

Chapter 34: Exam practice question

German efficiency in an Egyptian location

- 1 Define the following terms:
- a joint venture (2)
- This is a separate legal entity set up by two other businesses, combining their expertise and sharing the costs, control, risks and eventual profits/losses.
- b import duties. (2)
- These are taxes due when a product passes through a national boundary between countries or trading blocs. It is usually based on the sales price of the item.

Apply **Resources table 3a** mark band descriptors.

- 2 Explain **two** qualitative factors Mercedes might take into account when choosing to locate in Cairo. (4)
- raw materials sources
 - market location
 - laws
 - planning restrictions
 - transport
 - industrial inertia (too much bother to move)
 - personal reasons
 - climate
 - ethical/environmental considerations
 - room for further expansion
 - labour supply with appropriate skills
 - safety (if factory is dangerous)
 - any other relevant reason(s)

Apply **Resources table 3b** mark band descriptors.

- 3 Analyse the **two** reasons why Mercedes chose to use a joint venture when entering the Egyptian economy. (8)

This answer is based on the idea that the expertise of both parties in a joint venture is needed for success. The focus of the question should be kept in mind when answering: 'Why choose a joint venture?'

Reason 1: Assembling cars needs Mercedes's expertise and standards

For joint venture	Against joint venture
Entrepreneurs would probably not be able to assemble Mercedes parts to Mercedes standards without Mercedes guidance.	The entrepreneurs may wish to lower standards in order to make more profit.
Mercedes need to be directly involved with ensuring standards if their name is to be used.	Local workforce may not be used to working to such high standards.
Mercedes have expertise in manufacturing, so know how to go about controlling the process.	45% locally manufactured parts are required, so it will need more than just imported parts.
Any other relevant point.	Any other relevant point.

Reason 2: Local rules and regulations need local experts

For joint venture	Against joint venture
Local entrepreneurs may know and interpret local rules better.	Need to trust local entrepreneurs not to take advantage of Mercedes.
Local entrepreneurs may have important local contacts and influence.	Need to split profits with the entrepreneurs.
Local entrepreneurs may be more in touch with drastic, sudden changes in requirements.	Local rules can change faster than it is easy to adapt to.
Any other relevant point.	Any other relevant point.

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is required.

- 4 Discuss the advantages and disadvantages to Mercedes of expanding into developing economies like Egypt. (9)

Students should show understanding of the term 'developing economy'.

Advantages:

- cheaper labour
- cheaper land
- faster-expanding markets
- high potential profits
- government incentives (e.g. lower tax)
- any other relevant point

Disadvantages:

- lack of local contacts, influence/knowledge
- erratic changes in local laws
- cultural differences may make operations more difficult
- differences in local standards may challenge company standards
- lack of adequately skilled local employees
- any other relevant point

SL: apply **Resources table 1** mark band descriptors.

(SL questions do not usually go up to 9 marks, so the HL table is best used for SL students.)

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is usually required for a 9-mark question.