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**ADVANCED**  
**General Certificate of Education**  
**2024**

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# Economics

*StemUp Model Solution*

Assessment Unit A2 1

assessing

Business Economics



**[AEC11]**

\*AEC11\*

**MONDAY 20 MAY, AFTERNOON**

## TIME

2 hours.

## INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page. Answer **all** questions in Sections **A** and **B**, and **one** question in Section **C**.

You are permitted to use a calculator in this paper.

**You must answer the questions in the spaces provided.**

**Do not write outside the boxed area on each page or on blank pages.**

Complete in black ink only. **Do not write with a gel pen.**

## INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question. This paper is accompanied by a Case Study Booklet.

## ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings.

Quality of written communication will be assessed in Questions **4**, **5(b)**, **(c)** and **(d)**, **6** and **7**.

Quantitative skills will be assessed where appropriate.

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## Section A

### Answer all questions

- 1 Metal Frames Ltd is a steel fabrication business which produces metal products for the construction industry. Projections suggest that demand for its products will increase by 46% over the next year. To meet this increased demand, Metal Frames Ltd intends to employ additional workers and invest in a new metal fabrication plant. The new plant will take 10 months to become operational.

Using the information in the passage above, explain the difference between the long-run and the short-run in the theory of the firm. [4]

*The short run is the period of time in which at least one factor of production*

*is fixed, usually capital. For Metal Frames Ltd the short run is the next 10*

*months: it can only meet the extra demand by employing additional workers (a variable factor) with its existing plant.*

*The long run is the period in which all factors of production are variable. For*

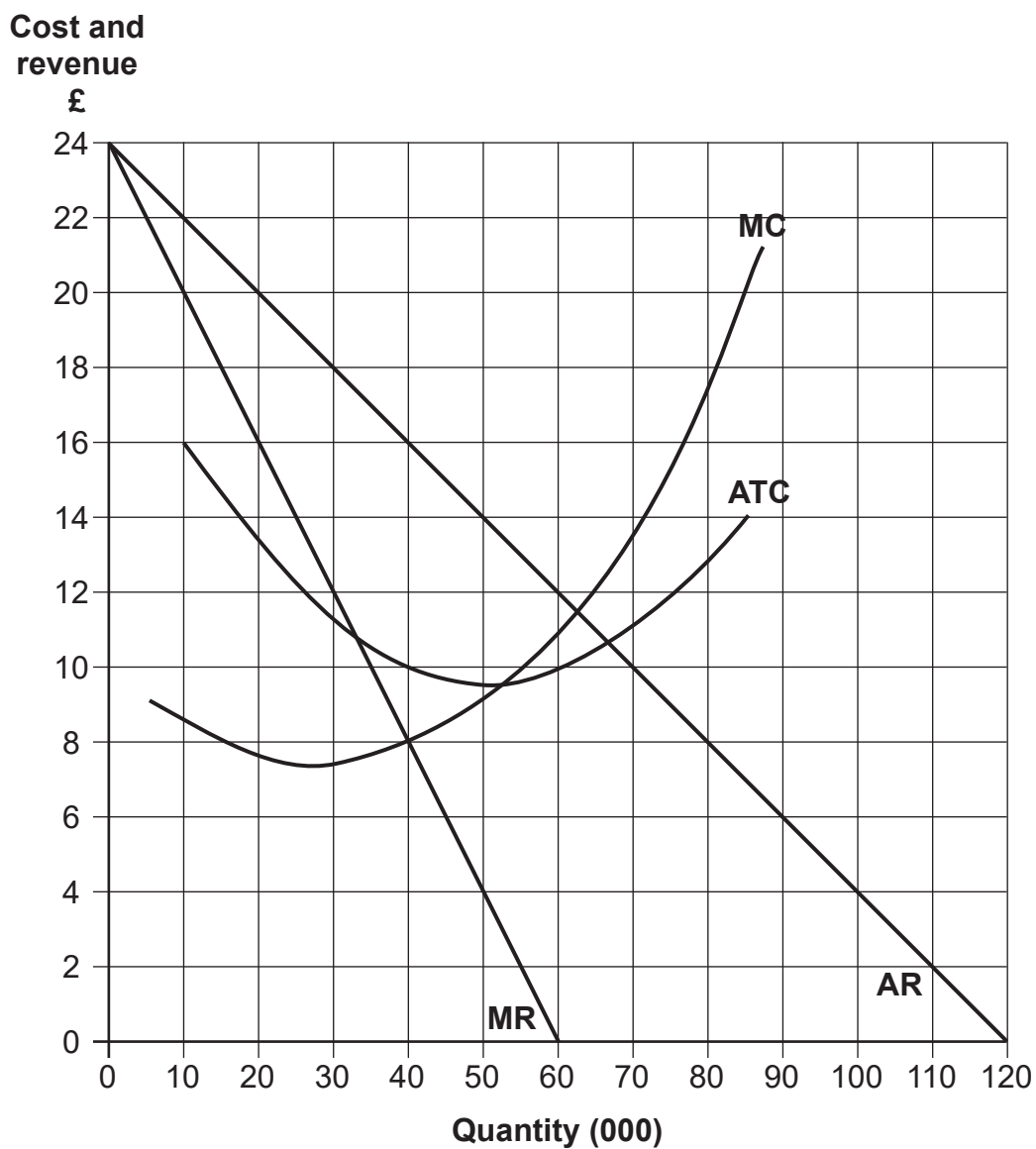
*Metal Frames Ltd this is any period beyond 10 months, when the new fabrication plant is operational and it can change its scale of production.*

*So the distinction depends on whether all inputs can be varied, not on a fixed length of calendar time.*

[Turn over]



- 2 The diagram below shows the short-run average and marginal cost and revenue curves for a firm operating in a monopolistic market.



Using the information in the diagram opposite, calculate the change in the level of supernormal profit the firm would make if it moved from a policy of profit maximisation to a policy of revenue maximisation.

[4]

*Profit maximisation:  $MC = MR$  at  $Q = 40\ 000$ , price (AR) = £16, ATC = £10*

*Supernormal profit =  $(£16 - £10) \times 40\ 000 = £6 \times 40\ 000 = £240\ 000$*

*Revenue maximisation:  $MR = 0$  at  $Q = 60\ 000$ , price (AR) = £12, ATC = £10*

*Supernormal profit =  $(£12 - £10) \times 60\ 000 = £2 \times 60\ 000 = £120\ 000$*

*Change =  $£120\ 000 - £240\ 000$ , so supernormal profit falls by £120 000*

[Turn over]



- 3 Garden Rooms Ltd is a construction firm specialising in the construction of outdoor rooms. It produces only one type of product, which is a 3 m × 3 m garden room. In 2022, the firm had annual fixed costs of £3.6 million. It produced and sold 15 000 garden rooms with an average variable cost of £3,500. The garden rooms sell for £6,500 each.

- (a) Using the information above, calculate the **average total cost** of producing 15 000 garden rooms. [3]

$$AFC = \text{total fixed cost} \div \text{output} = £3\,600\,000 \div 15\,000 = £240$$

$$ATC = AVC + AFC = £3\,500 + £240$$

$$ATC = £3\,740 \text{ per garden room}$$



- (b) Using the information opposite, calculate the total level of profit made by the firm in 2022. [3]

$$TR = £6\,500 \times 15\,000 = £97\,500\,000 \text{ (£97.5m)}$$

$$TC = ATC \times Q = £3\,740 \times 15\,000 = £56\,100\,000 \text{ (£56.1m)}$$

$$\text{Profit} = TR - TC = £97.5\text{m} - £56.1\text{m} = £41.4\text{m}$$

$$\text{(Check: } (£6\,500 - £3\,740) \times 15\,000 = £2\,760 \times 15\,000 = £41.4\text{m)}$$

[Turn over



- 4 While 2022 will be remembered as a year of rapid inflation, there were a number of industries where firms absorbed the cost increase and kept their prices remarkably stable. In many cases, these industries were dominated by a small number of suppliers, each of whom had significant market share.

With the aid of an appropriate diagram, explain why prices in oligopolistic markets often remain unchanged despite rising input costs. [6]

**Quality of written communication will be assessed in this question.**

*An oligopoly is a market dominated by a few large, interdependent firms, each with significant market share (a high concentration ratio), so each firm must consider how its rivals will react when it sets its price.*

*The kinked demand curve model assumes that if one firm raises its price above the current price  $P_1$ , rivals will not follow, so it loses a large share of sales: demand is price elastic above  $P_1$  and total revenue falls. If it cuts its price, rivals will follow to protect their market share, so it gains few extra sales: demand is price inelastic below  $P_1$  and total revenue again falls. The demand (AR) curve is therefore kinked at the current price  $P_1$  and output  $Q_1$ .*

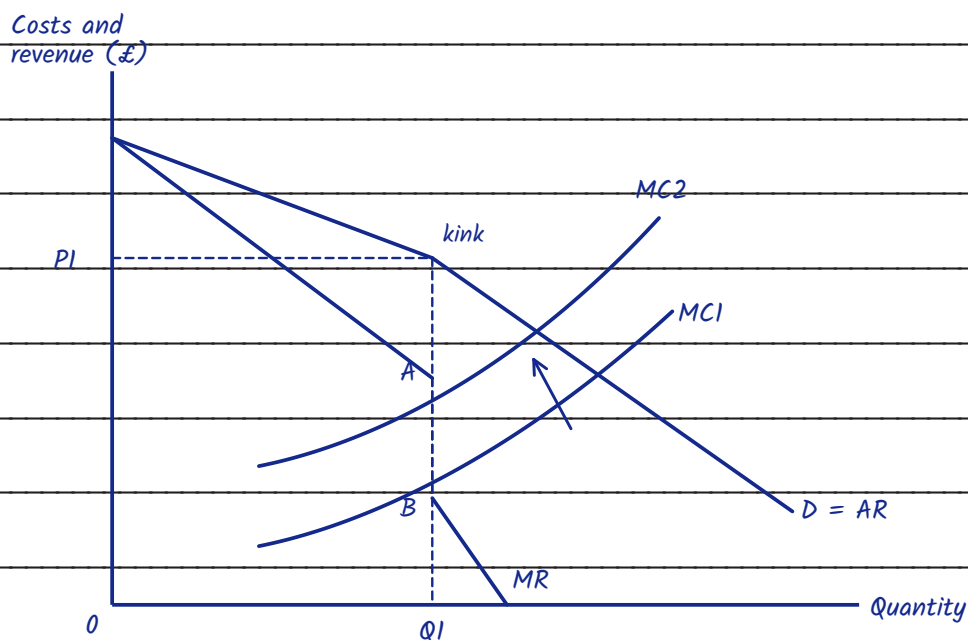
*Because the two sections of the AR curve have different gradients, the MR curve is discontinuous at  $Q_1$ : there is a vertical gap between A and B.*

*A profit-maximising firm produces where  $MC = MR$ . As the diagram shows, when rising input costs, such as the energy and raw material costs of 2022, push marginal cost up from  $MC_1$  to  $MC_2$ , MC still passes through the vertical gap in MR, so  $MC = MR$  at the same output  $Q_1$  and the profit-maximising price stays at  $P_1$ . The firm absorbs the higher costs through a lower profit margin rather than risk losing market share, so prices are "sticky". Firms also avoid price changes for fear of starting a price war and compete through*



non-price competition instead.

However, prices would rise if costs increased so much that MC rose above point A, or if all firms faced the same cost increase and raised prices together through price leadership or tacit collusion.



[Turn over



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## Section B (Case Study)

### Answer all questions

Read the information in the Case Study Booklet and answer the questions below

- 5 (a) Using the information in **Fig. 1**, describe the trend in corporate profits over the period shown. [4]

*Fig. 1 shows that UK corporate profits followed a clear upward trend over the period, rising from approximately £425bn in 2015 to approximately £550bn in 2022.*

*This is an absolute increase of about £125bn, or about 29% over the period:  $(550 - 425) \div 425 \times 100 = 29.4\%$ .*

*Profits rose in every year except 2020, when they were broadly flat (falling slightly to about £482bn) during the pandemic. Growth was slow between 2017 and 2021 (about £467bn to £498bn).*

*The biggest annual increase was in 2022, when profits rose from about £498bn to £550bn:  $(550 - 498) \div 498 \times 100 = \text{about } 10.4\%$ .*

[Turn over]



- (b) Explain the difference between market share and market power (Source 2). [9]

**Quality of written communication will be assessed in this question.**

Market share is the proportion of total sales in a market accounted for by a particular firm, brand or product. It can be measured by value (the firm's sales revenue  $\div$  total market sales revenue  $\times 100$ ) or by volume (units sold by the firm  $\div$  total units sold in the market  $\times 100$ ). The combined market share of the largest firms is shown by a concentration ratio: for example, the five largest firms in electricity distribution account for 91% of industry revenue (Fig. 2).

Market power (monopoly power) is the ability of a firm to influence the market price by controlling supply, demand or both, so it can raise and maintain price above the level that would exist under perfect competition, where  $P = MC$ . It can also be the power of a buyer to force down the price it pays (monopsony power), e.g. large supermarkets buying from farmers. Market power is much harder to measure than market share. One method is the Lerner index,  $L = (P - MC) \div P$ : the further price is above marginal cost, the greater the market power ( $L = 0$  under perfect competition).

The two often go together, because a high market share usually means few close substitutes and so a more price inelastic demand curve. This is why competition authorities use market share tests: in the UK a firm with over 25% of a market is regarded as a legal monopoly and a merger may be referred to the CMA. Mr Copeland links the high concentration ratios



in Fig. 2 to the ability to raise prices and earn supernormal profit.

However, as Source 2 notes, they are not the same thing. A firm can have a large market share but little market power if the market is contestable, with low barriers to entry, because the threat of new entrants keeps prices close to costs. Regulation also limits power: electricity distribution (91%) and water (50%) have high concentration, but regulators such as Ofgem and Ofwat cap the prices these firms can charge. Market power also depends on the price elasticity of demand: if close substitutes exist outside the defined market, even a dominant firm cannot raise price much.

Conversely, a firm with a small market share can have significant market power if its product is highly differentiated. Some craft beer producers have a tiny share of the beer market but strong brand loyalty, so demand is inelastic and they can set price well above marginal cost.

Therefore market share is a measure of size relative to the market, whereas market power is the ability to set price above competitive levels.

[Turn over



- (c) Critically examine the difficulties an economist might face in trying to determine whether a given level of profit was supernormal. [12]

**Quality of written communication will be assessed in this question.**

*Supernormal profit is profit over and above normal profit, where normal profit is the minimum return needed to keep the entrepreneur and the firm's factors of production in their current use. In theory supernormal profit =  $TR - TC$ , or exists whenever average revenue exceeds average total cost ( $AR > ATC$ ), because economists include normal profit as a cost of production, i.e. the opportunity cost of the entrepreneur's capital and time. As the diagram shows, a firm with market power producing  $Q_1$  where  $MC = MR$  sets price  $P_1$  above average cost  $C_1$  and earns the shaded supernormal profit.*

*The main difficulty is that accounting profit, as published in a company's accounts at Companies House or in tax returns, does not deduct normal profit. Information on revenue and accounting costs is available, but the opportunity cost of capital is not recorded anywhere, so the economist must estimate what normal profit is. This depends on the risk of the industry: a risky activity such as oil and gas exploration requires a much higher return to keep capital there than a safe activity, so a high rate of return may simply be normal profit compensating for risk.*

*An economist could use a benchmark. If an entrepreneur could earn 5% by placing money in a bank or another simple investment, any return above 5% might be judged supernormal. However, the choice of*



benchmark is arbitrary and interest rates change over time, so the same profit could be normal one year and supernormal the next.

Alternatively, the economist could compare the firm's profit with other firms in the same industry, but this is ineffective if all firms are earning supernormal profit, as in the concentrated industries in Fig. 2 or the energy sector, where Shell made almost £10bn in one quarter. Mr Copeland compares UK firms with their EU counterparts, but EU firms may also earn supernormal profit, and differences in taxes, regulation and accounting rules distort the comparison. Comparing with similar-sized firms in other industries faces the same problem, since large firms everywhere may have market power.

A further method is to compare current profits with previous years.

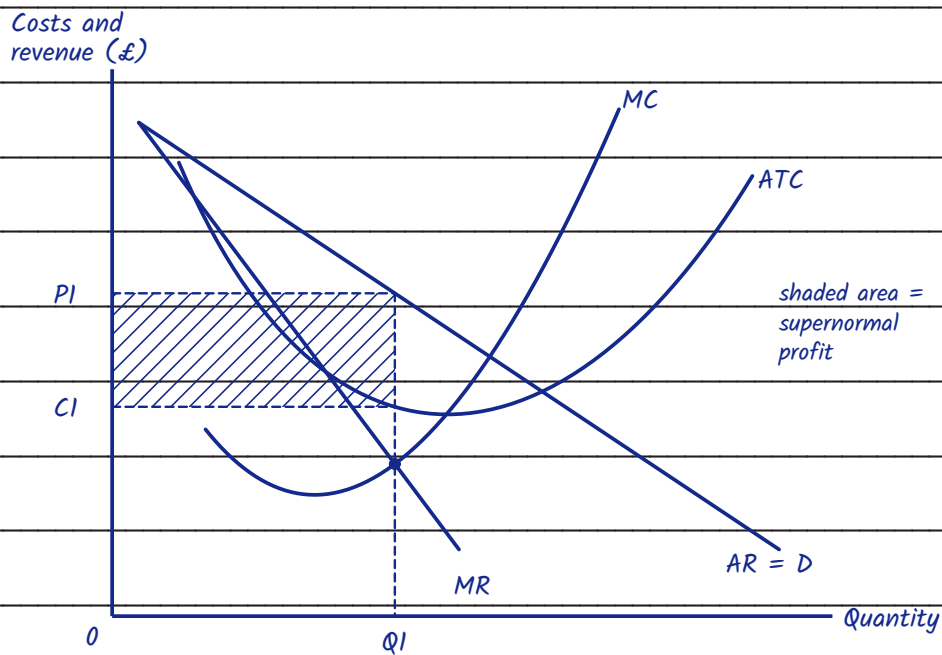
Centrica's operating profits rose by over 300% and Tesco's doubled between 2021 and 2022 (Source 1), which suggests supernormal profit. However, a rise may be temporary, caused by the war in Ukraine raising wholesale gas prices, rather than a sustained abuse of market power, and in the long run high profits may attract new entry. Firms may also use creative accounting or transfer pricing to make profits appear lower.

Overall, supernormal profit is clear in theory but very difficult to measure in practice, since normal profit cannot be observed and every benchmark has weaknesses. This supports Declan Brown's view that it is not precisely measurable. However, it does not make the concept useless: when a firm's

[Turn over



profits are well above every benchmark at the same time, as with energy firms in 2022, an economist can reasonably conclude that at least part of the profit is supernormal.



- (d) Evaluate the arguments for and against the imposition of windfall taxes on the profits of UK energy companies. [15]

**Quality of written communication will be assessed in this question.**

*A windfall tax is a one-off or temporary additional tax on the excess (supernormal) profits of a company or industry, which are judged to have arisen from circumstances outside the firms' control rather than their own investment or hard work. In 2022 the energy companies' profits soared because the war in Ukraine and post-pandemic bottlenecks raised wholesale oil and gas prices: Shell made record quarterly profits of almost £10bn and Centrica's operating profits rose by over 300%. The UK introduced an Energy Profits Levy of 25% in May 2022 and Labour wanted to extend it. The first argument for is equity. These profits were a windfall, while households' average energy bills rose from just under £1,000 in 2020 to £2,300 by mid-2022, with forecasts of over £3,500 (Source 3). As Richard Burgon argued, it is unfair that firms pay "eye-watering bonuses" and £6.5bn to shareholders while ordinary people face crippling bills. A windfall tax redistributes income from shareholders, who tend to be wealthier, to poorer households.*

*Secondly, it raises substantial government revenue without raising taxes on households. This could fund support with bills, such as Labour's bill freeze estimated to cost £130bn, protecting living standards and consumer spending (C) and so aggregate demand, or reduce government borrowing.*

*Because the tax falls on profit rather than on each unit sold, in theory a*

[Turn over]



profit-maximising firm's MC and MR are unchanged, so price and output are unaffected and there is little loss of allocative efficiency. As it is unexpected and retrospective, it should have little effect on decisions already made.

It is also popular, with more than three quarters of Tory voters in favour, and it may discourage firms with market power from setting prices that earn excessive profits.

However, there are strong arguments against. Liz Truss argued that windfall taxes put companies off investing in the UK. Profit is the main source of funds for investment and the reward for risk, so taxing it reduces both the funds for and the incentive to invest in new oil and gas fields and renewable energy. This reduces dynamic efficiency and long-run supply, which could keep energy prices high and worsen energy security. Firms may also have less incentive to seek productive efficiency if extra profit is taxed away.

Secondly, a retrospective tax creates uncertainty. Firms cannot change their behaviour in response, and investors may fear that any future high profits will also be taxed, raising the perceived risk of investing in the UK. Multinationals may shift investment, or even their headquarters, to lower-tax countries, which could reduce tax revenue in the long run.

Thirdly, the burden falls on shareholders. Lower profits mean lower dividends and share prices, which hits pension funds, insurance companies



and endowment policies that hold energy shares, so many ordinary savers bear part of the tax. Firms may also try to pass the tax on to consumers in higher prices where they have market power, reducing allocative efficiency.

The strength of these arguments depends on several factors. The investment effect depends on design: the Energy Profits Levy included an investment allowance, so firms that invested paid less tax, which is why Paul Johnson of the IFS called the claim that it would hit investment "nonsense". It also depends on whether the tax is genuinely temporary: a one-off tax on a clear windfall has much less effect on long-run expectations than repeated taxes. The size of the tax matters, as a moderate rate leaves firms with high post-tax profits. Finally, much investment depends on expected future oil and gas prices and on global strategy rather than on UK tax alone.

In conclusion, the case for a windfall tax was strong in 2022 because the profits were clearly unearned, caused by an external price shock, and households faced a severe cost-of-living crisis. Provided it is temporary, clearly targeted at excess profits and includes incentives to invest, the benefits in terms of equity and revenue outweigh the likely small effect on investment. However, if windfall taxes became a regular policy, the damage to business confidence and investment could outweigh the gains, so they should be used only in exceptional circumstances.

[Turn over



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**(Questions continue overleaf)**



## Section C

Answer **either** question 6 **or** question 7

**Quality of written communication will be assessed in these questions.**

- 6** In July 2022, the UK government used the National Security and Investment Act to block a Chinese technology company's planned purchase of a British electronic design company. The act allows ministers to intervene in deals where a foreign-led takeover could affect areas such as economic stability, media impartiality, or national security.

Critically examine the view that the UK government should ban all foreign takeovers of important UK firms. [30]

**or**

- 7** In a report entitled "There Are No Limits to Growth", researchers concluded that firms which utilise recent advances in technology and apply effective management techniques can grow indefinitely, without facing the increasing average total costs that are predicted in traditional economic theory.

Critically examine the view that firms can grow indefinitely without experiencing internal diseconomies of scale. [30]



Write the number of the question you have chosen in the box below:

6

A foreign takeover occurs when a firm based overseas acquires a controlling interest in a UK firm. It is a form of inward foreign direct investment (FDI).

At present, under the National Security and Investment Act, UK ministers can only intervene where a foreign-led takeover could affect economic stability,

media impartiality or national security, as when the government blocked a Chinese firm's purchase of a British electronic design company in July 2022.

The question is whether this should be extended to a ban on all foreign takeovers of important UK firms.

Those who support a ban argue that foreign owners feel no allegiance to the UK. Firstly, takeovers often lead to plant closures and job losses as the new

owner seeks cost savings and rationalises production. When the US firm Kraft bought Cadbury in 2010, it closed a UK factory and moved production to

eastern Europe despite promising to keep it open. Job losses cause structural unemployment in the affected region, and through the negative multiplier effect lower spending reduces income in local suppliers and shops.

Secondly, foreign takeovers may reduce tax revenue. Foreign owners are more likely to move the headquarters to a low-tax country or use transfer pricing to shift profits abroad. After Boots was taken over by KKR it moved its

headquarters to Switzerland, at an estimated cost of about £80m a year in lost UK tax revenue, reducing the funds available for public services.

Thirdly, profits and dividends are repatriated to the foreign owner's home

[Turn over



country, an outflow on the primary income account, which worsens the UK current account in the long run. Foreign firms may also be less committed to investing in physical and human capital in the UK, such as training and R&D, and when economic conditions become unfavourable they are more likely to retreat to their home nation, closing UK branches first, so UK jobs are less secure.

Fourthly, the motive for the takeover matters. Some buyers aim to asset strip: Debenhams was bought in 2003 by private equity firms who loaded it with debt, sold off its best assets and then sold the company, weakening it until its eventual collapse. Others aim to gain market power, which could lead to higher prices for UK consumers and a loss of allocative efficiency. Trade unions also argue that pay and conditions often deteriorate after foreign takeovers, and foreign owners may have little respect for UK business culture and traditions.

Finally, there are strategic concerns. Important firms in defence, energy, telecommunications and advanced technology could give a hostile foreign state access to sensitive technology or the ability to disrupt essential infrastructure. Supporters of a ban point out that other governments, such as France, use national interest tests to prevent important firms falling under foreign ownership, and argue that the UK should do the same.

However, there are strong arguments against a ban. Foreign takeovers bring much-needed investment into the UK. FDI is an inflow on the financial



account and helps to finance the UK's large current account deficit, while new capital investment increases aggregate demand in the short run and productive capacity (LRAS) in the long run, raising economic growth.

Foreign firms also bring experience, expertise and technology, which raise productivity not only in the target company but in UK suppliers and competitors through knowledge transfer. When Volkswagen bought Bentley it invested heavily in the plant and in innovation, and Bentley's performance improved significantly. Similarly, Jaguar Land Rover was revived after it was bought by Tata, with large investment in UK factories. Takeovers may also allow economies of scale and synergies, lowering average costs, and the threat of takeover disciplines inefficient UK managers, because a badly run firm with a low share price is an attractive target.

Furthermore, pay and conditions in foreign-owned firms are sometimes better than in UK firms, as these firms are often more productive. Tax revenue can rise if the combined firm bases itself in the UK. Foreign takeovers are also an endorsement of the UK's reputation as an open economy and a good place to do business. A complete ban would send out a poor message to global investors, discourage new greenfield FDI and could provoke retaliation, with other countries banning UK firms from taking over theirs, which would harm UK multinationals and shareholders, including pension funds. It would also lower the value of UK firms by removing a group of potential buyers.

There are also practical difficulties. It is very hard to define an "important"

[Turn over



firm: almost any large firm could be argued to be important to its workers or region, so the definition could be abused for protectionist reasons, leading to government failure. Ministers may lack the information to judge each case well and may be influenced by political lobbying. Many firms are owned through complex international shareholdings and investment funds, so deciding what counts as "foreign" is difficult.

The impact of a takeover therefore depends on several factors: the motive of the buyer (long-term investment and synergies, or asset stripping and market power), the sector (national security and critical infrastructure, or ordinary consumer goods), the commitments made and whether they can be enforced, and whether the alternative is a UK owner or the firm's decline. The evidence is mixed: Cadbury and Debenhams show the costs, while Bentley and Jaguar Land Rover show the benefits, which suggests that ownership itself matters less than the quality of the buyer and its investment plans.

In conclusion, I do not support a ban on all foreign takeovers of important UK firms. A blanket ban would reduce investment, productivity and growth, damage the UK's reputation as an open economy and risk retaliation, while many foreign takeovers are beneficial. However, some takeovers clearly do harm the UK, especially where national security or critical infrastructure is involved, or where the motive is asset stripping. The best approach is a case-by-case national interest test, like the National Security and Investment Act and the French system, combined with competition policy through the



*CMA and legally binding commitments on jobs and investment, so that harmful takeovers can be blocked without discouraging the many that benefit the UK economy.*

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| Question Number         | Marks |
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| Section B               |       |
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Examiner Number

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**ADVANCED**  
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# **Economics**

Assessment Unit A2 1  
*assessing*  
Business Economics

**[AEC11]**

**MONDAY 20 MAY, AFTERNOON**

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## **CASE STUDY BOOKLET**

**For use with  
Section B**

The following passages were compiled in March 2023.

## Case Study: Profiteering Britain

### Source 1: Company profits soar amid cost-of-living crisis

A recently published report showed that profit margins for some of the UK's largest listed companies increased by over 70% on pre-pandemic levels. The oil and gas sector particularly saw profits soar throughout 2022, as the conflict in Ukraine, combined with bottlenecks caused by pandemic lockdowns, led to a surge in oil and gas prices. In June 2022, oil and gas giant Shell posted record quarterly profits of almost £10bn and promised to give shareholders pay-outs worth £6.5bn. At the same time Centrica, owner of British Gas, reported operating profits of £1.6bn for the first half of 2022, an increase of over 300% on the same period in the previous year.

However, soaring profits are not confined to the oil and gas sector. Even when we exclude energy companies from our calculations, profits in the remaining FTSE 350 companies increased on average by 42% between 2019 and 2022. Annual profits increased by 41% for the RBS bank and doubled for the retailer Tesco between 2021 and 2022.

Nor is the increase in profits a recent phenomenon. As **Fig. 1** below illustrates, company profits in the UK have been on the increase since 2015. Gary Douglas, economic analyst and trade unionist, claimed that “while profits have really taken off over the last twelve to eighteen months, this is simply a continuation of a trend that began with the shift to the right in British politics and the election of a Tory government in 2015”.

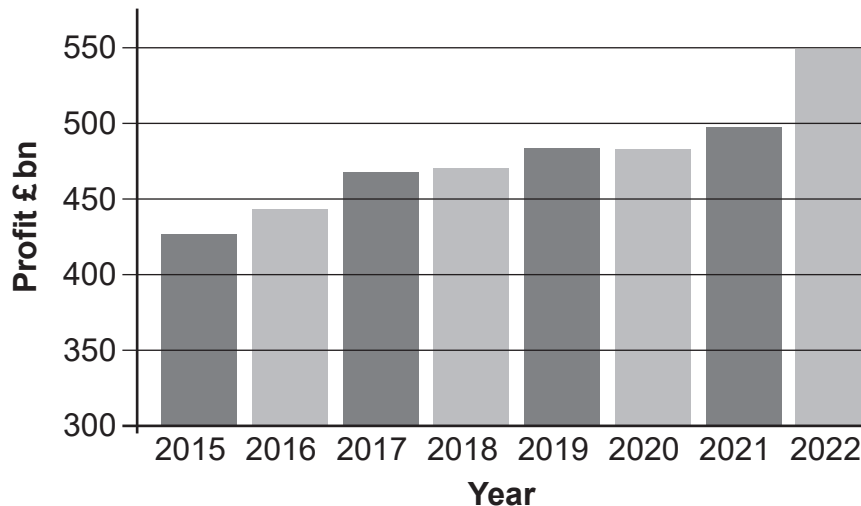


Fig. 1: UK Corporate profits, 2015–2022 (£billion)

## Source 2: What's driving company profits?

While rapidly rising wholesale gas and oil prices account for much of the increased profits in the energy sector, some commentators are asking themselves how it can be that firms in non-energy related sectors are also seeing profits soar. At a time of low economic growth, falling living standards and fears that the next great recession is just around the corner, we would normally expect profits to be squeezed.

Daniel Copeland, independent market analyst, claims to have the answer. "The excessive or supernormal profits that we are seeing across a range of sectors in the UK is a direct result of the increased concentration in these industries over the last 10–15 years. While market power and market share are not the same thing, there is no doubt that the concentrated nature of these markets allows the firms to increase prices beyond what would be the case in less concentrated markets. If you look at the sectors which have recorded the biggest increases in profits, they typically have five-firm concentration ratios in excess of 50%."

| Industry                     | 5-firm concentration ratio<br>(% of industry revenue) |
|------------------------------|-------------------------------------------------------|
| Electricity distribution     | 91                                                    |
| Programming and broadcasting | 79                                                    |
| Insurance                    | 76                                                    |
| Other financial              | 70                                                    |
| Retail banking               | 65                                                    |
| Mining and quarrying         | 62                                                    |
| Rail transport               | 60                                                    |
| Water                        | 50                                                    |

**Fig. 2: Five-firm concentration ratios in selected UK industries 2022**

Mr Copeland continued: "Successive governments and regulators have permitted a culture of market consolidation and merger, which has given large firms ever-increasing market or monopoly power and the ability to earn supernormal profit at the expense of consumers. If we compare the profits these firms make with those of their counterparts in the EU, we can see that they are well above what could be considered normal."

However, retail investor Declan Brown countered these claims and stated, "The left-wing media have made profit a dirty word. Profits benefit us all since they fund investment and higher incomes. The belief that any level of profit could be regarded as excessive is preposterous. The term supernormal profit is nothing but an arbitrary academic concept, which is neither definable nor measurable in any real sense."

### **Source 3: How to deal with the rising energy prices and the cost-of-living crisis?**

In 2022, politicians right across the political spectrum were divided over how best to deal with the cost-of-energy crisis affecting the UK economy. In 2020, the average UK household energy bill was just less than £1,000 per year. By the middle of 2022, this had more than doubled to £2,300, with analysts predicting the average bill would rise to over £3,500 by the end of the year.

Whilst an adjustable energy price cap has been in place in the UK since 2019, it had proven to be ineffective in protecting consumers from rising bills caused by increased wholesale energy costs.

Labour leader Sir Keir Starmer had called for bills to be frozen and for the £130bn it was estimated to cost to be paid for by an extension of the so-called windfall tax on the excess profits of oil and gas companies.

However, Liz Truss, Prime Minister at the time, opposed windfall taxes, despite more than three quarters of Tory voters being in favour, claiming they would reduce investment and growth in the UK. She declared, “I think it is wrong to be putting companies off investing in the UK.” In contrast, Paul Johnson of the Institute of Fiscal Studies claimed that it was “nonsense to suggest that a windfall tax on energy companies would hit investment in the UK”.

Labour MP Richard Burgon claimed it was “totally unacceptable that oil and gas companies were raking in record profits on the back of high energy bills for millions of people”. He argued that by refusing to increase windfall taxes, the Prime Minister was leaving these companies free to pocket billions in excess profits and pay out eye-watering bonuses to their bosses, whilst ordinary people face crippling bills and pay cuts.

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**THIS IS THE END OF THE CASE STUDY BOOKLET**

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## Sources

"All sources have been adapted"

### Source 1:

BP sees biggest profit in 14 years as energy bills soar by Michael Race. 02 August 2022. BBC News

<https://www.bbc.co.uk/news/business-62382624#:~:text=BP%20has%20reported%20its%20biggest,the%20same%20period%20last%20year.>

### Source 2:

'Insult to millions': Shell and Centrica profits cause outrage as energy bills soar by Rob Davies. 28 July 2022 The Guardian

<https://www.theguardian.com/business/2022/jul/28/an-insult-soaring-profits-at-shell-and-centrica-cause-outrage>

### Source 3:

Liz Truss 'has left energy firms free to pocket billions' by refusing windfall tax by Josh Layton. 08 September 2022. Metro.co.uk

Liz Truss 'has left energy firms free to pocket billions' by refusing windfall tax | News UK | Metro News

### Source 4: Figure 1:

<https://tradingeconomics.com/united-kingdom/corporate-profits>

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