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Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Economics
International Advanced Level
Unit 3: Business Behaviour

Tuesday 3 June 2014 – Morning Time: 2 hours	Paper Reference WEC03/01
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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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your 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 'Private sector businesses cannot survive in the long run unless they aim to maximise profits.' Explain and critically examine this statement. (20)
- 2 The owners of a conglomerate have decided to sell off part of the business. Discuss the likely impact on the business of this demerger. (20)
- 3 Competing firms within a market agree to collude. Discuss the likely impact of this collusive behaviour on the firms **and** consumers in this market. (20)
- 4 Assess the likely effects of government intervention to protect the interests of suppliers. Refer to different types of intervention, and the reasons for them, in your answer. (20)



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(Total for Question = 20 marks)



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 ☐

[Dotted writing lines for the essay response]



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(Total for Question = 20 marks)

TOTAL FOR SECTION A = 40 MARKS



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QUESTION 5 IS ON THE NEXT PAGE.



SECTION B

Answer EITHER Question 5 OR Question 6.

If you answer Question 5 put a cross in this box .

You should spend 60 minutes on this section.

Question 6 starts on page 26.

5 Transport pricing, competition and government intervention

Extract 1 How one rail journey has 30 different fares

Choose a single route at random – London to Blackpool – and you will find that there are 28 different adult fares and two first-class upgrade options. Prices vary from £16.50 for the cheapest single journey to £347 for the most expensive return journey. The cost of the fare depends on what time a passenger travels, what route is chosen, how far in advance the booking is made, whether the return date is fixed, what class a passenger selects and whether the ticket is refundable.

5

(Source: adapted from www.telegraph.co.uk/news/uknews/1565385/How-one-railjourney-has-30-different-fares/)

Extract 2 Car insurance and the European Union (EU) gender directive

Female drivers under the age of 25 have seen their car insurance costs (premiums) rise since December 2012. Car insurance is one of the main areas affected by the EU's ruling on gender. Historically, gender has been used alongside the type of vehicle, the age of the driver, the postcode of the driver and his or her driving history, among other factors, to calculate the car insurance premium.

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Insurance companies are no longer able to charge different rates according to the gender of the applicant. Information from insurance companies, showing that young male drivers have considerably higher accident rates and claims, cannot now be used when insurers set premiums.

As a result of this ruling, some young female drivers are paying 50% more for car insurance and some young male drivers are paying 12% less. One car insurance company, LV, reported a fall in profits of almost 50% during the first six months of 2013.

10

(Source: adapted from www.which.co.uk/money/insurance/guides/insurance-genderdiscrimination-rules/car-insurance-and-the-gender-directive/)



Extract 3 Is competition possible in the provision of passenger rail services?

Competition between rail passenger service providers is rare and occurs mainly in a few EU member countries. Circumstances work against competition in rail transport. Essentially the railways are most efficient where they can achieve high capacity utilisation — many trains carrying a lot of passengers. More competition would divide up the numbers of passengers carried between competing firms. This results in a choice between longer cost-efficient trains at an unappealingly low frequency, or a more frequent service but with shorter, high-cost trains.

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This is not to suggest that passenger railways are totally free from competitive forces. To reduce the problem of high sunk costs a method of introducing competition for train services has been the system of franchising. This is where firms bid for the right to operate a railway line for a period of time before the franchise is once again opened up for bids.

10

(Source: adapted from www.ppiaf.org/sites/ppiaf.org/files/documents/toolkits/railways_toolkit/ch3_3_3.html)

(a) Explain **one** possible reason why LV 'reported a fall in profits of almost 50% during the first six months of 2013'. (Extract 2, lines 12–13)

(4)

(b) With reference to Extract 1 and your own knowledge, discuss whether different ticket prices for a journey from London to Blackpool are likely to lead to increased revenue for the train company.

(12)

(c) To what extent would government intervention to prevent price discrimination be beneficial to consumers?

(12)

(d) With reference to Extract 3 and your own knowledge, discuss the factors which might limit competition in the provision of passenger rail services.

(12)



(a) Explain **one** possible reason why LV 'reported a fall in profits of almost 50% during the first six months of 2013'. (Extract 2, lines 12–13)

(4)

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(b) With reference to Extract 1 and your own knowledge, discuss whether different ticket prices for a journey from London to Blackpool are likely to lead to increased revenue for the train company.

(12)

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(c) To what extent would government intervention to prevent price discrimination be beneficial to consumers?

(12)

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(d) With reference to Extract 3 and your own knowledge, discuss the factors which might limit competition in the provision of passenger rail services.

(12)

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If you answer Question 6 put a cross in this box .

6 Foreign direct investment (FDI) and the activities of transnational companies (TNCs)

Figure 1 FDI inflows 2008–2012 US\$ bn

	2008	2009	2010	2011	2012
China	175.1	114.2	185.0	228.6	253.4
India	43.4	35.6	27.4	36.5	25.3

(Source: <http://www.oecd.org/daf/inv/FDI%20in%20figures.pdf>)

Extract 1 IKEA expands into Asian market

IKEA has already located its huge out-of-town stores in 26 different countries and it continues to search for new global opportunities to expand. Having more than doubled sales in the past decade to US\$36 billion in 2012, the firm plans to double them again by 2020 by opening 20 to 25 new stores a year from 2015.

Growth will be mainly in existing markets, including China, where it has opened 11 stores in the past 10 years. IKEA is also considering new markets, including India, where it is hoping to get the final go-ahead soon to open 25 stores. IKEA Chief Executive Mikael Ohlsson expects it will take four or five years to open its first stores in India once it gains government approval.

5

IKEA finds bureaucracy everywhere, but it is a particular problem in India. For example, much paperwork is required before goods may be transported between the highly independent states. The government also requires IKEA to source 30% of its inputs locally.

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When entering China, IKEA's products were more expensive initially than those of local firms. IKEA only became profitable after big price cuts made it more competitive.

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Making a profit in India could also take time, but IKEA can afford to be patient.

(Source: adapted from www.reuters.com/article/2013/03/07/us-ikea-expansionidUSBRE92606220130307)



Extract 2 Incentives offered by independent states in India

In order to attract further foreign investors many Indian states are offering incentive packages that include various tax concessions, capital and interest subsidies, loan guarantees and lower energy cost options. Training and labour market assistance is also available.

(Source: adapted from www.investinginindia.in/investing.)

Extract 3 Lack of competition in the grain trade

Hundreds of millions of people face starvation because five TNCs – ADM, Bunge, Cargill, Glencore and Louis Dreyfus – control 90% of the world's grain trade, according to leading charities. More than 100 charities and faith groups, led by Oxfam, have launched a campaign to reduce levels of hunger in developing countries. They called for urgent action to crack down on high grain prices and tax avoidance by global corporations. The charities claim that the lives of 230 young children could be saved every day if firms paid the 'true amount' of tax due in the nations where they operated. The new campaign challenges governments to take measures aimed at stopping tax avoidance by companies through the practice of transfer pricing.

5

(Source: adapted from <http://www.independent.co.uk/news/uk/home-news/monopoly-of-graintrade-has-forced-millions-into-starvation-say-charities-8462260.html>)

- (a) Comment briefly on the trends in FDI inflows shown in Figure 1. (4)
- (b) With reference to Extract 1, evaluate the benefits to IKEA of further international expansion. (12)
- (c) With reference to the information provided and your own knowledge, discuss the measures used to attract FDI into an economy. (12)
- (d) Evaluate government policies and pressure group campaigns aimed at controlling and influencing the activities of TNCs. (12)



(a) Comment briefly on the trends in FDI inflows shown in Figure 1.

(4)

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(c) With reference to the information provided and your own knowledge, discuss the measures used to attract FDI into an economy.

(12)

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(d) Evaluate government policies and pressure group campaigns aimed at controlling and influencing the activities of TNCs.

(12)

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