Pearson Edexcel

Mark Scheme (Results)

October 2020

Pearson Edexcel International Advanced Level
In Economics (WEC03/01)
Unit 3: Business Behaviour

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Autumn 2020
Publications Code WEC03_01_2010_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** • Definitions: - 'small' business: may be based on market share, value of capital, annual revenue, number of employees etc. - finance (in this context): money used for further investment in the business Limited access to finance will constrain growth because small firms e.g.: • may not be able to expand • may be unable to invest in new machinery, property, land etc. • may not have the funds to employ more staff Access to finance is limited because: • there is a lack of retained profits • the banking sector may be less willing to lend – small firms perceived as higher risk due to lower value of assets • small firms will have little or no opportunity to raise share capital on the open market (stock exchange) as not a PLC • finance markets may be fragmented particularly in developing countries like Myanmar	

Other factors which constrain business growth

- The objectives of the owners/managers
  - owner(s) may be satisfied with keeping the business small – growth is risky, expensive, time-consuming etc.
  - owner(s) may prefer to remain within a market niche, offering personal customer service. This may be particularly the case in countries such as Myanmar which has a very high percentage of small firms

- Lack of managerial skills

- The size and composition of the market
  - lack of scope for growth within the market
  - many other firms competing in the market
  -localised market, niche etc. Often the case in developing countries

- The macroeconomic climate
  -slow growth or recession in the economy
  -low effective demand, low consumer purchasing power
  -future uncertainty in the economy – economic, political etc.
  -high interest rate
  -high inflation rate
  -high unemployment rate

- High legal and administration costs, government bureaucracy, cuts on government spending etc.

- Lack of availability of skilled labour

NB: Candidate should illustrate their points with reference to small firms

	Evaluation: • Difficult to assess whether access to finance is the most important constraint. Other constraints may be more or equally important • Business objectives likely to be an important constraint – depends on whether small business owner *wants* the business to grow or not. E.g. owner(s) may be content to operate within a market niche • In the short-run macroeconomic factors may be a key constraint e.g. – economic growth forecasts, predictions for other economic indicators • Government policy towards small businesses may play a vital role in promoting small businesses – financial benefits, tax concessions, help & advice, pressure on banking sector to encourage small business growth. However, governments, in developing countries in particular, may face significant financial constraints	**(20)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>2</td><td>

Indicative content

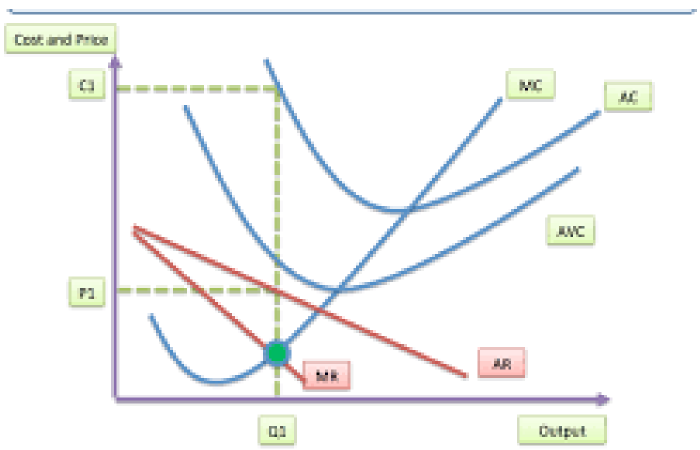
<u>Definitions</u>

- Costs of production - may include total, average and marginal cost
- Shut-down point: where a firm cannot cover its costs
- Distinction between fixed and variable costs

The decision on whether to shut down or not depends on whether losses are short-run or long-run

SHORT-RUN

Monopoly (monopolistic competition) diagram showing loss



At MC = MR (output Q2) the firm is not covering AVC and will shut down

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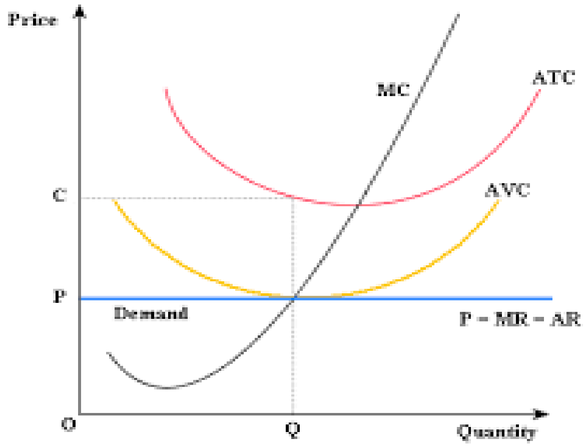
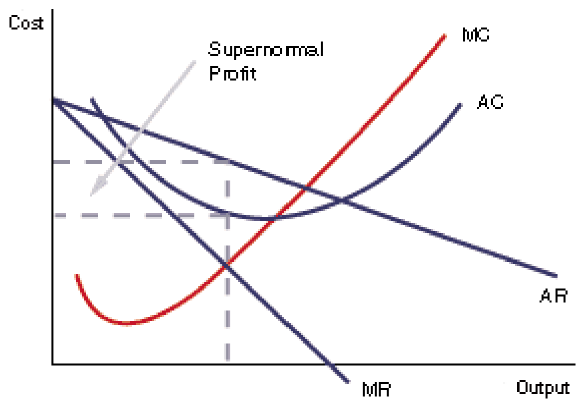
	Perfect competition diagram  • In the short-run this firm can still continue production as it just covers its AVC at a price of OP • If price is below AVC the firm will shut down **LONG-RUN** • In the long-run if AR is below ATC then the firm will shut down (the firm is making a loss or earning less than its normal profit AR < AC). Shut-down point is any price and output resulting in less than normal profit • For perfect competition & monopolistic competition, firms would need to profit maximise (MC = MR) in the long-run to avoid losses • Monopoly & oligopoly - firms can survive in the long-run without necessarily maximising profit	

	Evaluation Survival may be possible if the firm: • merges with another firm • receives financial support from the government - e.g. grants, subsidies • manages to reduce costs • successfully increases revenue • is in the public sector and is financed by the government • receives cross-subsidies if it is part of a conglomerate or group of companies • is a start-up business and time is required before it can be expected to make a profit • The economy may be in recession and demand for the firm's products may rise once the economy recovers. The firm may be able to borrow funds from the financial sector to enable it to continue at least in the short-run • For private sector firms the distinction between short-run and long-run is critical. Most firms are likely to shut down in the long-run if costs are not covered	**(20)**

Question Number	Answer	Mark
3	**Indicative Content** • Definition of collusion – where firms co-operate in their pricing and output strategies. Applies particularly where the market is an oligopoly. Firms can behave as if they are a monopoly to consumers e.g. Unilever and Sime Darby possibly colluding in relation to baking and cooking products • Distinction between overt and tacit collusion: - tacit collusion is where oligopolistic firms take their rivals' actions into account and coordinate their actions as if they were a cartel without an explicit agreement - overt collusion is where there is an explicit agreement between oligopolistic firms that they will not compete • Collusion provides firms with the ability to fix prices and limit output Collusion may be rational because: • each firm can protect its ability to gain supernormal profit Monopoly diagram to show SNP 	

	• Greater barriers enable firms to restrict competition • Collusion reduces unpredictability and uncertainty in the market for collusive firms e.g. prices are more stable and/or set by the firms themselves • Increased profits to firms and greater certainty may encourage firms to increase R and D leading to higher long-run profits • Colluding firms may avoid potentially damaging price wars • Tacit collusion may be very difficult or impossible to prove by competition authorities • Imperfect information makes it difficult for competition authorities to find evidence of collusive behaviour **Evaluation** • Benefits to firms may be short-lived if one or more colluding firms break away from the agreement • Falling demand will create tension between firms e.g. during an economic downturn • The entry of new firms into the industry may break existing collusive agreements • Exposure of anti-competitive behaviour by the government or other regulatory agencies is likely to cause agreement to end e.g. the South African Competition Commission • There may be lengthy and costly legal procedures • Exposure may mean firms face fines and/or other legal sanctions	

	• May result in negative publicity which may lead to fall in consumer demand • Overall judgements e.g. it depends on whether the benefits from collusion to firms outweigh the costs of exposure	**(20)**

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<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
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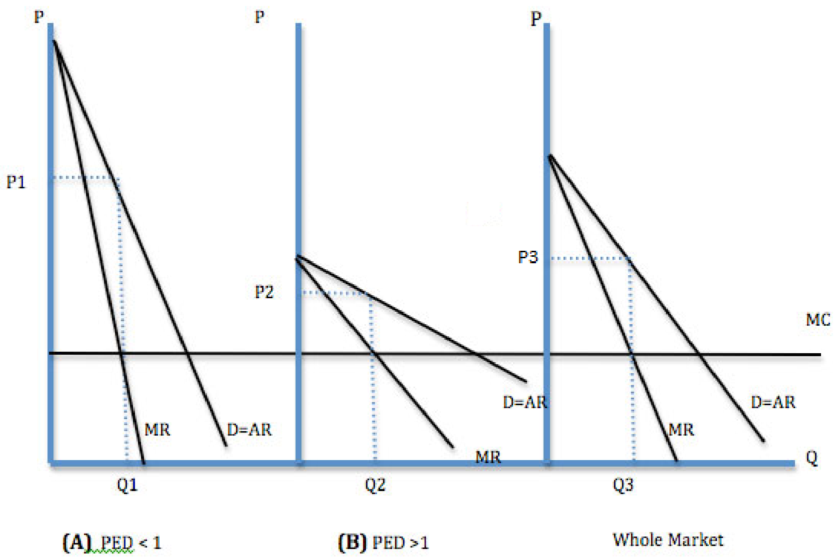
Indicative content

Define price discrimination (third degree) – where a firm is charging different prices to different users for the same product/service

- Conditions necessary for price discrimination:
-monopoly power - e.g. large Icelandic milk producer
-different PEDs for different consumer groups
-supplier is able to split, and maintain separation of, the distinct consumer groups (no arbitrage between consumers)
- Examples – airlines, railways, energy providers, milk producer in this example
- The firm is able to charge higher prices to those consumers whose demand is relatively inelastic and lower prices to those consumers whose demand is relatively elastic

Diagrammatic analysis



-Assume profit maximisation
-Output Q1 and high price P1 where demand is inelastic
-Output Q2 and lower price of P2 where demand is elastic
-Higher total profit (from markets A and B) when compared with whole market

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	• Consumers with inelastic demand will be paying higher prices - (Market A) e.g. transport or energy costs at peak times, consumers of milk in Iceland who have inelastic demand • Extraction of consumer surplus to increase producer surplus • A significant number of different prices can be confusing and potentially costly for consumers who may inadvertently not choose the lowest price – problem of asymmetric information • More market power of incumbent firm(s) may result in higher barriers to entry and prevent/restrict competition • Incumbent firm (monopoly) less likely to invest/increase efficiency • Incumbent firm may incur high costs of keeping markets separate • Incumbent firm faces the risk of government action - as applied with the Icelandic Competition Authority • Incumbent firm may suffer from negative media attention which deters consumers and adversely affects profits	

	Evaluation • Consumers with elastic demand will be paying lower prices (Market B) e.g. travellers during off -peak times, student discounts, milk consumers with elastic demand • Higher profits may encourage further investment by the firm which can improve quality and possibly lower prices due to effects of dynamic efficiency • If price discrimination allows a firm to at least cover its average costs, which it could not otherwise do, it will remain in the market and provide consumers with greater choice • Incumbent firm (monopoly) benefits from higher profits • Benefits arising from higher profits and entry barriers may still outweigh any additional costs to the monopoly firm • Disadvantages to certain consumer groups may be short-term -barriers to entry are lowered and new firms are attracted into the market -there are price controls set by regulatory bodies -there is public/media/government/ consumer group pressure, opposing an array of different prices	**(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: Definition 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**) Any other valid point up to 2 marks **Application** – up to 2 marks: FDI inflow **fell** over the period shown (**1**) FDI fell by $4.9 billion 2012 - 2018 (**1**) FDI fell by 69% over the period shown (**2**) Trends in FDI fluctuated to some extent e.g. FDI rose in 2016 compared with 2015 (**1**) Any other valid point up to 2 marks	**(4)**

Question Number		Mark
5 (b)		**(12)**
Knowledge, application and analysis – indicative content		
	Reasons why a TNC might invest in Nigeria include: • Nigeria has the largest market in Africa - access to a large population of more than 190 million and this is expected to rise to around 400 million by 2050 • A more internationally competitive economy. From 2017 to 2018 Nigeria rose 10 places on the Global Competitive ranking • Improvements in infrastructure – should making it cheaper and easier to transport goods and people • Improvements in health ranking - should make labour more efficient so that Nigeria's goods and services are more price competitive with possible improvements in quality • Improved business investment and potential for innovation - should lead to improved quality and hence greater demand for Nigeria's products • Evidence of a rising demand for goods and services • Depreciation in the exchange rate - should make Nigeria's exports more price competitive on world markets	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the factors influencing a TNC's reasons for investing 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 factors influencing a TNC's reasons for investing in an 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 factors influencing a TNC's reasons for investing in an 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 Nigeria • Nigeria is still ranked at a relatively low level in relation to its international competitiveness • Labour productivity and skill levels need to be improved • If productivity is low, unit labour costs may be relatively high unless wage levels are very low • High levels of poverty mean that domestic aggregate demand is likely to be low and unemployment high • Depreciation of the naira means that the cost of imported materials and services will be higher for producers, ceteris paribus • Depreciation is short-term, and the naira may appreciate in future • Corruption and political instability may deter FDI • "Nigeria needs sustained investment, further improvements in infrastructure and stable macroeconomic policies." Without this, TNCs may be reluctant to invest in Nigeria • "A favourable regulatory framework is required in order to reduce the amount of bureaucracy." Without such changes TNCs may be reluctant to invest in Nigeria	

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		
	• Increases in spending on education and training to raise skill levels and productivity. **Improved quality of human capital and increase in output** • Increasing investment to develop the infrastructure. E.g. transport, energy internet and telecommunications**. Increase efficiency, lower costs for businesses** • Reduce the amount and level of regulations e.g. remove or reduce red tape**. Easier for businesses to start-up, operate and expand** • Create incentives for domestic firms to invest. **Increase efficiency and hence competitiveness of domestic firms** • Offer financial incentives to TNCs e.g.–tax relief schemes and lower interest rates. **Encourages more foreign direct investment** • Stable macroeconomic economic policies with the aims of: **achieving low unemployment, lower poverty levels, price stability, sustainable economic growth, etc.** • Manipulation of currency to achieve further depreciation. **To make exports more competitive** • Subsidies to small firms. **To increase competition within markets**	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of appropriate 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 appropriate 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 appropriate government 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 measures depends on: • Measures may have negative cost implications for the Nigerian Government (opportunity cost, budget deficit) • Short-run/long-run impact – e.g. tax incentives may only have a short-run impact especially if similar incentives are offered by other countries • Infrastructure investment may cause short-term delays and environmental damage • Nigeria may improve its competitiveness but relative competeveness may not improve if other countries have more effective measures • Further depreciation may cause cost-push inflation. Depreciation will have negative impact where demand for Nigeria's exports is inelastic (less revenues for Nigerian producers). Also a negative impact where demand for Nigeria's imports is inelastic (consumers not switching to domestically produced goods) • Government failure, unintended consequences. Further government intervention may be unnecessary and distort the market - international competitiveness has improved and living standards are rising • The level of confidence in the economy - present and future • Political and economic stability in Nigeria • Non-economic factors including population changes may mean measure are less effective	

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.

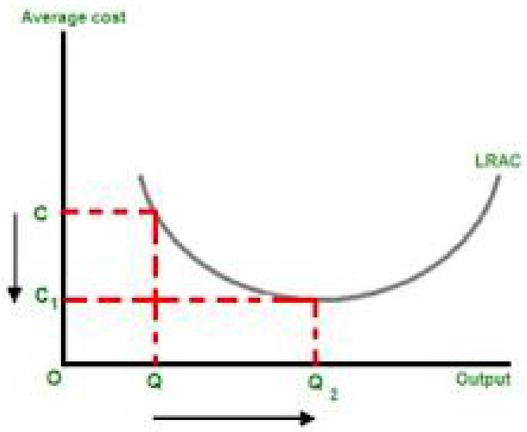
Question Number		Mark
5 (d)		**(12)**
Knowledge, application and analysis – indicative content		
	• A TNC may deliberately declare lower profit levels in countries where tax rates are higher and over-inflate its profit in countries where tax rates are lower (e.g. Ireland and Singapore) • Ireland must have relatively low rates of tax on profits as it attracts high levels of profits from TNCs - e.g. $106 billion in 2015 **Possible economic effects of an increase in profit tax** • A TNC may decide to move profits to other economies where tax rates are lower (e.g. Caribbean islands, Singapore) in order to avoid having to pay the increased tax in Ireland • A TNC may artificially raise costs of production in Ireland and declare a lower profit to avoid the tax (It raises prices on goods and services transferred to Irish subsidiary from other parts of the company) • A TNC may be investing in Ireland for other reasons e.g. external economies of scale such as: labour skills, transport links, other infrastructure advantages. In which case the rise in profit tax may be more than offset by other advantages • Effect on Irish Government revenue if TNCs stop transfer pricing • Effect on Irish labour market from TNCs reducing demand for labour • TNCs may make lower profits	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the likely economic effects of a rise in tax on 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 economic effects of a rise in tax on 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 likely economic effects of a rise in tax on 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		
	The effects depend on: • The size of the new tax on company profits and how this compares to the EU average • The relative size of the tax in relation to the TNC's profit level • Whether other countries' governments decide to raise their taxes on TNCs or not • Whether the benefits of keeping profits in Ireland outweigh the costs of moving them out of the Ireland. Concept of opportunity cost • The extent to which tax payments are being enforced by the Irish tax authorities • The distinction between short-run and long-run impact - e.g. in the short-run TNC may keep profits in Ireland but look to shift funds to other economies in the long-run • The impact on the Irish Government's finances. If the Irish Government receives less tax revenues, because TNCs move their funds elsewhere, it may ultimately reverse its decision • The impact on the Irish labour market: labour costs as a proportion of total costs	

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	Answer	Mark
6 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** – up to 2 marks • Definition: a pressure group is an organisation that tries to influence government policy in the interest of a particular cause **(1)** Plus 1 mark for development • Examples: trade unions/ consumer organisations/environmental groups **(1)** Any other valid development point **1** mark **Application –** up to 2 marks • CAIT represents the interests of small grocery businesses in India **(1)** <u>Consumer pressure group activities may include:</u> • Mass protests against acquisitions e.g. Walmart's acquisition of Flipkart **(1)** • Pressure on Indian Government to stop acquisitions **(1)** • Campaigns for tightening of FDI regulations in relation to TNCs such as Walmart **(1)** Any other valid application point **(1 mark)**	**(4)**

Question Number		Mark
6 (b)		**(12)**
Knowledge, application and analysis – indicative content		
	• Potentially increases revenue and profit for Walmart. Significant growth in revenue is predicted for Indian e-commerce market \$21bn in 2017 predicted to rise by 141% by 2021 • Walmart's market presence increases in India - it had 21 wholesale stores but no retail presence in 2018 • Provides Walmart with a very fast entry into the Indian e-commerce market • Walmart can benefit from Flipkart's experience and expertise - synergy • Walmart may gain economies of scale – e.g. marketing (savings on advertising costs), risk-bearing (diversification) and financial economies  • Output rises from OQ to OQ2 following acquisition and LRAC falls • Increases Walmart's brand identity in India • India offers potential of high profits because of large size of population and high economic growth rate • Flipkart has a high market share of 34.3%	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the likely benefits of an acquisition. 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 benefits of an acquisition 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 benefits of an acquisition 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 acquisition- $16bn which may take years to recoup. May prove to be an overvaluation • Only a 77% stake, so Walmart will not have full control • Walmart's forecast of future profits may be optimistic in what may be an unpredictable market • Forecast of e-commerce retail growth may be optimistic in India • China may be a more attractive market with 18.4% in total retail sales • Flipkart is not expected to be profitable for several years • Potential diseconomies of scale- firm grows larger than MES; output above OQ2 on diagram Examples of diseconomies - employee dissatisfaction, control & co-ordination problems • Distance, language and cultural barriers - so may prove to be a risky method of growth • Many acquisitions are ultimately unsuccessful • In India, e-commerce accounts for less than 4% of the retail market, so may not be very beneficial for Walmart	
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		
	Walmart was accused of predatory pricing strategy. By acquiring Flipkart it would have monopoly power - as Flipkart currently has 34.3% share of the market <u>Positive effects on consumers</u> • The prices of goods sold by Walmart/Flipkart would fall • Hence consumers would benefit from a rise in consumer surplus • Consumers may decide to save more or spend more on other goods with money gained from lower prices • Higher profits made by Walmart may lead to improved quality/range of goods sold <u>Positive effects on firms</u> A/ Walmart/Flipkart • Increased revenue and profit (long-run) • Fewer competitors in the market having been forced out by success of predatory pricing strategy • Increased market share and market power B/ Other businesses • Suppliers to Walmart/Flipkart may benefit from an increase in sales & profits because of growth of a major customer • Firms selling other goods to consumers may benefit because consumers will have more income available as a result of price reductions Accept an appropriate diagram	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the economic effects of adopting a predatory pricing strategy. 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 the economic effects of adopting a predatory pricing strategy 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 economic effects of adopting a predatory pricing strategy 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		
	• Walmart/Flipkart may make losses on their online retail business in India in order to deliberately force other competing firms out of the market. Hence a decrease in contestability • Predatory pricing could seriously affect revenues of small traders in India and many might go out of business • In the long-run consumers in India may suffer if prices rise again once competitors are eliminated from the market • CAIT claimed that the policy was illegal. Hence the Indian Government may step in and either prevent the acquisition or closely monitor Walmart/Flipkart prices • Effects will depend on the magnitude of any price reductions and the range of products covered by any price falls **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

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 (d)		**(12)**
Knowledge, application and analysis – indicative content		
	Indian Government measures to attract FDI are: • removing or reducing restrictions - Indian Government relaxing rules on local sourcing from local suppliers • offering financial incentives - tax allowance schemes for manufacturers investing more than $14.6million • financial incentives for TNCs locating in special economic zones • financial incentives for TNCs locating in North East India The likely success may include: • Greater employment opportunities and fall in unemployment -e.g. Walmart claims it will support domestic manufacturing by sourcing locally from small and medium sized suppliers; Walmart providing jobs for workers in the e-commerce sector • Development of skills in the Indian labour force • Growth in the Indian economy – AD/AS analysis – short-run AD shift to the right, long-run LRAS shifts to the right (or shift to right of PPF) • A more competitive & innovative economy • Positive impact on India's balance of payments: initial inflow into financial account medium term: increased exports and improved current account • Increase in tax revenue to Indian Government • TNCs bring in new technology which may be copied by domestic firms	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the likely success of government measures to attract FDI. 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 success of government measures to attract FDI 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 success of government measures to attract FDI 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 may include; • Relaxation of controls on FDI may mean less employment of Indian workers since longer time period now needed before minimum local supply target has to be met • Balance of Payments in the long-run: outflow from B of P current account e.g. dividends to overseas shareholders • Lack of real benefit to the Indian economy due to profits being transferred • No tangible benefits to public finances - a consequence of transfer pricing Overall impact of measures depends on: • Short-run/long-run impact – e.g. tax incentives may only have a short-run impact due to similar incentives offered by other countries • The level of confidence in the Indian economy - present and future • Degree of opposition to TNC activity from pressure groups e.g. CAIT – may dissuade TNCs from investing • Political and economic stability	

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.

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