

Please check the examination details below before entering your candidate information

Candidate surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Monday 18 May 2020

Morning (Time: 2 hours)

Paper Reference **WEC03/01**

Economics
International Advanced Level
Unit 3: Business Behaviour

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **two** questions from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Answer TWO questions from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

- 1** In 2018 98% of the 120 000 businesses in Myanmar were small or medium-sized. An important constraint on the growth of small firms in Myanmar was limited access to finance.

To what extent is limited access to finance the most important constraint on the growth of small firms?

(Total for Question 1 = 20 marks)

- 2** In 2019 Dudson, a UK pottery manufacturer, shut down as a result of falling sales and increased costs.

Evaluate whether a firm should always shut down if it cannot cover its costs of production.

(Total for Question 2 = 20 marks)

- 3** In March 2017 the South African Competition Commission recommended that Unilever and Sime Darby should be found guilty of collusion. The companies were accused of dividing up the market and agreeing not to compete in the sale of various baking and cooking products.

Assess the reasons for collusive behaviour by companies.

(Total for Question 3 = 20 marks)

- 4** In 2014 the Icelandic Competition Authority decided that MS Iceland Dairies, a large milk producer, had been abusing its dominant position in the market. It was claimed that the company was using price discrimination when selling milk to different groups of consumers.

Evaluate the disadvantages of price discrimination.

(Total for Question 4 = 20 marks)

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Put a cross in the box ☒ indicating the question from Section A that you have chosen for your FIRST essay. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

You must answer TWO essays in this section. Please start your second essay response on page 8.

Essay Choice 1:

Question 1 ☒

Question 2 ☒

Question 3 ☒

Question 4 ☒

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(Total for Question = 20 marks)



Put a cross in the box ☒ indicating the question from Section A that you have chosen for your SECOND essay. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Essay Choice 2: (This must be different from your first essay response)

Question 1 ☒

Question 2 ☒

Question 3 ☒

Question 4 ☒

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TOTAL FOR SECTION A = 40 MARKS



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QUESTION 5 BEGINS ON THE NEXT PAGE



SECTION B

Answer EITHER Question 5 OR Question 6.

You should spend 60 minutes on this section.

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

Question 6 starts on page 28.

5 Transnational companies (TNCs)

Figure 1 Foreign direct investment (FDI) into Nigeria, 2012 – 2018 (\$ billion)

Year	\$ bn
2012	7.1
2013	5.6
2014	4.7
2015	3.0
2016	4.4
2017	3.5
2018	2.2

(Source: adapted from: <https://unctad.org/>)

Extract 1 Nigeria and international competitiveness

The World Economic Forum ranked Nigeria 115 out of 140 countries in its 2018 Global Competitiveness Report. The country had moved up 10 places from its 2017 position. Nigeria improved in four out of twelve competitive measures: infrastructure, health, business investment and innovation potential. 5

Nigeria still needs to improve in several areas including the macroeconomic environment, labour productivity and skill levels.

In 2018 Nigeria had the largest market in Africa with a population of more than 190 million people. By 2050 it is estimated that its population will increase to around 400 million. 10

(Source: adapted from: <https://www.vanguardngr.com/2018/10/nigeria-ranked-115-in-global-competitiveness-index/>)

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Extract 2 TNCs and the Nigerian economy

According to a recent report, many TNCs think that Nigeria has the potential for long-term growth. TNCs that manufacture cars and consumer products are some of the businesses deciding to locate in Nigeria. These manufacturers are benefiting from rising demand in the economy for goods and services. This increasing demand results from a growing population and rising living standards. 5

The economy continues to face major challenges. Government policy will play a vital role in attracting more FDI. Nigeria needs sustained investment, further improvements in infrastructure and stable macroeconomic policies. A favourable regulatory framework is required in order to reduce the amount of bureaucracy. A significant proportion of Nigeria's population still live in poverty, without adequate access to basic services. The lack of job opportunities is the main cause of high poverty levels and regional inequality. 10

The exchange rate of the Nigerian naira depreciated from US\$1 = 200 naira in quarter 1 2016 to US\$1 = 305 naira in quarter 2 2018. 15

(Sources: adapted from <http://www.financialnigeria.com/multinational-companies-see-long-term-growth-potential-in-nigeria-news-185.html> and <https://www.worldbank.org/en/country/nigeria/overview> and <https://tradingeconomics.com/nigeria/currency>)

Extract 3 TNCs and tax avoidance

Ireland has become the world's biggest tax haven. Its rate of tax on company profits is one of the lowest in the world. Consequently, many TNCs transfer profits made in high tax countries to Ireland in order to reduce the amount of tax they pay. In 2015 it was estimated that TNCs moved \$106 billion of company profits to Ireland. By comparison with other tax havens, this was more than all of the islands of the Caribbean combined (\$97 billion) and of Singapore (\$70 billion). 5

According to a report published by the European Commission, TNC profits diverted through Ireland far exceeded those diverted through other European Union (EU) countries. Tax avoidance reduces revenues from profit taxes paid by TNCs in the EU by around 20%. The European Commission is putting pressure on the Irish Government to raise the rate of profit tax. If this decision is taken it could have a significant impact on business behaviour. 10

(Sources: adapted from <https://www.irishtimes.com/business/economy/ireland-is-the-world-s-biggest-corporate-tax-haven-say-academics-1.3528401> and <https://www.independent.co.uk/news/business/news/ireland-tax-avoidance-gdp-royalties-eu-european-commission-a8244456.html>)



- (a) Comment briefly on the trend in the flow of FDI as shown in Figure 1. (4)
- (b) With reference to Extract 1 and Extract 2, discuss why a TNC might decide to invest in Nigeria. (12)
- (c) With reference to Figure 1, Extract 1, Extract 2 and your own knowledge, assess measures the Nigerian Government could adopt to promote further improvements in the competitiveness of its economy. (12)
- (d) With reference to Extract 3 and your own knowledge, assess the likely economic effects of a decision by the Irish Government to increase the tax on company profits. (12)



(a) Comment briefly on the trend in the flow of FDI as shown in Figure 1.

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(b) With reference to Extract 1 and Extract 2, discuss why a TNC might decide to invest in Nigeria.

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(c) With reference to Figure 1, Extract 1, Extract 2 and your own knowledge, assess measures the Nigerian Government could adopt to promote further improvements in the competitiveness of its economy.

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(d) With reference to Extract 3 and your own knowledge, assess the likely economic effects of a decision by the Irish Government to increase the tax on company profits.

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QUESTION 6 BEGINS ON THE NEXT PAGE



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

6 International companies in India

Extract 1 Walmart buys majority share in Indian company

Walmart is a US-based transnational company and the world's largest retailer. In 2018 it paid \$16 billion for a 77% stake in Flipkart. This is India's biggest e-commerce (online) retailer with a 34.3% share of the market. This was the world's largest ever acquisition of an e-commerce business. It was also the highest price any foreign company had paid for a stake in an Indian company.

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A spokesperson for Walmart said, "India is one of the most attractive retail markets in the world, given its size and growth rate." In 2018 Walmart had 21 wholesale stores in India but no other retail presence in the country. This acquisition gave Walmart the fastest entry possible into an emerging e-commerce market.

10

Flipkart's customer knowledge and innovative culture is likely to benefit Walmart. However, Flipkart is not expected to be profitable for several years.

The e-commerce market in India is small by global standards. For example, in 2017 there were 100 million e-commerce customers in a country with a population of approximately 1.3 billion people. In India e-commerce accounts for less than 4% of the retail market. By comparison, e-commerce sales in China accounted for 18.4% of total retail sales.

15

Revenue from India's retail e-commerce market was \$21 billion in 2017 and is expected to grow by 141% between 2017 and 2021.

(Sources: adapted from <https://www.cnbctv18.com/retail/walmart-buys-77-in-flipkart-for-16-billion-55451.htm> and <https://www.emarketer.com/Article/Indias-Retail-Ecommerce-Sector-Small-Still-Growing/1014342> and <https://www.recode.net/2018/5/11/17335708/walmart-flipkart-india-e-commerce-charts> and <https://www.digitalcommerce360.com/2019/01/24/chinas-online-sales-grew-almost-24-in-2018/>)

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Extract 2 Protests against the acquisition

The Confederation of All India Traders (CAIT) is a pressure group representing the interests of small grocery businesses in India.

In 2018 CAIT organised mass protests across India against the Walmart acquisition of Flipkart. CAIT demanded that the Indian Government stop the acquisition. A spokesperson for CAIT claimed that Walmart was likely to use a predatory pricing policy and other forms of unfair competition. These would be illegal according to India's competition regulations. He said, "Walmart, with its global sourcing network and access to capital, will be able to bring down the prices of consumer goods in India and seriously affect the revenues of small traders".

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He added that the acquisition was in direct conflict with the foreign direct investment (FDI) policy of the Government.

However, a spokesperson for Walmart claimed that the company would compete fairly. It would also support domestic manufacturing by sourcing locally from small and medium-sized suppliers.

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(Source: adapted from <https://www.livemint.com/Industry/T9Ap9ZZhAF7Qdpkch7wjSJ/Walmart-says-Flipkart-acquisition-in-line-with-Indias-FDI-p.html>)



Extract 3 FDI and sourcing from local suppliers

In 2018 FDI received by India was \$79 billion, which was an increase of 14% from 2017. In February 2019 the Indian Government relaxed legal conditions that applied to FDI in the retail sector. Retail transnational companies (TNCs) used to have to buy 30% of all supplies from local sources within five years of opening in India. They will now be allowed up to ten years from opening the first store to reach the 30% target.

5

The Government hoped that a reduction in these restrictions would attract further investment from TNCs such as Apple and Ikea.

Several other incentives were already in place for TNCs wishing to invest in India. These included:

10

- additional tax allowances to TNC manufacturers that invest more than \$14.6 million in plant and machinery
- financial incentives for TNCs locating in special economic zones
- financial incentives for TNCs locating in North East India.

(Sources: adapted from <https://economictimes.indiatimes.com/news/economy/policy/local-sourcing-rule-may-be-eased-for-fdi-in-single-brand-retail/articleshow/67985349.cms> and <https://www.india-briefing.com/news/make-in-india-an-opportunity-for-foreign-investors-11789.html/>)

- (a) With reference to Extract 2, explain **one** way in which a pressure group might influence government policy to protect consumers. (4)
- (b) With reference to Extract 1, evaluate the likely benefits to Walmart of acquiring a 77% stake in Flipkart. (12)
- (c) With reference to Extract 1, Extract 2 and your own knowledge, evaluate the economic effects of Walmart adopting a predatory pricing strategy. (12)
- (d) With reference to the information provided and your own knowledge, assess the likely success of measures the Indian Government is using to attract FDI. (12)



(a) With reference to Extract 2, explain **one** way in which a pressure group might influence government policy to protect consumers.

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(b) With reference to Extract 1, evaluate the likely benefits to Walmart of acquiring a 77% stake in Flipkart.

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(c) With reference to Extract 1, Extract 2 and your own knowledge, evaluate the economic effects of Walmart adopting a predatory pricing strategy.

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(d) With reference to the information provided and your own knowledge, assess the likely success of measures the Indian Government is using to attract FDI.

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

