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SECTION A

Answer all parts of Question 1 after reading Evidence A, Evidence B and Evidence C.

Evidence A

Productivity

GDP per worker		
Index of productivity	UK 100	French 120

According to the Office of National Statistics if UK workers were as productive as their French counterparts, then we could take every Friday off without having to take a cut in pay. British workers are 2.8% more productive than a year ago and manufacturing workers are 4.9% more productive.

The key to higher UK productivity has been to send low value manufacturing jobs abroad whilst retaining managerial jobs and high value added manufacturing jobs in the UK. In October 2006, Chubb closed its fire extinguisher factory in South Wales with the loss of 154 jobs to China. Panasonic also announced that 500 workers were to lose their jobs as production was switched to the Czech Republic.

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(Source: National Statistics website: www.statistics.gov.uk
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Evidence B

More than one in six young people in Britain leave school unable to read, write and add up properly. The proportion of 16 to 19-year-olds staying on in full-time education in the UK is below the average for developed countries despite significant government investment in education and training.

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The government hopes that new vocational training courses will improve the quality of labour and raise productivity. This will help UK firms compete with producers in the Far East and Eastern Europe who benefit from lower labour costs.

(Source: adapted from *The Daily Telegraph*, 'Must stay in education till 18', by Liz Lightfoot, December 2006)



Evidence C

Efficiency

Workers in Indian textile factories have been trained to do their work on roller skates in a bid to speed their progress across the shop floor and improve productivity.

Walking up and down the length of a 150ft loom or spinning frame could take several minutes, and was exhausting by the end of a shift. “I thought the idea was mad at first. I felt silly. But I love it now. I feel as though I’m half-playing and half-working and the day goes fast”, said Annam Sankaralingam, 21, a worker at KPR Mills. Many of the big mills now use skates to make the work more fun and improve work rates. The managing director of KPR Mills said, “The movement boosts the employees’ energy and makes the monotonous work fun. It has been a good motivation strategy and has improved technical efficiency”.

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One employee on roller-skates can now operate a 120–150ft spinning frame with 1,000 needles as it weaves cotton fibre into yarn, a task that used to require two on foot.

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(Source: adapted from *Sunday Telegraph*, ‘Mobility of labour’, by Amrit Dhillon in Delhi, December 2006)



1. (a) What is meant by:

(i) 'productivity' (Evidence C, line 2).

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(ii) 'technical efficiency' (Evidence C, line 9).

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(iii) 'value added' (Evidence A, line 6).

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(b) Examine **two** factors which may affect the competitiveness of UK manufacturers.

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(c) Assess the arguments for government investment in vocational education.

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(d) Critically assess **two** strategies which might be employed in order to increase manufacturing productivity.

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(Total 30 marks)

Q1

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TOTAL FOR SECTION A: 30 MARKS



SECTION B

Answer EITHER Question 2 OR Question 3 after reading Evidence D and E.

Evidence D

A buoyant house market

This has been a good year for the UK housing market with house prices rising 9% during 2006.

In 2007, the housing market is expected to slow down but remains robust, despite forecast GDP growth of 2.4%, with inflation easing to 4%.

The level of employment — a key driver of housing demand — is expected to rise to record highs in 2007. 5

House building supply is likely to remain below the natural level of demand in the UK. The demand for new homes will remain robust as a result of continued immigration, the rising divorce rate, people living longer and income elastic demand. Interest rates are now at their highest level for five years and are expected to make homebuyers more cautious. 10

Relatively buoyant conditions in London and the South East, together with the continued slowdown in house prices in the North will cause the North/South divide to widen.

(Source: adapted from *The Daily Telegraph*, by Andy Hornby, 26 December 2006)

Evidence E

Booming market helps Persimmon

Persimmon ROCE

2001	2002	2003	2004	2005
19.24%	26.44%	30.22%	32.89%	29.74%

Britain's biggest housebuilder Persimmon expects record profits this year. Sales revenue jumped 38% to £3.15bn this year as it sold 16,700 homes. This was an increase of 32% on 2005. Most were built on greenfield sites (land which has not previously been developed). Orders for the next year stand at more than £700m, up from £572m last year.

The acquisition of rival Westbury in January for £643m has helped drive sales this year. Persimmon has managed to squeeze about £32m of savings from the purchase, largely due to 500 job cuts. 5

Meanwhile George Wimpey, the UK builder is struggling with its US housebuilding division because supply has outstripped demand. Profits are expected to be lower as profit margins are squeezed and the value of the dollar falls. 10

(Source: adapted from *The Daily Telegraph*, 'Booming market helps Persimmon', by Stephen Seawright, 22 December 2006)



M 2 9 2 7 5 A 0 9 2 8

EITHER

If you answer Question 2 put a cross in this box .

2. (a) Examine the effect of rising incomes on the demand for housing.

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(b) Explain possible causes of the changes in Persimmon's ROCE between 2001 and 2005.

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(c) Assess the reasons behind Persimmon's decision to purchase Westbury.

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OR

If you answer Question 3 put a cross in this box .

3. (a) Explain why the fall in the dollar may affect the profitability of Wimpey.

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SECTION C

Answer EITHER Question 4 OR Question 5.

EITHER

4. (a) Examine **two** strategies which firms such as KPR Mills might adopt in order to reduce manufacturing costs. (10)

(b) Evaluate the potential benefits of using motivational strategies for firms such as KPR Mills. (20)

(Total 30 marks)

Q4

OR

5. (a) Examine **two** possible reasons why governments may choose to intervene in markets. (10)

(b) Evaluate the potential externalities associated with the development of new houses on greenfield sites. (20)

(Total 30 marks)

Q5

**Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).**

Chosen question number: **Question 4** ☒ **Question 5** ☒

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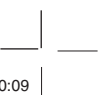
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TOTAL FOR SECTION C: 30 MARKS

TOTAL FOR PAPER: 90 MARKS

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