Mark Scheme (Results)

January 2017

Pearson Edexcel International Advanced Subsidiary in Economics (WEC03)

Paper 01 Business Behaviour

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the world's leading learning company. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information, please visit our website at www.edexcel.com.

Our website subject pages hold useful resources, support material and live feeds from our subject advisors giving you access to a portal of information. If you have any subject specific questions about this specification that require the help of a subject specialist, you may find our Ask The Expert email service helpful.

www.edexcel.com/contactus

Pearson: helping people progress, everywhere

Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

January 2017
Publications Code WEC03_01_1701_MS

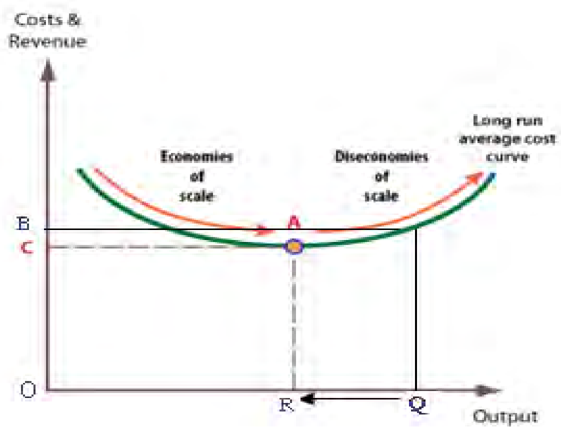
General Marking Guidance

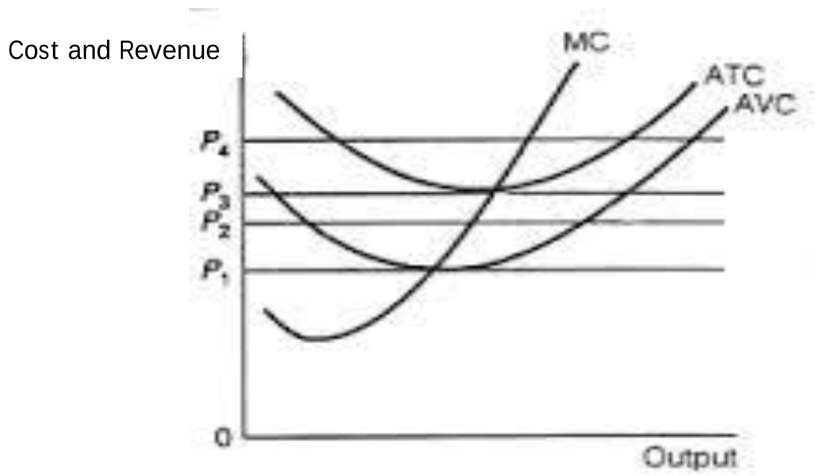
- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Essay questions

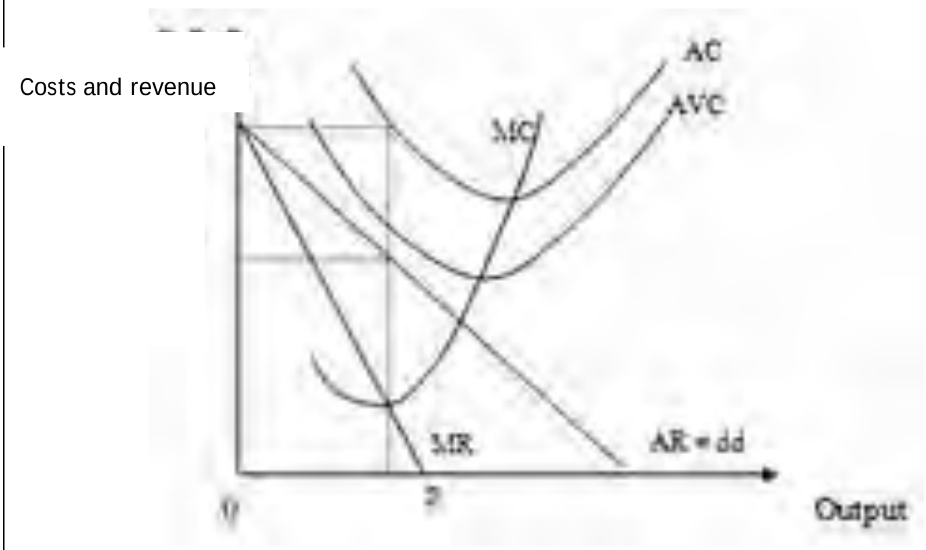
NB: Use levels based mark scheme (20 marks) to mark this section.

Question Number	Answer	Mark
1	Indicative content • Explanation of the term demerger – selling off parts of the business - this may be particular product lines, services or moving out of certain countries Possible reasons for demerger: • Lower LRAC as the business was previously experiencing diseconomies of scale • The business becomes more efficient – less x-inefficiency • Expected synergies did not occur - hence the firm may reduce its LRAC • Increase in profits (or reduce losses) as a result of lower LRAC • The business has sold off parts which were higher risk - e.g. scaling down in countries which are economically or politically unstable • Increase in funds through the sale of assets • The firm may avoid intervention from competition authorities as it was becoming too dominant in certain markets Diagram to show impact of the decision The firm is currently experiencing diseconomies of scale - output OQ on LRAC curve Following demerger output falls to OR – movement along LRAC and to the left Therefore a fall in LRAC – with a move towards MES LRAC falls from OB to OC	

	 Evaluation • Raising of funds through the sale - the impact depends on how the funds are used – e.g. pay outstanding costs or debts (more short term) compared with used for further investment (more long term) • The business may regret decision (in long run) – if the demerged firm performs well under new ownership and/or undervalued market price at time of sale • The business may experience a rise in LRAC and a reduction in economies of scale - size of business now below OR: e.g. due to the breaking up of a vertical integration (cheaper source of supply) • The cost of the demerger may outweigh the potential benefits e.g. legal fees, disputes between parties when breaking up, possible redundancy costs, new IT systems required etc. • The impact on economies/diseconomies of scale – may be the most important factor as it affects the business in the long run	(20)

Question Number	Answer	Mark
2	Indicative content <u>Definitions:</u> Costs of production - may include total, average and marginal cost Shut down point - where the firm cannot cover its costs Normal & supernormal profits • The decision on whether to shut down or not depends on whether losses are short or long run • If price (AR) is below AVC the firm will shut down in the short run • If AR is below ATC but above AVC the firm will be able to continue production in the short run • If AR is below ATC in the long run then the firm will shut down (the firm is making a loss or earning less than its normal profit AR ≤ AC) Diagram: (Assumes AR =MR) • In the <u>short run</u> the firm can survive as long as price covers AVC −minimum price of P1. • P2 shows a contribution to fixed cost but still loss making • P3 shows where normal profit is made - minimum price in the long run • P4 shows supernormal profit  	

Monopoly (monopolistic competition) diagram showing loss



- Where MC = MR, AR is below AVC so the firm will shut down
- In the <u>long run</u> survival depends on making at least normal profit (AR = AC), so loss makers will exit the industry. So shut down point is anything below normal profit (AR = AC)
- Perfect competition & monopolistic competition - firms would need to profit maximise (MC = MR), in the long run to avoid losses and possible shut down
- Monopoly & Oligopoly - firms can survive in the long run without necessarily maximising profit

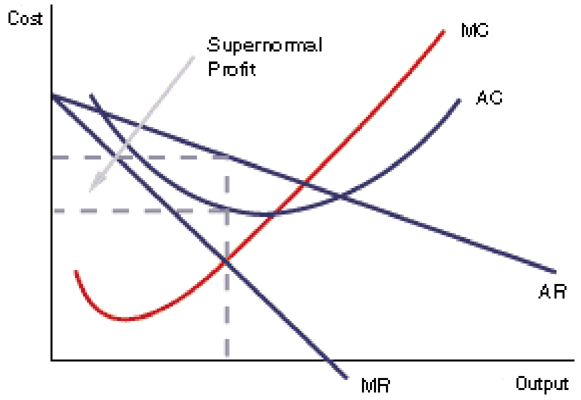
Evaluation

Survival may be possible if:

- the firm manages to reduce its costs
- the firm successfully increases revenue
- the firm is in the public sector and is financed by the government
- the firm merges with another firm
- financial support is provided by the government - e.g. grants, subsidies
- the firm receives cross-subsidies if it is part of a conglomerate or group of companies
- the firm might be a start-up business and so some time is required before it can be expected to make a profit as it becomes more established in the market and revenue rises
- For private sector firms the distinction between short and long run is critical. Most are likely to shut down in the long run if costs are not covered

(20)

Question Number	Answer	Mark
3	Indicative content • Define oligopoly: a few large firms dominate the market; high concentration ratio • Non-price may include – special offers, loyalty schemes, branding, advertising, product differentiation, patents, product innovation, quality of product/service, internet selling • Branding, differentiation etc. may result in a more inelastic demand for the firm's products • Oligopolists may decide to use non-price methods to avoid the possible adverse effects of a price war - lowering price leads to same response from rivals • Price competition can lead to loss of profits and more uncertainty in the market • Non-price competition means that prices are more stable, making it easier to plan future investment • Price wars may provoke a reaction from the government which moves to stop further price cuts - predatory pricing • Oligopoly firms may decide to collude to: - Avoid price competition - restrict output and artificially raise prices - achieve a more secure market share Collusion may result in possible benefits to oligopolies • Ability to each earn higher supernormal profits • Barriers enable firms to restrict competition • Reduces unpredictability and uncertainty in the market • Collusion means that, in effect oligopolies act as a monopolist	

	Monopoly diagram to show SNP  Evaluation • Non-price strategies may be expensive to sustain - high sunk costs in the form of advertising and promotion • There may be no obvious advantages from non-price strategies - is market share growing, are profits rising etc? • Interdependence of firms may result in price leadership strategies rather than outright price competition • An oligopoly may decide to use pricing strategies,(possibly in the short run) to put pressure/eliminate rivals - especially if it a larger, more powerful firm in the market • Oligopolies may use methods such as price matching (e.g. supermarkets) in order to gain/retain customers • Exposure of collusion by the government or other regulatory agencies may result in fines, legal prevention, negative publicity • Any benefits of collusion to firms may be short-term if one or more colluding firms break away from the agreement • Falling demand creates tension between colluding firms e.g. during an economic downturn • The entry of new firms into the industry may break existing collusive agreements Candidates may reverse KAA and evaluation.	(20)

Question Number		Mark
4	Indicative content Define monopsony power - Where there is one buyer, (or one dominant buyer), and many sellers OR where a firm is the dominant employer of factors of production in the market. Credit identification of likely government measures to restrict monopsony power e.g. - Setting a minimum price for suppliers to large retailers - Increasing the powers of the competition authorities e.g. tightening up competition laws - protecting smaller retailers - Providing subsidies to encourage growth of competing retailers <u>Costs of government intervention to restrict monopsony power may include:</u> TO CONSUMERS - • Higher market price (reduction in consumer surplus) if higher purchasing costs are passed on by monopsonists • Lower profits of monopsonists (e.g. supermarkets) may lead to a fall in investment in research & development and a consequent reduction in quality and new product development TO FIRMS – NB - 'Firms' can be the monopsonists (large retailers) and/or its suppliers and/or its competitors Costs to monopsonists: • Higher purchasing costs to obtain goods from suppliers – lower profit margins • Fall in market share - because of higher prices to consumers; government support provided to competitors; impact of negative publicity • More regulation - 'red tape’ • Reduced producer surplus, and lower profit for monopsonists • Increased competition in the market Costs to suppliers: • May harm the relationship established with the large retailers • Large retailers may stop buying or reduce purchases from suppliers and buy from other sources • Resulting in loss of revenues and profits for suppliers • Pressures to increase efficiencies in order to survive	

	Costs to competitors: • Financial costs of expansion • Risks associated with business growth Evaluation: <u>Benefits of government intervention to restrict monopsony power of large retailers may include:</u> TO CONSUMERS: • opens up the retail market to more competition • Firms become more efficient e.g. productive, allocative and dynamic; reduced x-inefficiency of firms as a result of increased competition • longer term - greater chance that suppliers will be able to survive in the market, so provides a choice of products • greater likelihood of product quality being maintained/improved TO FIRMS: Benefits to suppliers • higher prices paid to suppliers - higher revenues and profits • business expansion • fewer suppliers leave the market reduced exploitation of employees of suppliers Benefits to competitors • Higher market share • Increased revenues and profits <u>CANDIDATES ARE NOT EXPECTED TO COVER ALL THREE CATEGORIES OF FIRMS, BUT ARE EXPECTED TO ASSESS THE COST OF INTERVENTION ON FIRMS AND CONSUMERS</u> Further evaluation points could include: • It depends on whether the large retailers pass on the higher costs in the form of higher prices or whether they decide to absorb the extra costs • It depends on the market structure e.g. is there also a monopoly within that part of the retail market? • Values of PED and PES e.g. if PED is inelastic, monopsony firms will be less likely to be adversely affected by intervention • Distinction between SR and LR – e.g. is the government support for suppliers sustainable in the long run? • Removing market power from monopsonists may take time to have any significant impact – e.g. time lag before new firms are established	

	• Possibility of regulatory capture & government failure, so monopsonists are not adversely affected • Overall judgement as to whether the costs or benefits are greater for consumers and firms	(20)

Section A Questions: Performance Criteria for Mark base 20		
Level 0	0	• No rewardable material
Level 1	1-4	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	5-8	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	9-12	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	13-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a

		rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

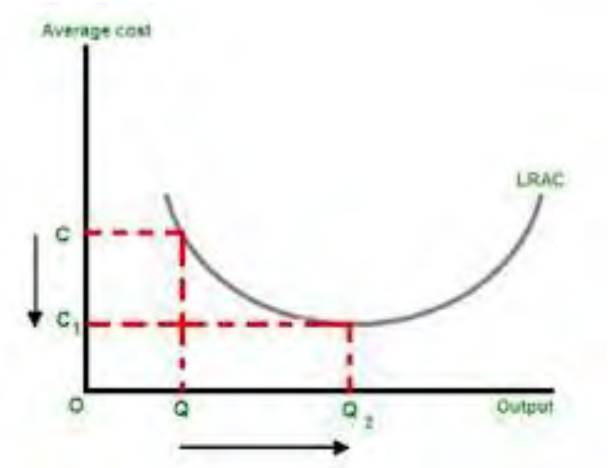
Section B: Data response

Question Number	Answer	Mark
5(a)	Knowledge and Application (up to 4 marks) Knowledge – up to 2 marks Horizontal (1) - a firm undertakes a merger/takeover with a firm in the same industry at the same stage of production (1) OR Vertical (1) - a firm undertakes a merger/takeover with a firm in the same industry at a different stage of production (1) A firm merges with its supplier (1) A firm merges with its distribution outlets (1) Application – up to 2 marks Horizontal – both Shell and BG Group extract oil and gas - same stage, in the same industry (2) Vertical - Shell's activities are wider and at other stages (1) Shell may be viewed as a vertically integrated business as it produces, distributes and retails a variety of products (1) e.g. oil, petrol, gas (1). Shell's petrol stations have retail outlets on its forecourts (1) The takeover may be a vertical backward integration (1) Any other valid application point - up to 2 marks	(4)

Question Number		Mark
5(b)	Knowledge, Application and Analysis – Indicative content	(12)

Benefits to Shell:

- A means of inorganic (external) growth – quicker method than organic growth
- Significant reduction in sunk costs (e.g. US$6 billion for oil in Alaska) due to acquiring new reserves of oil and gas from BG Group
- Increases its global presence - e.g. oil reserves in Brazil, LNG market in Australia
- Increases its dominance in the global trade for natural gas
- Potentially increases its revenues and profit
- Removes one of its competitors in the oil and gas markets
- Gains from shared knowledge/understanding of the market from BG Group - synergy - specialising in different markets etc.
- Increases its brand identity
- Monopoly power - greater supernormal profit
- Achieves economies of scale – examples such as technical economies (special tankers for LNG), risk bearing (diversification) and financial economies



Shell’s output rises from OQ to OQ2 following merger and LRAC falls

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the possible benefits of a takeover. Material presented is often irrelevant - lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the possible benefits to Shell of the proposed takeover with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the possible benefits to Shell of the proposed takeover with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content

- Initial costs of the takeover- US$68bn may prove to be an overvaluation
- Potential diseconomies of scale- Shell grows larger than MES; output above OQ2 on diagram e.g. different systems in place, employee dissatisfaction
- Takeover bid process is lengthy and expensive - needs approval from many countries and international organisations (e.g. EU)
- Having to contend with bureaucracy – paperwork etc.
- The bid may be blocked by one or more competition authorities

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5(c)		(12)
Knowledge, Application and Analysis – Indicative content		
	Positive impact on employees: • If Shell expands, employment opportunities may increase and wage rates may rise • Expansion may increase the need for raising skill levels (training opportunities, promotion etc.) Positive impact on consumers: • Shell's cost savings (e.g. lower exploration costs),may be passed on to consumers in the form of lower prices • Shell's higher profits may lead to product innovations e.g. greater fuel efficiency thus benefiting consumers • Governments may set tighter controls on Shell's activities - e.g. legislation on wages, environment, monopoly power etc. Candidates may reverse KAA & Evaluation	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of a takeover. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the impact of the takeover on employees and/or consumers with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the impact of the takeover on employees AND consumers with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content		
	Negative impacts • Rationalisation might lead to job losses, having to move geographically, culture clashes and lower wages - applies to employees of both firms • Shell's greater market power might lead to higher prices and less choice • Costs of takeover may be passed on to consumers in the form of higher prices • Short run/long run impact • Overall judgements	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5(d)		(12)
Knowledge, Application and Analysis – Indicative content		
	Definition of a pressure group – an organised group that seeks to influence government policy or protect or advance a particular cause or interest. Greenpeace is an international environmental pressure group. It objects to Shell's drilling programme in the Arctic and consequently opposes other firms which link up with Shell e.g. Waitrose • Action against Shell - stopping petrol being delivered at petrol stations - adverse publicity against Shell - Exerting pressure on other companies which may be planning to extend links with Shell (e.g. Waitrose & Costa Coffee) <u>Likely impact on Shell:</u> • Costs rise: - marketing costs to counter opposition claims - R & D costs to improve Shell's 'green' credentials - Shell may decide to increase wages & improve working conditions to offset criticisms (Supply curve shifts to the left) • Revenues fall: - consumers switch to competitors because of the success of Greenpeace campaigns - fall in demand (Demand curve shifts to the left) • Profits fall: - combination of rising costs and falling revenues - other firms decide not to link up with Shell - could have longer term impact Candidates should be rewarded for use of an appropriate diagram(s).	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the likely impact of a pressure group campaign on a firm's costs, revenues and profits. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the likely impact of Greenpeace's campaign on Shell's costs, revenues and profits with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the likely impact of Greenpeace's campaign on Shell's costs, revenues and profits with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content

- Shell is one of the world's largest companies - it may be able to withstand opposition and it may have little longer term impact on its costs, revenues & profits
- This campaign only affects a small part of Shell’s overall business
- Size & influence of Greenpeace - one of the biggest/influential pressure groups - so could be very damaging to Shell
- Shell may alter behaviour in order to improve public image and avoid a potential loss in revenues & profit. The partnership between Waitrose and Shell ended in 2012 due to public pressure
- Quote from Shell spokesman suggests they might be willing to alter their plans/compromise/listen
- Distinction between short term and long term impact - In 2012 it appeared that Greenpeace had been successful in breaking Shell's partnership with Waitrose but the link is now being extended
- How might governments respond if Greenpeace looks to be gaining support from consumers?
- Overall judgements

Level	Marks	Description
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
6(a)	Knowledge and Application (up to 4 marks) Knowledge – up to 2 marks: Explanation of FDI – Investing directly in production in another country (1), e.g. by buying a company there or establishing new operations of an existing business (1) Inflow - the value of capital investment into an economy (1) Net inflow = the difference between total inflow and total outflow of FDI (2) Any other valid point up to 2 marks Application – up to 2 marks: Net inflow grew on an annual basis (1) Grew by US$10.60 billion from 2010 - 2014 (2) Grew by 69.3% from 2010 - 2014 (2) Rate of growth has fallen since 2011 (2) Any other valid point up to 2 marks	(4)

Question Number		Mark
6(b)		(12)
Knowledge, Application and Analysis – Indicative content		
	Definition of TNC - A company that has its facilities and other assets in at least one country other than its home country Reasons for a TNC investing in Indonesia may include: • Access to a growing economy (6% per annum 2011-2013); large population, consumer spending boom - rising consumer incomes, • A more internationally competitive economy: for 2013-14, Indonesia rose from 50 to 38 on the Global competitive index • Developments in infrastructure – making it cheaper and easier to transport goods and people. Makes Indonesia more attractive in relation to FDI (Fig 1) • Improved labour efficiency- making Indonesian goods and services more price competitive with possible improvement in quality • Significant increases in government spending on education –growth in secondary school enrolment and students in higher education. A better educated population/workforce would generate more output & improve the quality of output • Growth in external economies of scale - knock-on positive effects on transport links, training provision, schools, hospitals etc. as more TNCs invest	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the reasons for TNC investment in an economy. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the reasons for TNC investment in the Indonesian economy with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the reasons for TNC investment in the Indonesian economy with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content		
	Reasons why TNCs may choose <u>not</u> to invest in Indonesia: • Ill health - high incidence of communicable diseases and high infant mortality leading to low productivity and low life expectancy • Historical underfunding of education and low investment in human capital compared to other similar economies – under 10% receive higher education • Skills shortages and recruitment problems - may increase labour costs for skilled workers • High growth in unit labour costs – annual rise of 12% in labour costs but only 4% rise in productivity. Likely to make Indonesian goods less competitive unless offset by lower non-wage costs • Relative transport costs are still high despite infrastructure improvements • Inflexibilities in labour markets - inefficiencies and high labour costs • Concerns over corruption - may affect TNC's reputation and/or make it difficult to conduct honest business activities. Cost implications • Barriers to set up and trade in Indonesia - time and cost implications • Overall judgements	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
6(c)		(12)
Knowledge, Application and Analysis – Indicative content		
	Government policies to improve Indonesia's international competitiveness: • Further increases in spending on education and training and raise expenditure on health- raise skill levels and productivity • Increasing investment in developing the infrastructure – reduces business costs and raises efficiency • Reduce the amount and level of regulations: - remove or further reduce red tape in relation to business licences - create more flexible labour markets - relax rules/laws on hiring and firing, lower redundancy regulations • Offer financial incentives to domestic firms and TNCs to encourage more direct investment e.g. – subsidies, tax relief schemes, loan guarantees and lower interest rates • Macroeconomic economic policies to ensure stable prices, sustainable economic growth, low unemployment etc. • Introduce tougher laws to deal with corruption • Depreciation (or devaluation) of the currency – makes Indonesian exports more price competitive in world markets	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of government policies to improve international competitiveness. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of government policies to improve international competitiveness with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of policies to improve international competitiveness with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content		
	Effectiveness of policies depends on: • The level of confidence in the economy - present and future • The degree of political/economic stability in Indonesia • Whether Indonesia's recent economic growth is sustainable (problems of supply bottlenecks, demand pull inflation etc.) • Impact in short run/long run – e.g. tax incentives may only have a short run impact especially if similar incentives are offered by other countries • Depreciation may cause inflation – higher import prices Measures may have serious cost implications for the Indonesian Government (opportunity cost, budget deficit)	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

<table>
<tr><th>Question Number</th><th></th><th>Mark</th></tr>
<tr><td>6(d)</td><td></td><td>(12)</td></tr>
<tr><td colspan="3">Knowledge, Application and Analysis – Indicative content</td></tr>
<tr><td></td><td>Possible measures and likely impact:

• Action against TNCs which break laws on transfer pricing/tightening up laws on transfer pricing – <u>Impact</u>: TNCs comply providing more revenue for a government which can be used for the benefit of its citizens/economy

• Stronger legislation and regulation of other TNC activities - employment laws, job protection for employees, health & safety, minimum wages, price and profit regulation
<u>Impact</u>: TNCs comply leading to improved living standards for employees and benefits for consumers

• Competition policy - controls over mergers and takeover: – to limit purchase of large businesses by foreign investors
- limits on monopsony powers of TNCs - to protect domestic suppliers
- incentives for domestic firms e.g. subsidies – to enable domestic firms to compete more effectively
<u>Impact</u>: a more competitive business environment

• Barriers to entry of foreign firms – to combat the possibility of dependence on TNCs for the future growth of the economy
<u>Impact</u>: more opportunities for domestic firms to expand

Note - Candidates may reverse KAA & Evaluation</td><td></td></tr>
</table>

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of measures to control TNC operations. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the measures to control TNC operations with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the measures used to control TNC operations with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content		
	• A government may be concerned about the threat of TNCs pulling out of the economy – negative consequences on jobs, incomes etc. therefore may not take action against TNCs • Difficulties of imposing *national* laws and regulations on *transnational* organisations • Some TNCs are very powerful – Indonesia, for example, is a lower middle income country so may lack power over TNCs • FDI may be needed to attain sustainable economic growth • Reluctance of TNCs to comply • Much may depend on the business environment in other competing economies (e.g. within an international region) • Ranking of measures – which ones may be more effective and why • Short term/long term impact • Overall judgements	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.