



GCE A LEVEL

A520U20-1



S24-A520U20-1



MONDAY, 20 MAY 2024 – AFTERNOON

ECONOMICS – A level component 2
Exploring Economic Behaviour

2 hours 30 minutes

A520U201
01

ADDITIONAL MATERIALS

A calculator.

A WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use gel pen or correction fluid.

You may use a pencil for graphs and diagrams only.

Answer **all** questions.

Write your answers in the separate answer booklet provided, following the instructions on the front of the answer booklet.

Use both sides of the paper. Write only within the white areas of the booklet.

Write the question number in the two boxes in the left-hand margin at the start of each answer, for example

1	1
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Leave at least two line spaces between each answer.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the necessity for good English and orderly presentation in your answers.

Answer **all** questions.

Things can only get better?

In 2020, the UK government set out its plans for the UK economy over the next decade. These plans focus both on the UK's relationship with the rest of the world and the relationships between the regions of the UK.

The UK and the rest of the world

The government wants the UK to create new trading relationships with countries across the globe and on 1st February 2021, the UK government formally applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a trade agreement between 11 countries: Japan, Australia, Canada, New Zealand, Vietnam, Singapore, Malaysia, Brunei, Mexico, Chile and Peru.

The members of the CPTPP account for 13% of global GDP and 15% of global trade, with a population of 500 million people located in the growing and increasingly rich Asia-Pacific region. The CPTPP reduces trade tariffs for goods, but also sets new rules in areas such as services, investment, intellectual property, digital trade and nationalised enterprises. It is based on commitments to very high levels of liberalisation, limits on government intervention and aims to avoid excessive regulation of businesses. The government's hope is that membership of the CPTPP will allow UK industries to demonstrate their strengths in sectors such as services and digital trade.

The relative weakness of the UK's currency in recent years, makes membership of such trade agreements particularly attractive (**Figure 1**):

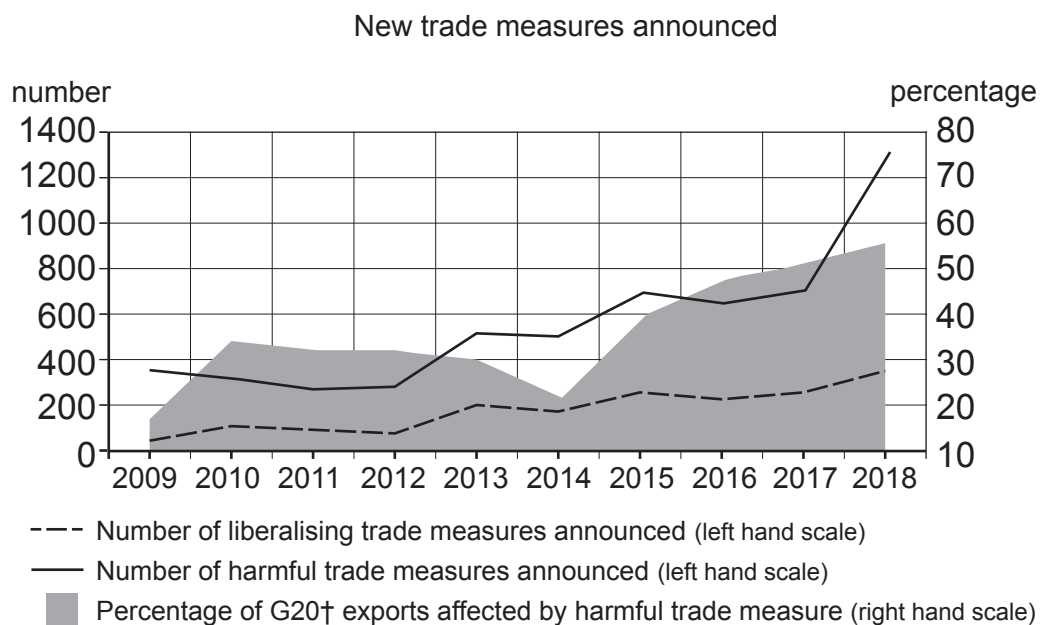
Figure 1

Sterling exchange rate index against a weighted basket of currencies
Jan 2005=100



In some ways, however, the UK's support for free trade goes against a rising tide of global protectionism, as seen in **Figure 2**.

Figure 2



Source: Global Trade Alert database

†The G20 refers to the world's leading economies, which between them account for 80% of world GDP.

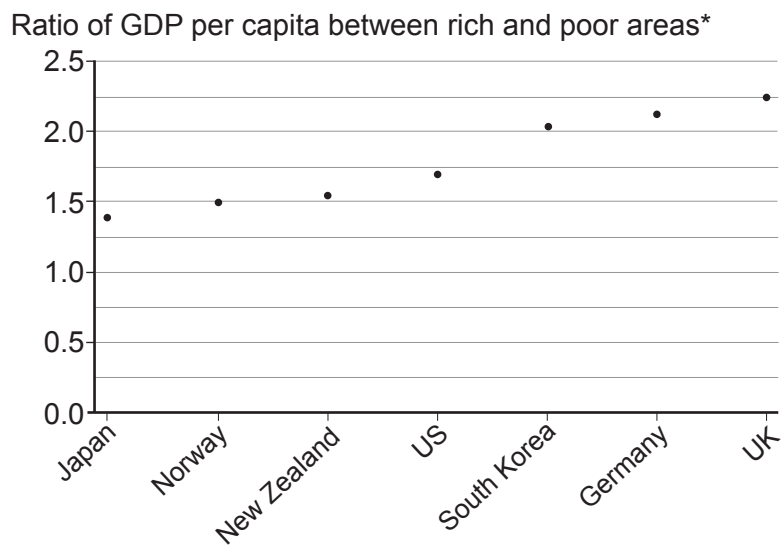
This may be because opening an economy to competition creates losers as well as winners. US industrial workers, for example, have been damaged by rising competition from countries such as China, suggesting that the effects of the UK joining the CPTPP may not be entirely positive.

UK Regions

A second issue that the UK government wants to deal with is the inequalities between regions within the UK. Politicians have said that the UK needs 'levelling up'. According to some measures, the UK has the most geographically unequal economy in the developed world (**Figure 3**).

Figure 3

Measures of inequality in regional GDP per capita, by country



*The ratio is that between the GDP per capita in the 90th percentile ranked region and the 10th percentile ranked region.

These income inequalities also extend into many other areas such as employment rates, pay, education and health (**Figures 4 and 5**).

Figure 4

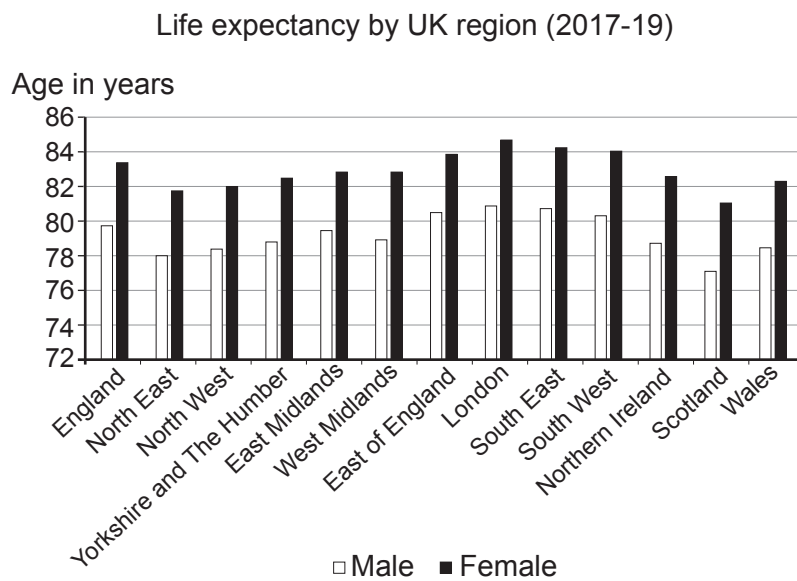
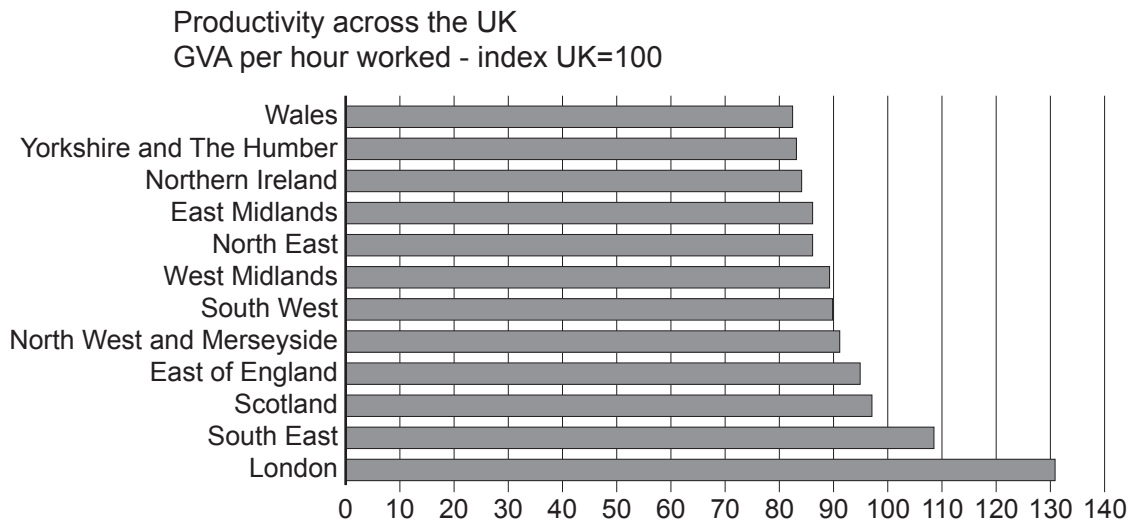


Figure 5



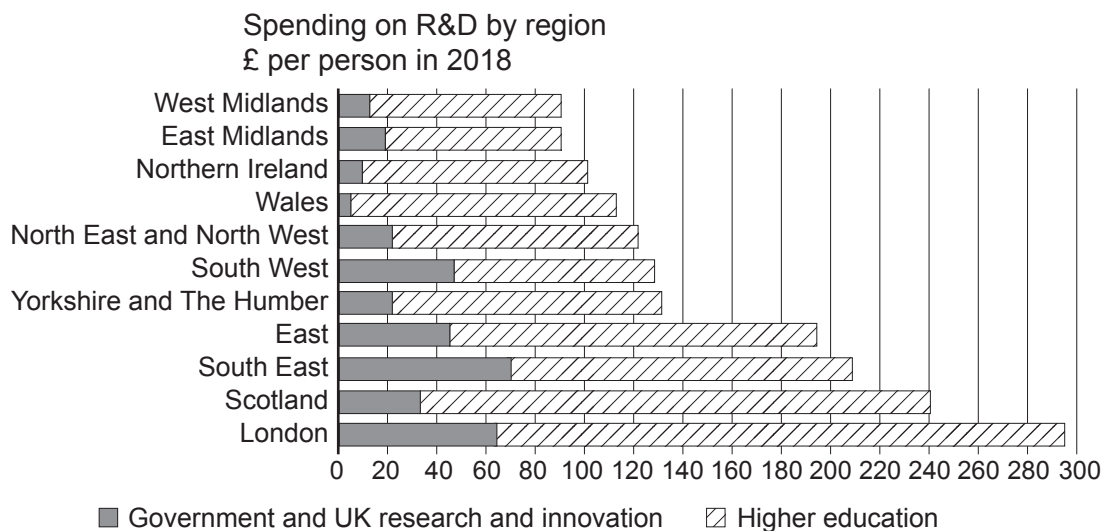
One of the main causes of inequality is the difference in productivity between regions – that's the amount of gross value added (GVA) per hour worked. Gross Value Added is a regional equivalent of GDP (**Figure 6**).

Figure 6



One of the factors that has contributed to this productivity gap is that government and universities spend more on research and development (R&D) in South East England (**Figure 7**) than in other regions. Other factors have included low infrastructure spending in areas outside London.

Figure 7



In an attempt to tackle these inequalities, the government has published its 'plan for growth', known more informally as 'levelling up'. This plan centres around infrastructure, skills and innovation. The key elements of the plan include:

Figure 8

Extracts from the UK's 'plan for growth'	
	The UK government says that it will...
Infrastructure	Stimulate short-term economic activity and drive long-term productivity improvements by investing in broadband, roads, rail and cities, as part of capital spending plans worth £600 billion overall. Support businesses to raise finance, particularly for infrastructure projects via the new UK Infrastructure Bank.
Skills	Support productivity growth through high-quality skills and training, providing additional funds and reforming technical education. Continue to focus on the quality of apprenticeships and make additional payments to firms employing new apprentices.
Innovation	Support access to finance that will help increase innovation, including funds to invest in high-growth companies. Continued government support for both new and growing innovative businesses that find it hard to access finance. Develop the regulatory system in a way that supports innovation. Reform the immigration system to attract the brightest and best people.

Critics argue that many parts of the plan are just as likely to benefit rich areas as poor ones and that the government's commitment to liberalisation and free trade will have a particularly negative effect on low-income regions. This will therefore widen inequalities rather than reduce them. The issues involved are not as simple as a North-South divide – inequalities within a region can be greater than inequalities between different regions – incomes in some northern cities such as Manchester and York average 50% more than poorer ones such as Scarborough and Blackpool. Levelling up is more complex than it might at first appear.

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 Using the data, explain why productivity might be lower in some parts of the UK than in others. [5]
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 Using the data, explain why the UK government might want to reduce regional income inequality in the UK. [5]
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 How effective is the UK's 'plan for growth' (Figure 8) likely to be in dealing with the regional inequalities in the UK presented in the data? [10]
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 Using the data, discuss the extent to which membership of the CPTPP might be beneficial for the UK economy. [10]
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 Using the data, discuss whether the weak sterling exchange rate will be more likely to improve or worsen living standards in low-income areas of the UK. [10]

Long live monopolistic competition!

The theory of monopolistic competition was developed in the 1930s by Joan Robinson and Edward Chamberlin. Monopolistic competition is a form of imperfect competition, and gets its name from being a market which has lots of competing firms each with a small amount of monopoly power.

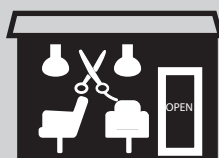
In the modern world it is certainly not merely an abstract theory like perfect competition. Firms in monopolistic competition are often small family businesses found on high streets such as hairdressers and nail bars (**Figure 1**). Firms operating in these locations often only pay their fixed costs such as rent and business rates every quarter or sometimes annually. This means that they can survive in the short term as long as they can pay their variable costs.

Figure 1

Hair and Beauty Business in the UK



Over half of hair and beauty businesses have an annual turnover of less than £99 000.



There are over 43,000 hair and beauty businesses in the UK.



The hair and beauty industry generates over £7.5bn in turnover for the UK economy.



Over two-thirds of hair and beauty businesses employ fewer than five people and 94% employ fewer than ten people.



There has been a massive growth in the number of hairdressing, barbering and beauty businesses over the last few years.



Hair and beauty businesses have higher survival rates after five years than many other sectors.

Source: NHBF.

The data below (**Figure 2**) shows the weekly demand at different prices for haircuts at a hairdresser/barber. In theory, firms in monopolistic competition seek to maximise profits.

Figure 2

Bob's Barbers

Price	Haircuts/day	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost
£24	0			£ 250	
£22	10			£ 340	
£20	20			£ 400	
£18	30			£ 480	
£16	40			£ 580	
£14	50			£ 700	
£12	60			£ 840	
£10	70			£1020	
£8	80			£1280	

The restaurant sector is also an example of monopolistic competition. In recent years, many small restaurants have taken advantage of the services offered by firms such as Deliveroo, which enable restaurants to widen their customer base. Customers can order either on their website or by using the Deliveroo app. By adding their postcode, a customer can find all the restaurants delivering in their local area; they then choose their food and place their order. Once the order is ready, a Deliveroo rider will pick it up and bring it to the customer. Potentially this will increase the sales, revenue and profit of the restaurant – but it comes at a price.

Firms such as Deliveroo, Uber Eats and Just Eat make their money from a charge to customers for delivery and also to the restaurant – charging around 30% on each order placed. So, if you order a takeaway worth £20, the delivery company will take around £7.20 – that's 30% plus VAT, having a big impact on a restaurant's profits. Most restaurants work on around a 70% profit margin on their variable costs so firms like Deliveroo are taking virtually half of their profit on each order. However, according to Deliveroo, restaurants that use its service can see revenues increase by up to 30%.

Is a monopolistically competitive market desirable for society as a whole? At its simplest, monopolistic competition is imperfect from an efficiency point of view compared to perfect competition. But do consumers and society in general really lose out from the extensive provision of restaurants and hairdressers? Recent Competition and Market Authority investigations into funeral directors and estate agents suggest that monopolistic competition can pose problems for consumers but not on the scale of those seen in oligopolistic markets.

Sources: Kentonline 17/3/2021; lumenlearning.com

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 Using the information provided on hairdressing and restaurants outline the characteristics of monopolistic competition. [5]
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 Using **Figure 2**, calculate the marginal revenue (MR) and marginal cost (MC) for each of the output levels (haircuts/day) from 0 to 80. Record the answers in your **pink** answer booklet.
Using your answers explain at what level of output Bob's Barbers will, in theory, maximise profits. [7]
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 Using a costs and revenue diagram, evaluate the effects on a restaurant's abnormal profits as a result of using Deliveroo to increase its sales. [10]
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 Evaluate the view that a monopolistically competitive firm will always leave an industry if it fails to make at least normal profit. [7]
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 With reference to the data, discuss the extent to which monopolistic competition leads to a reduction of economic welfare. [11]

END OF PAPER

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