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Pearson Edexcel International Advanced Level

Thursday 24 October 2024

Afternoon (Time: 2 hours) Paper reference **WEC13/01**

Economics

International Advanced Level

UNIT 3: Business behaviour

<p>You must have: Source Booklet (enclosed)</p>	Total Marks
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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 **ALL** questions in Section A and Section B.
- Answer **TWO** questions in Section C.
- 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.*
- 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.

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

- 1 A pineapple producer in Costa Rica, operating in a perfectly competitive market, is currently making supernormal profits.

Which **one** of the following is the most likely outcome in the long-run?

- A The producer will make more supernormal profit
- B The producer's output will decrease but industry output will increase
- C The producer will leave the market
- D The market concentration will increase

(Total for Question 1 = 1 mark)

- 2 In 2023 Cineworld sold tickets for standard seats to watch movies at £9.99 in the UK. Students only paid £7.99 for the same seats.

Which **one** of the following best describes this pricing strategy?

- A Marginal cost pricing
- B Limit pricing
- C Price discrimination
- D Predatory pricing

(Total for Question 2 = 1 mark)

- 3 In 2023 the Government of the Philippines introduced a maximum price for rice of 41 pesos (\$0.72) per kilogram.

Ceteris paribus, which **one** of the following is the most likely impact of the introduction of this maximum price for rice on producers?

- A Producer surplus will increase
- B Fixed costs will decrease
- C Dynamic efficiency will increase
- D Average revenue will decrease

(Total for Question 3 = 1 mark)

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- 4 The table shows the total costs of a clothing manufacturer producing jeans at different levels of output.

Output	Total costs \$
0	40 000
10 000	60 000
20 000	100 000
30 000	160 000
40 000	240 000

What is the average fixed cost per unit if the firm produces 20 000 pairs of jeans?

- A \$2
- B \$3
- C \$4
- D \$5

(Total for Question 4 = 1 mark)

- 5 In 2002 the elasticity of demand for agricultural labour in South Africa was estimated to be -1.32 .

Which **one** of the following is most likely to influence the elasticity of demand for agricultural labour?

- A The cost of capital required for farming relative to the cost of agricultural labour
- B The level of educational qualifications required to be an agricultural worker
- C The location of agricultural jobs in South Africa
- D The occupational and the geographical mobility of labour

(Total for Question 5 = 1 mark)

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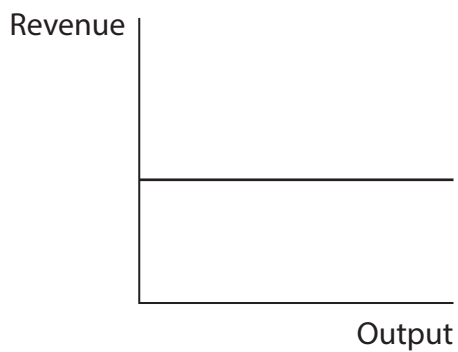
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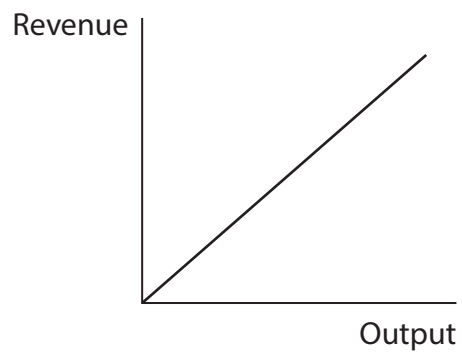
- 6 In October 2023 Apple's market share of the smartphone market in the USA was 56.41%. It faces a downward sloping demand curve.

Which **one** of the following diagrams would illustrate Apple's total revenue curve?

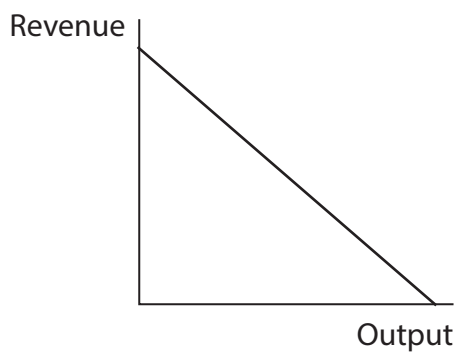
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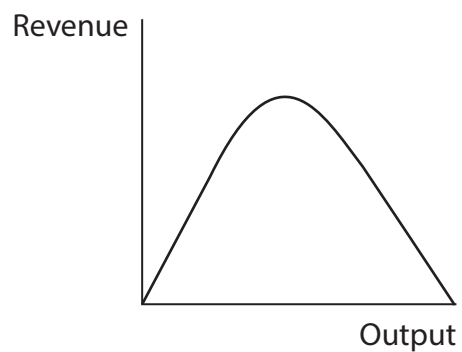
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C



D



(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B STARTS ON THE NEXT PAGE



SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

- 7 (a) With reference to Figure 2, calculate the change in AstraZeneca's total costs between 2021 and 2022.
You are advised to show your workings. (2)
- (b) With reference to Extract B line 14, explain the term 'dynamic efficiency'. (4)
- (c) With reference to Extract A, analyse **two** ways that pharmaceutical companies may benefit from external economies of scale. (6)
- (d) With reference to the last paragraph of Extract B, examine the impact of the increase in fixed costs on AstraZeneca's profit.
Illustrate your answer with an appropriate diagram(s). (8)
- (e) With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry. (14)

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7 (a) With reference to Figure 2, calculate the change in AstraZeneca's total costs between 2021 and 2022.

You are advised to show your workings.

(2)

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(b) With reference to Extract B line 14, explain the term 'dynamic efficiency'.

(4)

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(c) With reference to Extract A, analyse **two** ways that pharmaceutical companies may benefit from external economies of scale.

(6)

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(d) With reference to the last paragraph of Extract B, examine the impact of the increase in fixed costs on AstraZeneca's profit.

Illustrate your answer with an appropriate diagram(s).

(8)

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(e) With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry.

(14)

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(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS



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SECTION C STARTS ON THE NEXT PAGE



SECTION C**Answer TWO questions from this section.**

- 8** In October 2023, Lidl was the fastest-growing supermarket by revenue in the UK. The business opened 25 new stores in 2023 and plans to open a further 50 by 2025.

Evaluate the benefits of organic growth to a business such as Lidl.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

- 9** In 2023 the Government of Mexico intervened in the country's labour market by:

- increasing the daily minimum wage by 20% to 207.44 pesos
- setting a maximum of 48 hours per week for a full-time employee.

Evaluate the economic benefits of government intervention in labour markets.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

- 10** In 2022 the South Korean competition authority fined 15 shipping companies \$63 million. These companies were found guilty of fixing prices by colluding.

Evaluate the benefits of collusion in a market of your choice.

Illustrate your answer with a simple game theory model.

(Total for Question 10 = 20 marks)

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Write the answer to your FIRST chosen question here.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Write the answer to your SECOND chosen question on page 22.

Chosen question number: Question 8 Question 9 Question 10

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Write the answer to your SECOND chosen question here.

Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 8 Question 9 Question 10

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



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Pearson Edexcel International Advanced Level**Thursday 24 October 2024**

Afternoon (Time: 2 hours)

Paper
reference**WEC13/01****Economics****International Advanced Level****UNIT 3: Business behaviour****Source Booklet****Do not return this Booklet with the question paper.***Turn over* ►**P78382A**©2024 Pearson Education Ltd.
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P 7 8 3 8 2 A


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Sources for use with Section B

The pharmaceutical industry

Figure 1 Largest pharmaceutical companies in Ireland, based on global revenue, \$ billion, 2022

Rank	Company	Global revenue (\$bn)
1	Pfizer	100.30
2	Roche	69.77
3	Merck & Co	59.28
4	AbbVie	58.05
5	Bayer	53.88
6	Johnson & Johnson	52.60

Figure 2 AstraZeneca's total global revenue and profit, \$ million, 2021 and 2022

	2021 (\$m)	2022 (\$m)
Total revenue	36 541	42 998
Profit	1 056	3 757

Extract A The pharmaceutical industry in Ireland

Many large pharmaceutical companies have chosen to establish themselves in Ireland. The most important reason is the country's low rate of corporation tax which is set at 12.5% compared to 21% in the USA and 25% in the UK. Another reason for locating in Ireland is the speed at which new products are approved by Ireland's pharmaceutical regulatory authority. 5

Over 85 pharmaceutical companies operate in Ireland, enabling businesses located there to benefit from external economies of scale. These companies employ approximately 30 000 highly skilled workers. The Government of Ireland has invested heavily in improving roads and railways. In 2021 it announced plans for a further €35 billion investment into the country's transport system. There are many research partnerships between businesses and universities that share research and development (R&D) costs. These universities also help to ensure that students leave with the skills required to work in the pharmaceutical industry. 10

Extract B AstraZeneca

AstraZeneca is a UK-Swedish owned multinational pharmaceutical company that operates in over 100 countries around the world. In 2022 it was the tenth largest global pharmaceutical company, producing high quality medical equipment and pharmaceuticals for hospitals. 5

AstraZeneca has a good reputation for R&D. In 2022 it invested \$9.8 billion in R&D. This enabled it to:

- develop three new medicines
- continue research on medical advancements
- improve productive efficiency. 10

In 2023 AstraZeneca announced plans to invest \$400 million in building a new factory in Dublin, Ireland. This was a change from its previous plan to open a new factory in the UK. The company stated that it needed to reduce costs to be price competitive. At the same time this investment was necessary for the company to achieve dynamic efficiency.

One of the biggest problems facing AstraZeneca is the cost and time involved in producing new medicines. Also, the regulatory environment is complex because all pharmaceuticals must undergo clinical trials before medicines can be approved. The fixed costs associated with complying with these regulations have increased significantly. A low pricing strategy is critical to attract consumers because brand loyalty is low. 15

Extract C The global pharmaceutical industry

Although there are many companies in the pharmaceutical industry, they all own patents for their products. In the European Union these can last for up to 20 years. A business in this industry might spend up to 25% of its revenue on R&D. In 2022 Johnson & Johnson spent \$14.6 billion, Roche spent \$14.8 billion and AstraZeneca spent \$9.8 billion. This investment is risky because there is no guarantee of medical breakthroughs. Consequently, there are many mergers and frequent collaborations between pharmaceutical companies. For example, in 2022 there were 1 733 mergers and acquisitions in the industry. 5



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Acknowledgements

Figure 1 adapted from: <https://www.hobsonprior.com/blog-post/2023-6/top-10-pharmaceutical-companies-in-ireland>

Figure 2 adapted from: <https://www.statista.com/statistics/266542/revenue-of-astrazeneca-since-2006/>

<https://www.statista.com/statistics/266544/astrazeneca-operating-profit-since-2006/>

Extract A adapted from:

<https://www.irishtimes.com/business/2023/10/19/new-15-tax-rate-for-big-multinationals-forms-cornerstone-of-finance-bill/#:~:text=While%20the%20original%2012.5%20per,new%2015%20per%20cent%20rate>

https://pharma.nridigital.com/pharma_jan22/ireland_tax_pharma

<https://www.pharmaceutical-technology.com/comment/pharma-ireland-tax-rises/>

<https://www.quanta-cs.com/blogs/2023-6/why-ireland-is-attracting-the-world-s-biggest-pharmaceutical>

<https://www.idaireland.com/explore-your-sector/business-sectors/biopharma/>

Extract B adapted from:

https://www.astrazeneca.com/content/dam/az/Investor_Relations/annual-report-2022/pdf/AstraZeneca_AR_2022.pdf

<https://www.astrazeneca.com/country-sites/ireland.html>

<https://www.fiercepharma.com/manufacturing/astrazeneca-ceo-cites-discouraging-uk-tax-rate-behind-decision-build-ireland>

Extract C adapted from:

<https://sourceonhealthcare.org/pharmaceutical-pricing-lack-of-competition-in-the-pharmaceutical-market/>

<https://www.investopedia.com/ask/answers/060115/how-much-drug-companys-spending-allocated-research-and-development-average.asp>

<https://www.astrazeneca.com/content/dam/az/PDF/Sustainability/AZ-Equitable-Access-Research-and-Development-resource-allocation.pdf>

<https://www.statista.com/statistics/965888/number-biotechnology-pharmaceutical-mergers-deals/#:~:text=In%202020%2C%20there%20were%20approximately,biotechnology%20and%20pharmaceutical%20sector%20worldwide>