

Please check the examination details below before entering your candidate information

Candidate surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

Candidate Number

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Thursday 16 January 2020

Morning (Time: 2 hours)

Paper Reference **WEC13/01**

Economics

International Advanced Level

Unit 3: Business behaviour

You must have:

Source Booklet (enclosed)

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 **ALL** questions in Section A and Section B.
- Answer **TWO** questions in Section C.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

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

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SECTION A

Answer ALL questions in this section.

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

- 1 In 2014 the Irish Government allowed private sector bus operators to bid for public transport contracts for the first time.

This is an example of

- A government failure
- B trade liberalisation
- C competitive tendering
- D regulation

(Total for Question 1 = 1 mark)

- 2 The table shows the market share by value of retail sales of grocery stores in the UK.

Store	March 2016 (%)	March 2017 (%)
Tesco	28.1	27.6
Sainsbury's	16.4	16.1
Asda	16.2	15.7
Morrisons	10.5	10.4
Co-op	6.1	6.1
Aldi	6.0	6.8
Others	16.7	17.3

(Source: <https://www.statista.com/statistics/280208/grocery-market-share-in-the-united-kingdom-uk/>)

From the data it can be deduced that

- A the 3-firm concentration ratio was 50.7% in March 2016
- B the 5-firm concentration ratio was 87.3% in March 2016
- C the 3-firm concentration ratio was 49.4% in March 2017
- D the 5-firm concentration ratio was 76.6% in March 2017

(Total for Question 2 = 1 mark)



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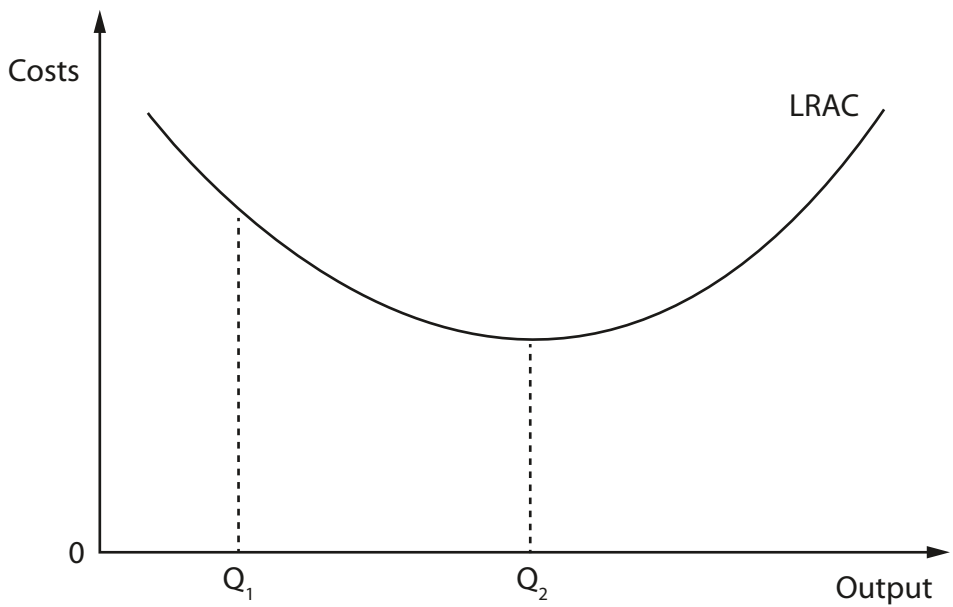
3 In 2016 workers in the USA were changing jobs less frequently than at any time since the 1970s.

Which **one** of the following can be deduced from the above information?

- A There had been a decrease in the skills of the workforce
- B There had been a decrease in house prices and rents
- C There had been an increase in transferable skills
- D There had been an increase in the number of job vacancies

(Total for Question 3 = 1 mark)

4 The diagram shows a long-run average cost curve for a firm.



Which **one** of the following must be true as output rises from point Q_1 to point Q_2 ?

- A There are diminishing returns
- B There are economies of scale
- C There are diseconomies of scale
- D There are falling total costs

(Total for Question 4 = 1 mark)



5 A monopoly is operating at its revenue maximising output.

Which **one** of the following is true?

- A Marginal revenue is equal to marginal cost
- B Average revenue is equal to average cost
- C Average fixed costs are rising
- D Marginal revenue is zero

(Total for Question 5 = 1 mark)

6 Which **one** of the following is most likely to cause the demand for labour to be elastic?

- A Labour costs form a high proportion of total costs
- B Labour cannot be easily replaced by capital
- C Consumer demand for the final product is inelastic
- D A long training period is needed once workers have been recruited

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



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SECTION B BEGINS ON THE NEXT PAGE.



SECTION B

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

- 7 (a) With reference to Figure 1, calculate the percentage change in electric car sales from 2013 to 2017. You are advised to show your working. (2)
- (b) With reference to Extract A and Extract B, explain what is meant by *specialisation*. (4)
- (c) With reference to Extract A, examine the likely effect of a decrease in variable costs on Tesla's profits.
Illustrate your answer with an appropriate diagram(s). (8)
- (d) With reference to Extract B, analyse the relationship between price elasticity of demand and total revenue.
Illustrate your answer with an appropriate diagram(s). (6)
- (e) With reference to the information provided, discuss the significance of barriers to entry and exit in the electric car market for new entrants, such as Dyson. (14)

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(c) With reference to Extract A, examine the likely effect of a decrease in variable costs on Tesla's profits.

Illustrate your answer with an appropriate diagram(s).

(8)

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(d) With reference to Extract B, analyse the relationship between price elasticity of demand and total revenue.

Illustrate your answer with an appropriate diagram(s).

(6)

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(e) With reference to the information provided, discuss the significance of barriers to entry and exit in the electric car market for new entrants, such as Dyson.

(14)

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(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS



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SECTION C

Answer TWO questions from this section.

- 8** In July 2017 the German retailer Metro Group demerged into two independent companies. Its wholesale and food division became New Metro and a separate consumer electronics business, CECONOMY, was formed.

Evaluate the possible benefits of a demerger for the business **and** its workforce.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

- 9** By 2017 Ethiopia was one of very few African countries that had not privatised its telecommunications market and introduced competition. The state-owned company, Ethio Telecom, was the only firm in the market.

Evaluate the likely benefits of a monopoly to its consumers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

- 10** In 2018 the Malaysian Government increased the monthly minimum wage for garment and textile workers from MYR 1 000 to MYR 1 500.

Evaluate the benefits of an increase in the minimum wage on businesses **and** workers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

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TOTAL FOR PAPER = 80 MARKS



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Pearson Edexcel International Advanced Level

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Source Booklet

Do not return this Source Booklet with the question paper.

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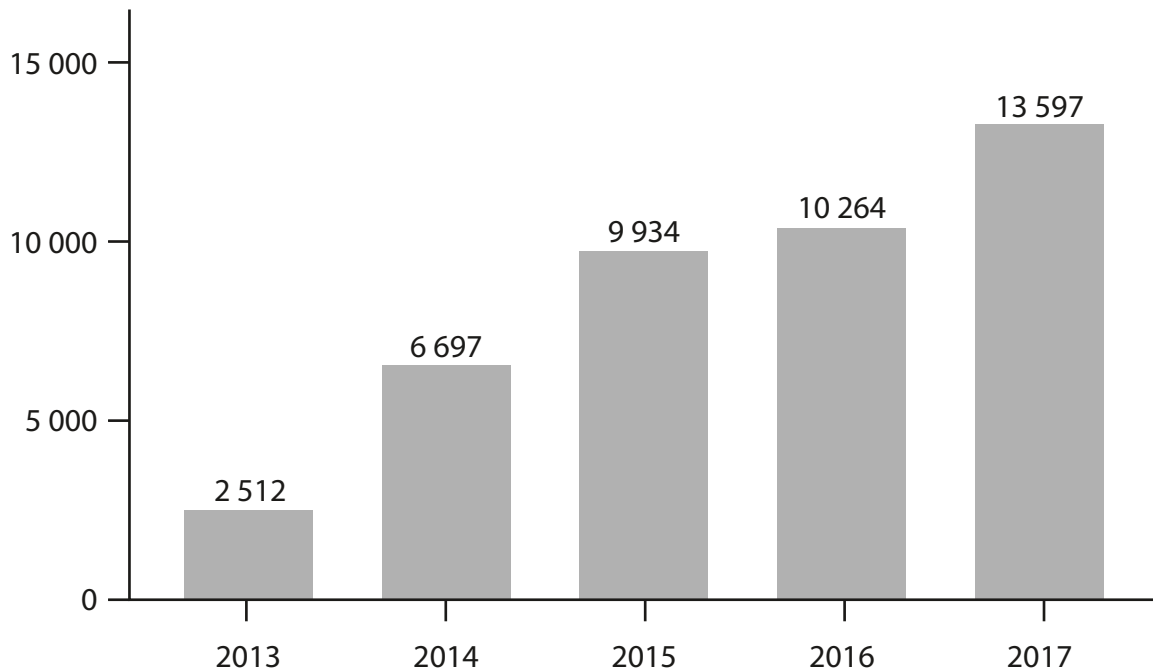


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Sources for use with Section B.

The electric car market

Figure 1 UK electric car registrations, 2013 – 2017



Extract A Financial performance of Tesla

Tesla is a large American corporation that specialises in the production of electric cars. In January 2017 the company had a 30% market share for electric cars in the USA.

Between 2010 and March 2018, Tesla recorded only two profitable quarters. The company made its biggest quarterly loss of \$709.6 million in quarter one of 2018. It was failing to produce enough of its 'Model 3' mass market electric car. For example, 20 000 'Model 3' cars should have been produced in December 2017. However, during the whole of quarter four of 2017, Tesla manufactured only 2 425 cars.

The 'Model 3' is the most important part of Tesla's plan to become a mass market car manufacturer. At one stage, it had more than 500 000 potential consumers on its waiting list. However, in April 2018 the company admitted that some buyers had cancelled their orders for Tesla cars.

Senior managers have been looking for ways of decreasing the company's variable costs. This may require the sourcing of cheaper car parts and reducing the number of workers on production lines.

5

10

15

Extract B New entrants in the luxury electric car market

Dyson was established in 1991. It has become a very successful technology company with its headquarters in the UK. It specialises in the design and manufacture of domestic appliances such as vacuum cleaners, hand dryers and hair dryers. In 2018 Dyson employed 12 000 workers worldwide. The company has built a reputation for creating and producing a range of high quality and innovative products. 5

Its latest project is to design and produce an electric vehicle. Dyson plans to invest \$2.7 billion, split evenly between battery technology and vehicle development. Initially, the company will be targeting the luxury segment of the electric car market. This is a niche that Tesla almost exclusively occupies. Demand is significantly more price inelastic in this part of the market. 10

However, it is possible that barriers to entry and exit could create problems for Dyson. The experience of Apple may prove to be relevant. Apple abandoned its plans to manufacture electric cars when both the high initial capital costs and the complexities of the production process became apparent. 15

The badge on the front of a luxury car is all-important. Possibly a Dyson brand associated with domestic appliances might lack sufficient appeal for potential consumers. However, Dyson's previous success when marketing new products may be repeated in the electric car market.

There is also likely to be significant competition in the luxury electric car market. For example, Jaguar is about to launch the iPace, a competitor to Tesla's Model S. Porsche, Audi and BMW all have new luxury electric car models due to be on sale by late 2020. Several other companies are set to enter the market for luxury electric cars. 20

Finding buyers is another challenge. For example, Tesla had to spend heavily on setting up its own retail network to compete with the established distribution channels of the large car manufacturers. 25

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Acknowledgements

Figure 1 based on data taken from www.smm.co.uk/vehicle-data/evs-and-afvs-registrations/

Extract A adapted from <https://www.theguardian.com/technology/2018/may/02/tesla-loss-model-3-elon-musk>

Extract B adapted from Dyson's car faces low barriers to entry but high barriers to success © The Economist – September 2017 <https://www.economist.com/britain/2017/09/30/dysons-car-faces-low-barriers-to-entry-but-high-barriers-to-success>