

3(a)	Explain <u>one</u> way each of the following stakeholder groups might be affected by a business becoming a multinational company. Award 1 mark for how each stakeholder group will be affected (max 2 marks for each stakeholder group). Award a maximum of 1 additional mark for each explanation of how the stakeholder group will be affected. There are no application marks available for this question. Effects on shareholders might include: • Value of assets of company increases – as increased profit can be reinvested • Increased dividends – profit increases from avoiding barriers to trade • Lower dividends – if need to fund expansion into other countries • Increased share price/value of shares increases – as becomes a more well-known business due to market share increasing • Easier to sell shares – as the company is known globally with higher revenue/profit/better image Effects on employees might include: • May lose jobs – as business moves to produce in a country with lower labour/production costs • May gain promotion – from business expanding into different markets / business can access a larger target market and additional jobs may be required • May have a more secure job – as business remains competitive if competitor companies are also expanding abroad • Higher wages paid – as business is more successful and can afford to increase wage rates Effects on suppliers: • May have increased sales – as output of multinational increases • May lose sales – as multinational may purchase from cheaper suppliers in other countries Effects on government: • Higher tax revenue if higher profit repatriated • May lose tax revenue if multinational locates head office in another country For example: Employees may lose their jobs (1) as the business becomes a multinational company and moves its production to another country to lower labour/production costs (1).
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3(b)

Using Appendix 2 and other information, consider the two countries BB could choose to locate its first new factory. Which country should BB choose? Justify your answer.

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both countries. Well-justified recommendation. Candidates discussing both countries in detail, in context and with a well-justified recommendation, including why the alternative country is rejected, should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least one country. Judgement with some justification/some evaluation of choices made. Candidates discussing at least one country in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the countries with little/no explanation. Simple judgement with limited justification/limited evaluation of choices made. Candidates outlining both countries in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

3(b)

Relevant points might include:

	Benefits	Drawbacks
Country A	- Gross profit per bike is \$225 more than Country B - Highest selling price per bike at \$1000 – possibly highest revenue if demand remains high 70% of raw materials are available in country A which may make it easier and quicker to receive supplies – less need to import - Only 30% of the raw materials need to be imported – so depreciation in exchange rate may have smaller effect on costs - Gross profit margin is 35% which is higher than country B at 31.25%	- Has many competitors so demand may be lower – may have to reduce selling price to attract customers – possibly reducing revenue - May have to spend more on marketing to enter the new market abroad – increasing costs – possibly reducing profit - Higher wage costs to produce each bicycle at three times the cost of Country B – leading to higher wage costs overall - Harder to recruit new workers as unemployment is low – may have to offer more fringe benefits to attract employees from their many competitors 30% of raw materials need to be imported – if depreciation in the exchange rate of country A then may make the cost of these raw materials more expensive

3(b)		Benefits	Drawbacks
	Country B	• Half the raw material cost per bicycle at \$175 in country A – makes it easier to charge the lowest price of \$400 per bicycle • High unemployment makes it easier to recruit new employees – more likely to remain with BB as few alternative employment opportunities in country B – lowering recruitment costs/training costs in the future • Lowest wage costs at \$100 per bicycle – reducing total labour costs • Low price at \$400 per bicycle may attract many customers – possibly increasing revenue	• Only 40% of raw materials are available in country B so a large proportion of other raw materials may need to be imported/transported a long way – increasing delivery costs and delivery time • Lower difference between price of \$400 and costs of \$275 = \$125, whereas it is \$350 in country A • Few competitors may indicate that demand for bicycles in country B is low – BB needs to spend on market research to be sure there is a market in country B – investment could be wasted if there is not sufficient demand to make the expansion successful
	Recommendation	Justification might include: • BB should choose country A as it can charge the highest price of \$1000 per bicycle which may lead to higher revenue and with a higher difference of \$350 per bicycle between price and variable costs it gives the highest gross profit per bicycle sold. Whereas country B has to have 60% of raw materials imported and if there is a depreciation in the exchange rate then this could be very expensive in the future. • BB should choose country B as it has the lowest wage cost per bicycle, and it will be easy to recruit new employees as there is high unemployment there.	