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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 | | | | |

Monday 20 May 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 The Andalus Dairy Factory is a small business operating in Jordan. It sells its products to local grocery stores and restaurants. However, growth is limited, partly because of the small size of its local market.

To what extent is the size of the market the main constraint on the growth of a small business?

(Total for Question 1 = 20 marks)

2 The global price of wood pulp has been rising rapidly. Businesses that rely on wood pulp as an input, for example paper manufacturers, have experienced a significant increase in production costs.

Discuss the likely impact of a rise in the price of wood pulp on the profits of a paper manufacturer.

(Total for Question 2 = 20 marks)

3 In 2014 the UK Government announced the introduction of a new tax which aimed to discourage transnational companies (TNCs) from taking their profits out of the UK economy.

Assess the likely impact of such a tax on the behaviour of TNCs.

(Total for Question 3 = 20 marks)

4 According to the 2017 World Economic Forum's Global Competitiveness Index, the international competitiveness of businesses in Ghana was declining.

Evaluate government measures to promote the international competitiveness of businesses in Ghana or a country of your choice.

(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 26.

5 Firms in financial trouble

Extract 1 Losses for Hong Kong-based airline

In 2016 Cathay Pacific Airways Ltd (CPA), a Hong Kong-based airline, made its first loss since 2008, and a further loss was expected for 2017. Several Asian-based airlines have had to contend with falling ticket prices in an overcrowded market. For example, Chinese airlines are expanding their international routes and taking market share from other airlines, including CPA. China's Hainan Airlines is planning to spend US$4.2 billion on new planes to take advantage of increasing demand by Chinese travellers.

A Singapore-based financial analyst said that CPA and other airlines should consider reducing the number of routes flown. He stated that global airline capacity needs to be lowered and, in order to avoid making losses, airlines should place aircraft in storage in the short-run instead of scheduling them for flights.

(Source: adapted from https://www.cnbc.com/2017/05/22/loss-making-cathay-pacific-makes-biggest-job-cuts-in-20-years.html)

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Extract 2 Restructuring of a South African mining company

Sibanye-Stillwater, a South African-based transnational company, is the world's largest gold producer. It is also a significant global producer of platinum-based metals.

In 2015 Sibanye Gold (its trading name at the time) took over platinum mines from Anglo American Platinum and Aquarius Platinum. In 2016 it acquired Stillwater Mining, a US-based platinum company, for US$2.2 billion. Stillwater was a more efficient company and its average costs were significantly lower than Sibanye's.

These takeovers meant that Sibanye-Stillwater became the world's third largest producer of platinum-based metals. Its Chief Executive Officer said that more acquisitions were needed to remain competitive in world markets.

By early 2017 it appeared that the depressed state of the mining industry was adversely affecting several South African mining companies.

Tension between the trade unions and Sibanye-Stillwater were set to rise after the company announced that it was planning to cut up to 330 jobs. A spokesperson claimed that the job cuts would reduce production costs and improve efficiency. She added that the company already had sufficient workers with the necessary skills and expertise. Therefore some of the employees of the companies that Sibanye-Stillwater had taken over were no longer needed. The company also planned to restructure its loss-making operations. This was expected to affect 7 400 of its total workforce.

Given the scale of potential job cuts and restructuring, these proposals may result in strike action. It remains to be seen whether Sibanye-Stillwater will proceed with this plan or if they are constrained by measures taken by the South African Government. The Government is very concerned about the possible impact of job cuts on the national unemployment level. In addition, trade unions are campaigning for stronger safety laws in the mining industry.

(Sources: adapted from http://marketrealist.com/2016/12/sibanye-eyeing-acquisitions-post-stillwater/ https://oilprice.com/Metals/Platinum/South-African-Platinum-Miners-Struggle-As-Strikes-Intensify.html and http://www.mining.com/sibanye-stillwater-scraps-planned-closure-of-loss-making-south-african-mines/)

(a) With reference to Extract 1, explain **one** possible reason why CPA made a loss in 2016.

(4)

(b) With reference to Extract 1 and your own knowledge, evaluate whether an airline should shut down if it cannot cover its costs of production. Use an appropriate diagram to support your answer.

(12)

(c) With reference to Extract 2, evaluate the likely benefits to Sibanye-Stillwater of its growth through takeovers.

(12)

(d) Discuss whether government measures to protect employees will influence business behaviour.

(12)

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(a) With reference to Extract 1, explain **one** possible reason why CPA made a loss in 2016.

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(b) With reference to Extract 1 and your own knowledge, evaluate whether an airline should shut down if it cannot cover its costs of production. Use an appropriate diagram to support your answer.

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(c) With reference to Extract 2, evaluate the likely benefits to Sibanye-Stillwater of its growth through takeovers.

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(d) Discuss whether government measures to protect employees will influence business behaviour.

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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 Anti-competitive practices in the European Union (EU)

Extract 1 Tendering for contracts

Five Volkswagen vehicle dealership companies based in Latvia have been ordered to pay a fine of over €7 million for being members of a cartel. According to the Government-appointed Latvian Competition Council (LCC), the companies agreed not to compete with each other when submitting tenders for contracts. They regularly informed each other about their plans for various tenders and asked the other companies either not to bid at all or to submit a higher bid. Government departments, private companies and schools were the customers most negatively affected by this anti-competitive practice. The LCC wants the dealership companies to voluntarily agree to compensate these customers.

(Source: adapted from http://www.baltic-course.com/eng/transport/?doc=101307)

Extract 2 Cartel in Bulgaria

In 2016, following an eight month investigation, Bulgaria's Commission for Protection of Competition (CPC) found evidence of a cartel agreement between the six dominant fuel retailers in Bulgaria. The CPC found that the six companies set up an illegal agreement to exchange price and sales information and that they were operating a joint pricing policy in the retail fuel market. The CPC announced that heavy fines would be imposed on each of the six companies.

This was the second CPC investigation into possible price fixing by Bulgarian fuel retailers. In 2012 four of the largest companies were investigated, but the CPC did not impose any fines. Instead, it approved a proposal by the companies that they would voluntarily agree to be more competitive.

(Source: adapted from http://sofiaglobe.com/2016/10/10/bulgaria-anti-trust-regulator-accuses-six-petrol-retailers-of-price-fixing-cartel/)

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Extract 3 Possible price discrimination in the EU

In 2017 four major European holiday travel companies were under investigation by the European Commission (EC) regarding possible price discrimination practices. The EC was responding to consumer complaints that hotel room availability and prices varied according to which country the consumer lived in. This would be against EU competition rules and the companies involved faced fines of up to 10% of their global turnover if found guilty.

A spokeswoman for one of the holiday travel companies said that her company would co-operate fully with the investigation. "Across our fifteen European markets, we are committed to fair and open competition," she said. In response, a spokesperson for the EC said that it welcomes hotels varying prices to maximise room usage but that hotels and holiday travel companies cannot discriminate between consumers on the basis of their location.

The EC was also investigating whether Disneyland Paris was over-charging consumers from some EU countries. For example, French consumers paid €1 346 for a hotel accommodation and meals package, while UK visitors paid €1 870 and German visitors paid €2 447 for exactly the same holiday package.

(Source: adapted from http://www.travelweekly.co.uk/articles/272331/operators-face-eu-hotels-pricing-competition-probe and https://www.euractiv.com/section/competition/news/eu-probes-disneyland-paris-for-alleged-price-discrimination/)

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

(4)

(b) With reference to Extract 1, Extract 2 and your own knowledge, to what extent is collusion a rational form of business behaviour?

(12)

(c) With reference to Extract 3 and your own knowledge, evaluate the impact of price discrimination on consumers. Use an appropriate diagram to support your answer.

(12)

(d) With reference to the information provided and your own knowledge, evaluate policies a government could use to enhance competition.

(12)

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

(4)

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(b) With reference to Extract 1, Extract 2 and your own knowledge, to what extent is collusion a rational form of business behaviour?

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(c) With reference to Extract 3 and your own knowledge, evaluate the impact of price discrimination on consumers. Use an appropriate diagram to support your answer.

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(d) With reference to the information provided and your own knowledge, evaluate policies a government could use to enhance competition.

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

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