3(a)	**Explain one 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).

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
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.	