AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.1.8.8 PUBLIC OWNERSHIP, PRIVATISATION, REGULATION AND DEREGULATION

SCORE	PERCENTAGE
/426	%

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1. **Extract C** (lines 17–19) states: ‘Many environmental economists suggest that making firms pay for the costs of landfill associated with their products, or taxing raw material inputs, will be necessary to ensure a sustainable future for all.’

Using the extracts and your knowledge of economics, evaluate policies, if any, that governments in developed countries should pursue to reduce waste and encourage the recycling of waste products.

[25 marks]

2. Telephone services in the UK were once publicly owned, and there was only one supplier of these services to most British households. Today, consumers can choose their telephones and networks from a variety of privately-owned companies.

Discuss whether utilities, such as gas, electricity and water, are better left in the private sector and open to competition or whether all, or some, should be taken back into public ownership.

[25 marks]

3. ‘The UK’s strong reliance on landfill indicates the existence of widespread environmental market failure’ (**The Global Context Extract B**, lines 16 −17).

Using the data and your economic knowledge, evaluate alternative methods of correcting market failure arising from waste disposal.

[25 marks]

4. Using the data and your economic knowledge, evaluate the view that mergers, such as the one proposed between *British Airways* and *Iberia Airlines*, are usually ‘good for consumers as well as for the companies involved’ (**The European Union Context Extract D**, lines 22−23).

[25 marks]

5. ‘…given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised’
(**The Global Context Extract B**, lines 12–14).

Using the data and your economic knowledge, do you agree with the view that enterprises such as the MHPA should be privatised? Justify your answer.

[25 marks]

6. Explain what is meant by ‘property rights’ (**The Global Context Extract B**, line 20) **and** analyse how an absence of property rights can worsen the environmental market failures of **both** pollution **and** the rapid depletion of natural resources.

[9 marks]

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7. **Pollution and Climate Change Extract F** (lines 9−10) states ‘Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel’.

Using the data in the extracts and your knowledge of economics, evaluate the possible impact on UK businesses of policies to reduce pollution.

[25 marks]

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8. THE GLOBAL CONTEXT

Extract B: Supplying the energy market: the case of Milford Haven

For hundreds of years, the harbour of Milford Haven in West Wales has responded to changes in the global economy. It has accommodated many global activities, including trade, defence, transport and tourism. These activities are often in potential conflict with the environment. Although it is surrounded by the Wales coastal footpath and the *Pembrokeshire National Park*, Milford Haven contains two massive oil refineries, several leisure marinas, an international car ferry port and quays for what little remains of the West Wales fishing industry.

Milford Haven Port Authority (MHPA) is a nationalised enterprise, accountable to the *Department of Trade and Industry* in London. Ports have often developed historically as 'public works' due to their strategic importance and because of the large amount of investment needed to build port installations. Governments are trying to reduce the size of the public sector in order to improve efficiency and competition. However, given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised. For example, the MHPA has argued that privatisation would reduce its ability to take part in infrastructure projects in public-private partnerships. These partnerships involve a variety of companies and government bodies at local, regional, national and international levels.

A major strategy adopted by the MHPA involves anticipating and reacting to changes in the global energy market. The boom years of North Sea oil and gas, which created high wages in skilled jobs for northern ports such as Aberdeen, are drawing to a close. Global oil and gas markets are often concentrated markets. For this reason, as well as for reasons of ensuring security of supply, new sources such as biofuels and other diverse forms of energy are being sought.

The MHPA, together with the UK government, has negotiated a long-term deal with the government of Qatar in the Arabian Gulf for the supply of liquefied natural gas (LNG). This is sent to Milford Haven in refrigerated container ships and then stored in huge tanks at the port. When the gas is warmed up, it expands to 600 times its liquefied volume. The gas is sent through a new pipeline to a pumping station 150 miles away in Gloucestershire. It is then distributed into the UK national grid for industrial and domestic use. This is an example of a public-private partnership in action.

The distribution of fuels such as gas and oil involves some negative externalities. There was controversy when the new pipeline was laid through attractive Welsh countryside, including the *Brecon Beacons National Park*. Some 15 years ago, the oil tanker *Sea Empress* sank near the entrance to Milford Haven and it took the local economy several years to recover from the environmental impact of the resulting pollution. Given the recent environmental experiences of BP in the Gulf of Mexico, environmentalists are concerned about the possibility of some sort of disaster arising from the storage or movement of LNG.

There are also concerns about the UK's possible over-reliance on a single product (LNG) from a monopoly source (the state of Qatar) and a single distribution channel (the Pembroke-Gloucester pipeline). Supporters of the MHPA strategy claim that the LNG business actually aids consumer choice and competition through diversification, adding gas installations to the existing oil and renewable energy installations in and around the port. The MHPA states that safety and the prevention of environmental incidents are the 'most important priorities' of their business.

Sources: news reports and industry information, 2010

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9. ‘Many ideas in the UK for coping with rising health care costs are imported from other EU countries’ (**The European Union Context Extract F**, lines 1 and 2).

Using the data and your economic knowledge, assess whether the UK Government should encourage greater use of market forces in the provision of health care.

[25 marks]

10. **THE EUROPEAN UNION CONTEXT**

Extract F: UK health reforms

Many ideas in the UK for coping with rising health care costs are imported from other EU countries. For example, in 2002, the Labour Government introduced the idea of ‘Foundation Trust Hospitals’, which had been tried in Spain. These not-for-profit organisations are able to set their own clinical and financial priorities and have greater freedom to borrow money, invest their surpluses, and form public-private partnerships. Meanwhile, in Spain, some doctors were complaining that their newly formed Foundation Hospitals had fewer beds, fewer staff and more complaints from patients than before. Some hospitals were returned to their former status because they were said to be bureaucratic, inefficient and ‘cherry-picking’, that is choosing the easiest patients to treat.

During 2011 and 2012, the UK Coalition Government legislated for NHS reforms, promoting the idea of an ‘internal market’ in health provision, with local doctors working in groups to buy hospital services on behalf of their patients. In February 2012, a hospital in East Anglia was the first in the NHS to be taken over by a private company, which hoped to clear the hospital’s £45m debts and make it ‘profitable’ by ‘competing’ for patients with neighbouring hospitals.

11. ‘The supply and use of water result in many externalities, both positive and negative’ (**The Global Context Extract B**, line 16).

Using the data and your economic knowledge, evaluate UK government policies that could be used to deal with problems associated with the supply and use of water.

[25 marks]

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12. **THE GLOBAL CONTEXT**

Extract B: Water, water everywhere

Access to clean water is closely linked to production, income and wealth, both within and free good. However, only a small proportion can be used to support human life and even this is not freely available to all.

As underground water levels drop in industrialised countries, and as waterways become polluted, some places, like southern Spain, are desperately short of water. Meanwhile, poorer countries, such as Bangladesh, sometimes suffer from too much water, with sudden disastrous floods. Unlike developed countries, such as the Netherlands, they cannot afford flood defence infrastructure. In Kenya, people living in villages without drinkable water can see irrigation systems in nearby fields spraying water over vegetables and flowers being grown for export to Europe.

There are problems with property rights to water. Indeed, some experts have predicted that, during the twenty-first century, countries controlling the world's fresh water supplies will be in a similarly powerful position to that of the twentieth century's oil producers, and that wars might even take place because of disputes over water.

The supply and use of water result in many externalities, both positive and negative. One-third of the water used by UK households is flushed down the toilet. The water used to carry human waste through sewers has to be kept separate from drinking water. When the water industry was privatised by the UK Government, shares were sold in 'water and sewerage businesses', and these companies were regulated by OFWAT (The Water Services Regulation Authority) for their commercial activities as regional monopolies, and by the Environment Agency for their wider impact such as the extraction of water from rivers.

In recent years, several regions of the UK have repeatedly been declared to be suffering from 'drought', and there has been some debate over which policy responses are appropriate. These include hosepipe bans, metering of water supplies, a national 'grid' for transporting water around rivers and canals, and more reservoirs. The privatised companies have made massive investment in infrastructure which has transformed polluted rivers such as the Wandle, near London, from open sewers into trout streams, but further measures are necessary to prevent annual droughts.

13. 'In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth.' (**The European Union Context Extract F**, lines 17−20)

Should government intervene in the UK housing market, for example using subsidies, or leave the provision of housing to market forces? Using the data and your knowledge of economics, justify your answer.

[25 marks]

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14. **THE EUROPEAN UNION CONTEXT**

Extract F: Housing and inequality

The EU Commission has said: 'Decent housing at an affordable price in a safe environment is a fundamental need and right. Ensuring this need is met, which is likely to alleviate poverty and social exclusion, is still a significant challenge in a number of European countries.' Housing inequality can result in part from income inequality and can, in turn, help cause wealth inequality. Most houses are bought using mortgages which are issued by banks and building societies on the basis of income. The UK's 'Right to Buy' policy, dating from the 1980s, makes a one-off redistribution of wealth from the state to low income families when tenants buy their council houses at a subsidised price. Regional and international differences enable some house owners to convert their housing assets into other forms of wealth. For example, someone who sells a former council house they have owned for 30 years in south-east England might release enough profit to be able to purchase a similar house in north-west England, or even two houses in Bulgaria, while still having cash left over.

In most EU countries, 'austerity' pressures on public finances can be expected to cause a further withdrawal by government from a direct role in housing. The financial crash of 2007 was made worse in Europe by excessive property speculation, particularly in the UK, Ireland and Spain. In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth. Moreover, in 2013, a government 'Help to Buy' scheme, intended to assist first-time buyers with their deposits, has also subsidised would-be landlords buying property to rent out. Yet the UK remains short of social housing and affordable private housing.

Source: News reports, 2014

15. 'Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets.'
(**Extract C**, lines 15–16).

Using the data and your knowledge of economics, assess the arguments for and against the UK electricity industry being brought back into public ownership.

[25 marks]

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16. **THE GLOBAL CONTEXT**

Extract C: Some international trends

Some of the costs facing firms in the electricity market are domestic, such as, the charges levied by the companies who own the transmission cables. However, many input costs are determined internationally, including coal, gas and even labour costs. For example, npower, which is owned by a German company, recently announced plans to cut 1400 office and call centre jobs (about 15% of its UK workforce) as part of a major re-structuring, outsourcing them to India. While reducing labour costs this way, it increased prices by 10.4 per cent.

The costs of producing electricity could go down if the UK adopts fracking, a process widely used in the USA. Fracking involves the use of chemicals to extract oil and gas from rocks deep underground. In the USA, electricity prices have fallen as a result of the production of shale gas using this controversial process. Would there be a similar reduction in electricity prices in the UK? Some economists predict that this will not be the case. American shale gas is sold within the USA, whereas, without government intervention, UK gas is more likely to be exported via pipelines to generators on the Continent, to take advantage of high prices there.

Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets. They claim that this is due to differences between the two industries, such as the type of product sold, entry barriers, minimum efficient scale, company objectives, effects of technological change and international factors.

Source: News reports, 2013

17. 'In tackling environmental problems there is not really a straight choice between perfectly performing markets on the one hand, and wonderfully wise governments on the other.' (**Extract C**, lines 18 – 19).

Using the data and your knowledge of economics, assess the relative importance of market forces and government intervention in encouraging businesses to behave responsibly towards the environment.

[25 marks]

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18. **Pollution and climate change**

Extract F: Issues over carbon trading

Critics say that carbon trading amounts to 'privatisation of the atmosphere', with property rights in this vast new market being grabbed by speculators or by those who already pollute the most. They also claim that activities such as buying credits from Russia are an 'accounting fraud' because they do not necessarily arise from energy efficiency but from the collapse of heavy industry. There is concern that carbon trading is a further blow to manufacturing and that service industries are treated more leniently. If the UK relies on manufactured imports, it can be argued that factories located in China are actually creating UK emissions.

Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel. There is a suspicion that carbon trading might mislead the public into believing that pollution from airlines and other industries is no longer damaging. Governments are accused of being overgenerous in allotting permits to industries that they see as nationally important, such as car manufacturing and electricity generation. While the UK might reduce its domestic demand for carbon, it continues to contribute to the world supply of fossil fuels through activities such as oil prospecting and opencast mining. Russia, China and less-developed countries with coal reserves show few signs of reducing their output of this form of carbon.

Source: news reports, 2010

19. 'A third runway at Heathrow is essential for the success of the economy of London and the UK.'

'A third runway at Heathrow would be an environmental disaster and cause huge market failure.'

Explain how an investment project, such as airport expansion, can be commercially successful and yet produce market failure.

[15 marks]

20. 'The UK government would be happy with state control of British railways "as long as it's not the British state"' (**Extract C**, lines 19 – 21).

Evaluate, using the data and your knowledge of economics, the case for and against the UK government privatising public services while allowing foreign ownership of these services.

[25 marks]

21. Calculate, to **one** decimal place, the percentage of total privatisation receipts collected by Chancellor George Osborne, using the data in **Extract A**, **Figure 1**.

[2 marks]

22. **Extract C** (line 2) states that 'Many competitors are using digital technology to drive innovation'.

Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition.

[25 marks]

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23. According to Public Health England, poor air quality is the largest environmental risk to public health in the UK. In particular, diesel cars are estimated to be responsible for 40 000 premature deaths each year. In response, the Government announced in 2017 that it would ban the sale of new petrol and diesel cars by 2040.

Assess the view that regulation is a better policy for dealing with the problem of air pollution than the allocation of property rights or taxation.

[25 marks]

24. **Extract F** (lines 9–10) suggests that 'the British public really don't care about who runs the trains; what they care about is reliability, comfort and price.'

Use the extracts and your knowledge of economics to evaluate the case for renationalising railways in the UK.

[25 marks]

25. **Essay 2**

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

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