

Modified Enlarged 18pt

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Monday 5 June 2023 – Morning

A Level Economics

H460/03 Themes in economics

Resource Booklet

Time allowed: 2 hours plus your additional time allowance



EXTRACT 1

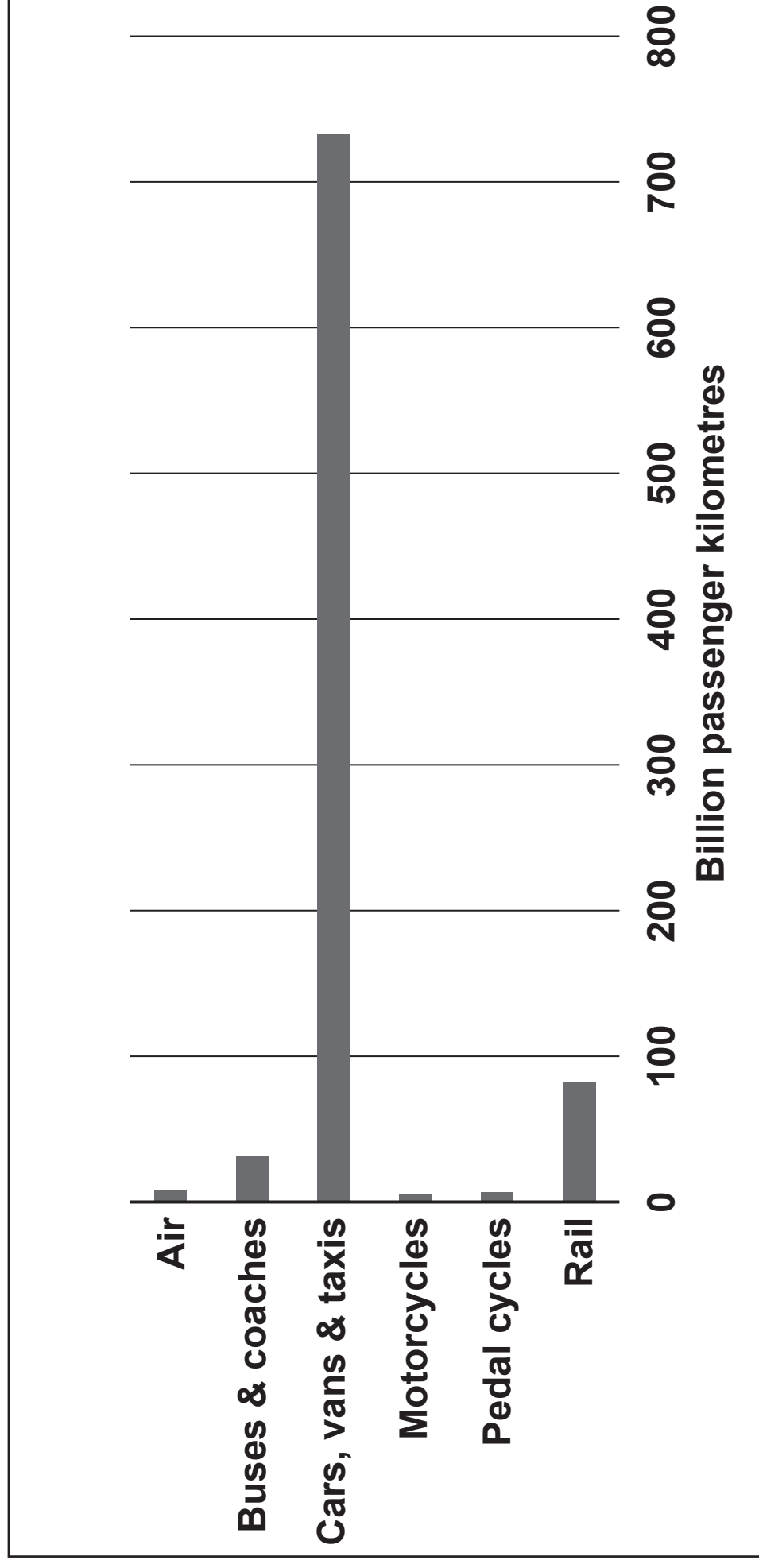
Transport in the UK

Investment in public transport is a significant area of government expenditure. Government intervention to tackle the market failure that arises from the use of private cars, which are overconsumed in the free market, is considered crucial in enabling the government to achieve its long-term environmental objectives, as well as in the short term reducing the problems caused by congestion. However, despite government spending of nearly £3.5bn in 2019/20, the data in Fig. 1.1 opposite shows that private vehicles are still the primary mode of transport in the UK.

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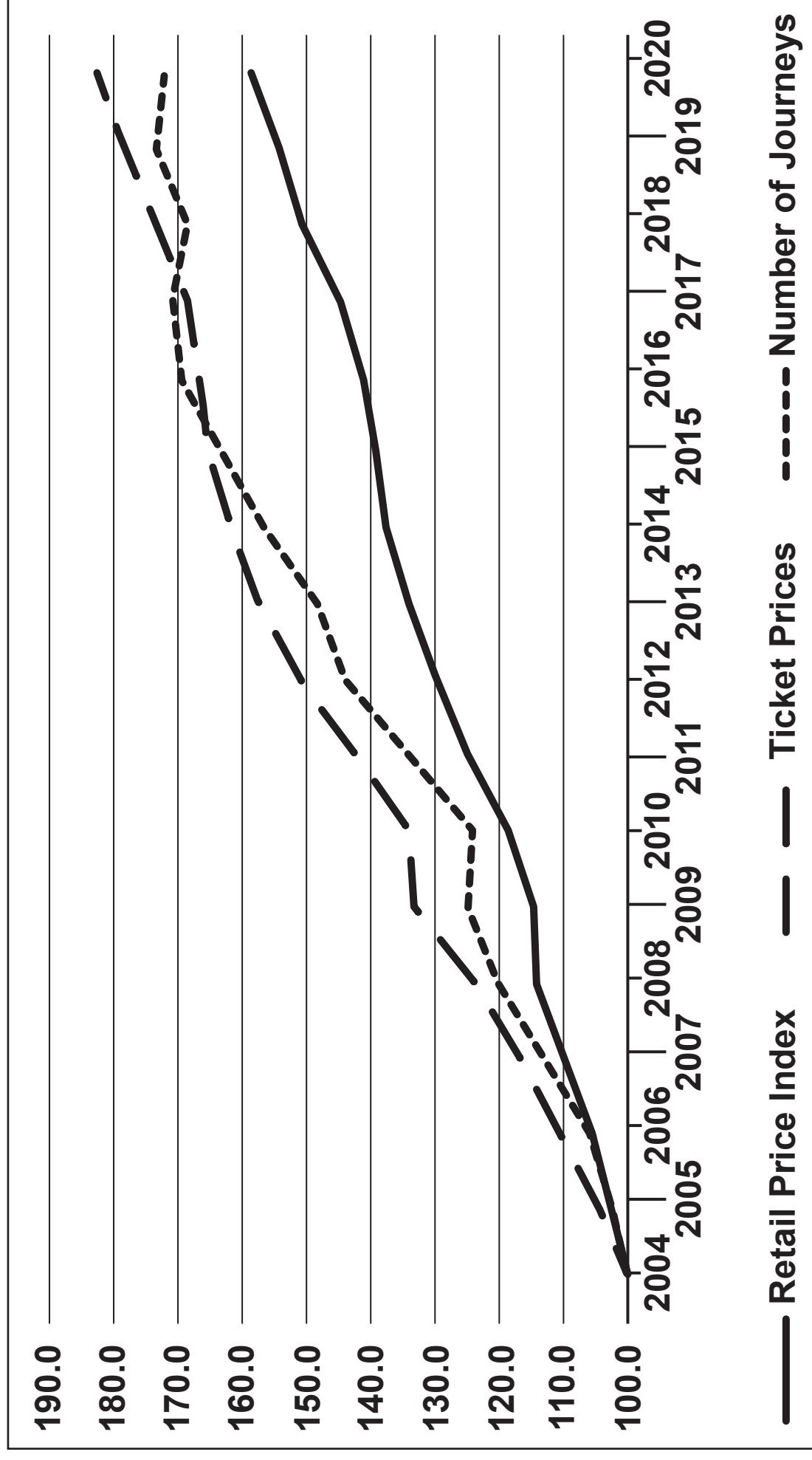
FIG. 1.1
Passenger transport by mode, 2019



For many individuals, the most viable substitute for travel by car is travel by rail. Whilst investment in infrastructure has contributed to increasing the quality and speed of train services, perhaps the biggest challenge has been trying to make it an affordable mode of transport. Fig. 1.2 opposite illustrates what has happened to the price of train tickets and passenger numbers in recent years.

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FIG. 1.2
Index of train prices and journey numbers 2014–2020 (Base Year 2014 = 100)



One of the biggest costs faced by train operating companies is the wages of their drivers, who have seen above inflation pay rises for many years. Trade Unions play a significant role in wage negotiations in this industry, with London Underground being a good example of this. Between 2010 and 2020, more than 36 000 days were lost due to strike action on the London Underground, with drivers and station staff striking over a range of issues including pay, working patterns and conditions. Some argue this intervention by unions has resulted in tube drivers earning well above their marginal revenue product of labour, with the starting pay in excess of £55 000 in 2020 almost double the average wage in the UK.

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However, unions state the high wages simply reflect the demanding nature of the job, with drivers having significant responsibilities for public safety as well as having to work unsociable hours. They believe their intervention is necessary to protect their members from otherwise being exploited and underpaid by Transport for London.

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The rail industry is one of only a handful where unions retain significant power, owing to the size of their membership and the fact that their members' jobs are critical to keeping the economy moving. Whilst in the 1970s more than two thirds of workers in the UK were members of a union, this has fallen to less than 25% in 2020. Alongside the impact of globalisation, this has meant the influence of trade unions has declined, with their bargaining power remaining high in only a limited number of occupations primarily in the public sector.

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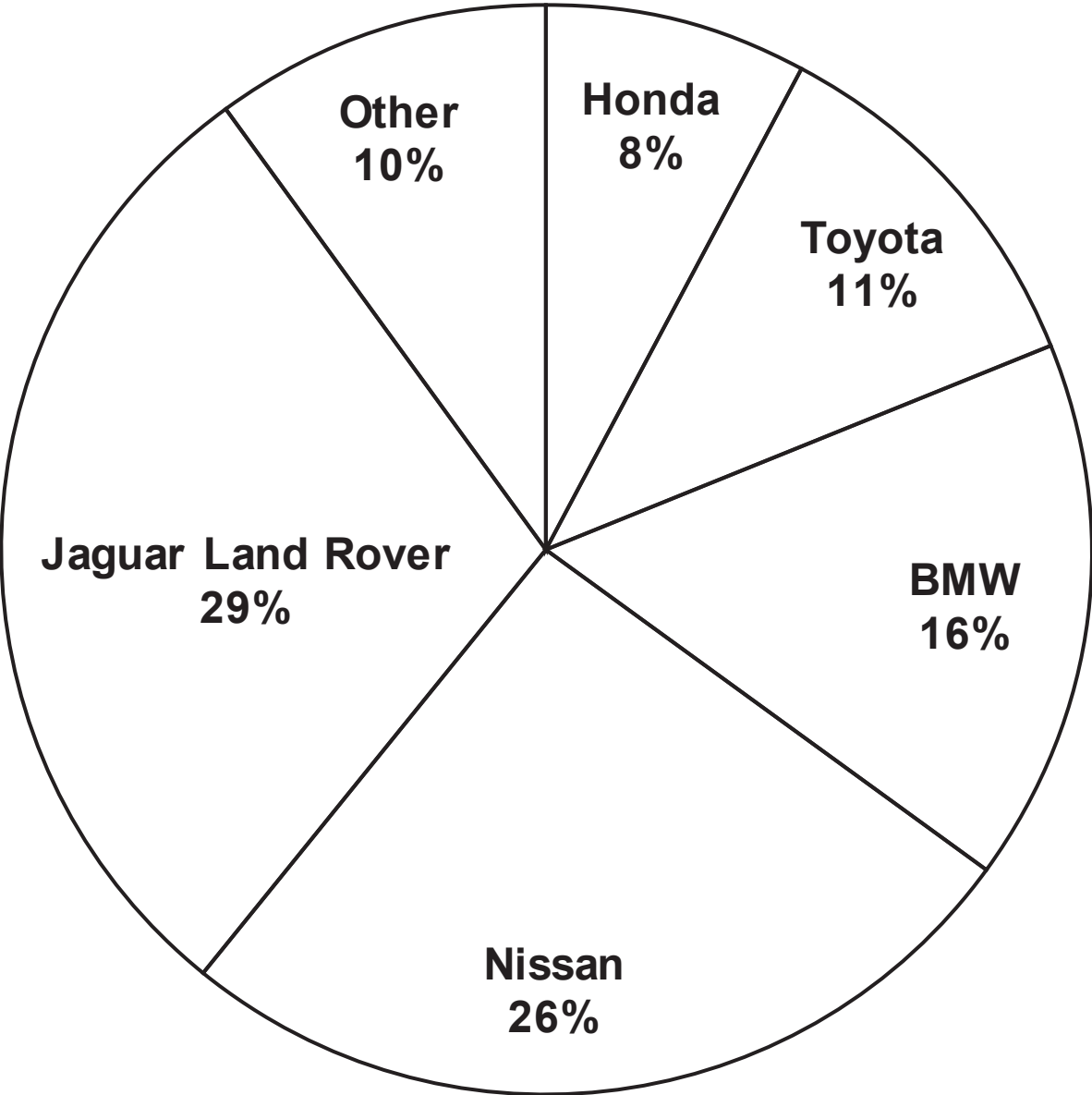
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EXTRACT 2

The automotive industry

Our continued reliance on travel by car is good news for the automotive industry, a vital part of the UK's economy which contributes more than £150bn to GDP. With the production of many other goods having moved abroad in recent decades the industry has become an increasingly important element of the manufacturing sector as a whole, now accounting for 10% of the UK's total manufacturing output. It is also a major source of employment, with 180 000 workers employed directly in car manufacturing and 864 000 employed across the wider industry. Fig. 2.1 opposite illustrates how the production of cars in the UK is distributed by brand.

FIG. 2.1
Car production in the UK by brand, 2019



Output in the industry is relatively volatile, with demand particularly sensitive to the macroeconomic climate. The global economic downturn that resulted from the financial crisis saw car manufacturing output decrease by more than 25% in 2009 – a much more pronounced fall than in other manufacturing industries – whilst new car sales fell by almost 30% in 2020 when the economy experienced a deep recession.

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The export market represents by far the biggest source of demand for the UK automobile industry, with 80% of cars produced in the UK exported. This accounts for 13% of the total exports of UK goods, making the industry a crucial component of the country's international trade. This is also the case in other developed European economies such as Germany, which is why for a number of years the UK and European governments have given annual subsidies in excess of £30bn to the industry.

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There are concerns that the UK's new relationship with the European Union following Brexit poses a number of problems to the industry. This is because of its reliance on global supply chains being threatened by any barriers to trade imposed and a potential shortage of workers arising from the end of the free movement of labour. Some therefore argue that significant state aid (effectively acting as an export subsidy) is needed to ensure UK car manufacturing remains internationally competitive. However, critics are concerned such action goes against the principles of comparative advantage and could do more harm than good in the long run.

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EXTRACT 3

The financial sector

Whilst the 2020 Trade and Cooperation Agreement between the UK and EU to an extent reassured domestic car manufacturers that they would continue to be able to export cars to the EU tariff-free, the agreement did little to facilitate access to the EU’s single market for UK financial services firms. In particular, financial services firms lost their ‘passporting’ rights, which previously enabled them to sell their services into the EU without the need for additional regulatory clearances. Without such rights firms would be forced to comply with the requirements of different member states, which is likely to increase complexity and cost. Whilst it is hoped that over time equivalent agreements could be reached, there is no guarantee these will be long lasting, which has already caused some firms to relocate part of their operations away from London to places like Paris or Frankfurt.

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This poses a major threat to the UK economy given the significant contribution financial services make to the UK’s exports of services, which totalled £297.4bn in 2018. The current account surplus enjoyed in the trade in services is important in helping to offset the significant deficit on the current account in the trade in goods. Fig. 3.1 illustrates how the UK’s exports of services breaks down by sector.

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FIG. 3.1
UK export of services by sector, 2018

Sector	% of total UK exports in services
Financial	21.0
Insurance and pension services	6.6
Intellectual property	5.5
Other business	37.3
Telecommunication, computer and information services	7.5
Transport	9.9
Travel	12.2

One way in which the UK government could act to ensure the financial services sector remains competitive would be to deregulate. This could be achieved by, for example, removing the cap on bankers' bonuses imposed by the EU or looking again at capital adequacy requirements – the proportion of a bank's deposits they are required to keep as liquid assets. Such deregulation could fulfil former Chancellor Rishi Sunak's goal of making sure that "the City of London remains the most dynamic place to do financial services anywhere in the world". However, some suggest deregulation could create the very type of systemic risk that greater financial regulation was designed to overcome following the global financial crisis of 2008.

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