit more from organic growth than from growth achieved through a merger or a takeover.

(Total for Question 2 = 20 marks)

3 Evaluate the significance of diminishing marginal productivity in determining a firm's cost curves.

(Total for Question 3 = 20 marks)

4 Critically examine the benefits to a large business and its consumers as a result of the business adopting a price discrimination strategy. Refer to at least one example 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 28.

5 The banking industry in the UK and the USA

Figure 1 Market share of the largest UK banks (by number of current account holders) 2013

	Lloyds	Barclays	RBS	HSBC	Santander	Nationwide	TSB	Other
Market share %	27.0	18.0	18.0	12.0	10.0	6.0	4.2	4.8

(Source: adapted from http://uk.reuters.com/article/2014/07/18/banks-britain-competition-idUKL6N0PT2CU20140718)

Extract 1 A new competitor offers hope of a shake-up in UK banking

A separate Trustee Savings Bank (TSB) has been created through the sale of 631 branches from Lloyds Banking Group (LBG). This sale was insisted upon by the European Commission after LBG was bailed out by the British Government during the financial crisis.

Competition regulators have been concerned that UK banks have been overcharging their customers, mainly with high fees for overdrafts or late payments. As far back as 2000, a UK Government-appointed review found evidence of excessive prices and profits in UK banking because of insufficient competition. Further investigations by UK and European Commission officials found other failures in the market, including evidence to suggest interest rate fixing. The Office of Fair Trading, a UK competition watchdog, concluded that "long-standing competition concerns remain". The introduction of the TSB should inject competition into a market that is one of the most concentrated in the developed world.

Any new entrant to this market faces two main barriers. The first one concerns the scale of production. Although the TSB has enough branches to have a national presence, it may struggle to win much new business because most of its branches are relatively small. The second barrier is the cost of investment in new technology. The TSB may have to spend hundreds of millions of pounds building new computer systems in order to compete effectively.

(Source: adapted from http://www.economist.com/news/britain/21586332-new-competitor-offers-hope-shake-up-british-banking-cracking-oligopoly)

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Extract 2 Marks & Spencer (M&S), Tesco and Virgin compete for UK bank customers

M&S has unveiled plans to shake up the current account market by launching its first "free" account in the summer of 2014. Customers will be offered a £100 M&S gift card to switch to its new current account as well as loyalty points and an automatic £500 overdraft. M&S, which has opened 29 bank branches so far, said the new account can be operated in branch, online or over the phone.

Andrew Hagger, founder of Moneycomms.co.uk, said that account holders, currently with the big banks, now have more of an incentive to change banks for a better deal.

In September 2013, a new industry-wide customer guarantee was introduced making it much easier for people to switch banks. Under the guarantee, the length of time it takes to switch has been reduced from eight weeks to one week.

Tesco Bank has set out its intention to launch into the current account market in the first half of 2014 and Virgin Money has also said it intends to start offering current accounts later in 2014.

(Source: http://www.heraldscotland.com/news/home-news/ms-unveils-free-current-account-as-tesco-virgin-join-battle-for-bank-customers.1394176691)

Extract 3 Banks in the USA

It is often assumed that larger banks are more efficient than smaller banks, however, this is not necessarily the case. In the USA, there are so many independent divisions of a large bank that the difficulties of connecting them overwhelms the advantages of size.

Many smaller US community banks have thrived, mainly because their local presence and personal touch gives them an advantage in meeting the financial needs of many households and small businesses. In addition, the growth of internet banking from home or the workplace, means that banks do not need to have such a vast network of branches to keep in touch with their customers.

(Source: adapted from http://www.globalresearch.ca/we-do-not-need-giant-banks-internet-technology-will-break-up-big-bank-monopoly/5317628)

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

(4)

(b) With reference to Figure 1, Extract 1 and your own knowledge, examine how the UK's largest banks are likely to compete with each other.

(12)

(c) To what extent is the UK banking market contestable?

(12)

(d) Using the information provided and your own knowledge, discuss the view that larger banks are more efficient than smaller banks. Use an appropriate diagram to support your answer.

(12)

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

(4)

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(b) With reference to Figure 1, Extract 1 and your own knowledge, examine how the UK's largest banks are likely to compete with each other.

(12)

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(c) To what extent is the UK banking market contestable?

(12)

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(d) Using the information provided and your own knowledge, discuss the view that larger banks are more efficient than smaller banks. Use an appropriate diagram to support your answer.

(12)

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(Total for Question 5 = 40 marks)

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

6 Kenya's international competitiveness

Extract 1 Kenya in the top 100

Kenya is the most industrialised country in East and Central Africa. It is now amongst the top 100 most competitive nations in the world according to the World Economic Forum. Kenya's position has risen to 96 (out of 148), reflecting the rapid development of its financial markets, providing greater opportunities, choices and more ease of access for savers and investors (both short and long term). Kenya scored well on its innovation rating (rank 46), mainly as a result of high company spending on research and development and good scientific research institutions that collaborate well with the business sector. Non-wage costs, particularly transport costs, have fallen in real terms between 2008 and 2012.

However, several factors are holding back Kenya's overall competitiveness. Health remains an area of serious concern (rank 121), with a high prevalence of communicable diseases contributing to the low life expectancy of less than 58 years and reducing the productivity of the workforce. In addition, Kenya's labour force has relatively low education attainment compared to middle-income countries. About 65% of the population has only primary or incomplete secondary education, whilst another 10% has never attended school. Relatively high unit labour costs are having a negative effect on competitiveness.

Kenya Vision 2030 is the Government's development blueprint covering the period 2008 to 2030. Its objective is to help transform Kenya into a middle-income country providing a high quality of life for all of its citizens by the year 2030.

As part of the Kenyan Government's competition strategy the Kenya Export Processing Zone (EPZ) programme offers incentives which can speed up and lower start-up costs for exporters. Investors obtain a range of tax benefits under EPZ including a 10-year corporation tax exemption and a lower tax rate thereafter.

(Sources: adapted from http://www.capitalfm.co.ke/business/2013/09/kenya-among-100-most-competitive-nations-report/, http://www.ideafoundation.com/?v=2001f and http://www.investmentkenya.com/doing-business/industry-clusters)

Figure 1 Government spending on education in Kenya 2010–2012

	2010	2011	2012
as a % of GDP	6.5	7.1	7.5
as a % of total government spending	27.6	33.2	34.9

(Source: adapted from http://www.kippra.org/downloads/Kenya%20Economic%20Report%202013.pdf)

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Figure 2 Index of export prices for Kenya (2009 = 100)

	2007	2008	2009	2010	2011
Index of export prices	83	99	100	111	132

(Source: adapted from www.eac.int/statistics/index.php?option=com_docman&task)

Extract 2 Foreign direct investment (FDI) and the Kenyan Government

According to the World Bank, the Kenyan Government needs to make significant changes to its business regulatory environment to attract FDI in order to attain sustainable economic growth. Kenya has struggled to attract investment into productive sectors and from 2012–2013 its FDI as a ratio of gross domestic product (GDP) remained flat at 0.6%, well below the rate for the smaller neighbouring economies of Rwanda, Uganda and Tanzania.

(Source: adapted from http://www.busiweek.com/index1.php?Ctp=2&pl=348&pLv=3&srl=47&spl=28&cl=10)

Extract 3 Transfer pricing by transnational company (TNC) in Kenya

Karuturi Global Ltd, the world's biggest producer of cut roses, has been found guilty of tax evasion in Kenya. This is the first time an African government has brought a large TNC to court for transfer mispricing.

In late 2012, the Kenya Revenue Authority ruled that the India-based TNC used transfer pricing to avoid paying the Kenyan Government nearly US$11 million in corporate income tax, amounting to a quarter of the firm's 2012 sales.

"Companies like Karuturi are damaging Africa," says Dr Attiya Waris, a senior lecturer in tax law. "Transfer mispricing is robbing Kenyan workers and citizens of access to good public education, healthcare, transport services and a clean environment, which our government can only provide through proper revenues."

(Source: adapted from http://www.grain.org/article/entries/4698-karuturi-guilty-of-tax-evasion)

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(a) With reference to Figure 2, explain **one** possible reason for the rise in the index of export prices.

(4)

(b) With reference to Extract 1 and Figures 1 and 2, assess the international competitiveness of the Kenyan economy.

(12)

(c) With reference to the information provided and your own knowledge, discuss measures the Kenyan Government could take to improve Kenya's international competitiveness.

(12)

(d) Evaluate the likely effectiveness of measures the Kenyan Government might take to control the operation of TNCs in the Kenyan economy.

(12)

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(4)

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(12)

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(Total for Question 6 = 40 marks)

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