Write your name here

Surname: StemUp Model Solution | Other names:

Pearson Edexcel Level 3 GCE

Centre Number | Candidate Number

Economics B

Advanced

Paper 3: The economic environment and business

Monday 19 June 2017 – Afternoon
Time: 2 hours

Paper Reference
9EB0/03

You must have:
Insert (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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Answer ALL questions.

SECTION A

Read the following extracts (A to C) and Figures 1, 2 and 3 before answering Question 1.

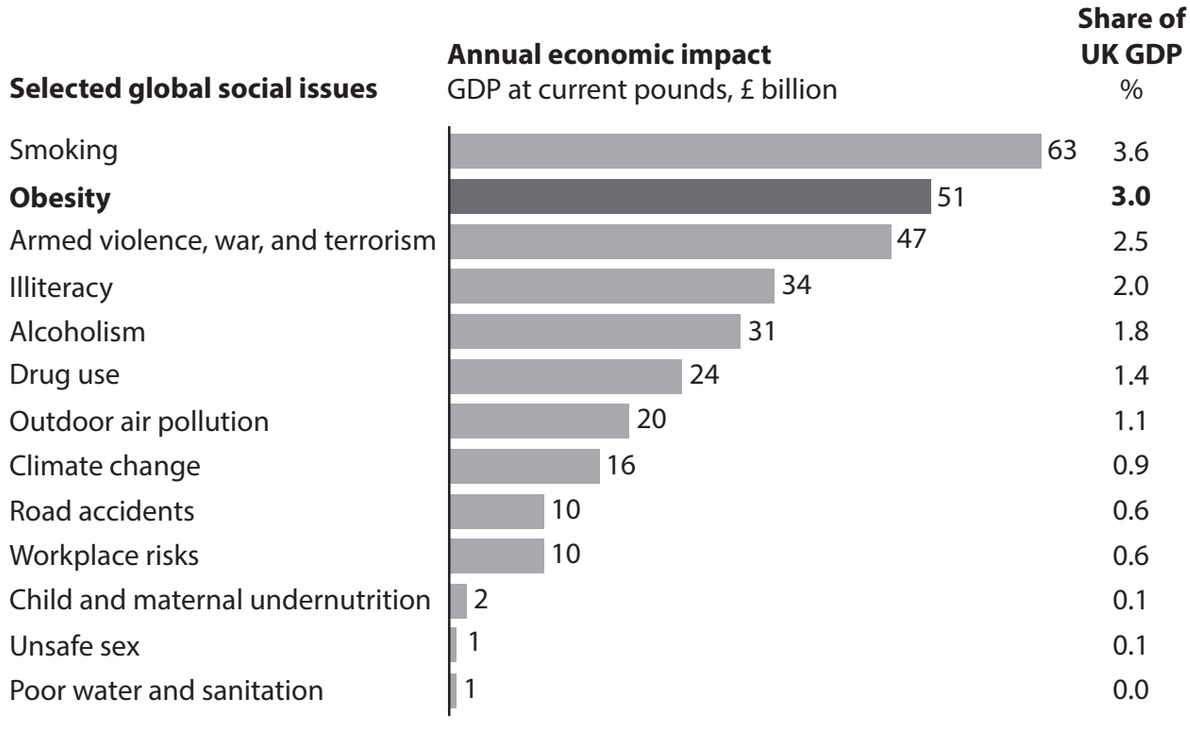
Write your answers in the spaces provided.

Extract A

***McKinsey*: Obesity costs UK society £51bn per year**

Overweight or obese people are a major global problem. According to a recently released report from *McKinsey & Company*, obesity costs the world economy $2tn every year. However, it is not just a global issue. According to *McKinsey & Company* the burden on the UK economy amounts to £51bn a year or 3% of GDP, making it the second largest health liability of the UK economy after smoking. If adequate measures are not taken, the cost to the UK will continue to increase. 5

(Source: adapted from © Consultancy.uk)



(Source: 'McKinsey Quarter')

Figure 1

Annual economic impact of selected social issues, UK, 2012

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Extract B

The medical costs

In the UK, the government currently spends about £6bn a year on the direct medical costs of conditions related to being overweight or obese. That is 5% of the entire budget of the National Health Service (NHS). These costs are expected to rise. By 2030, the estimate is for obesity to cost the NHS between £10bn and £12bn.

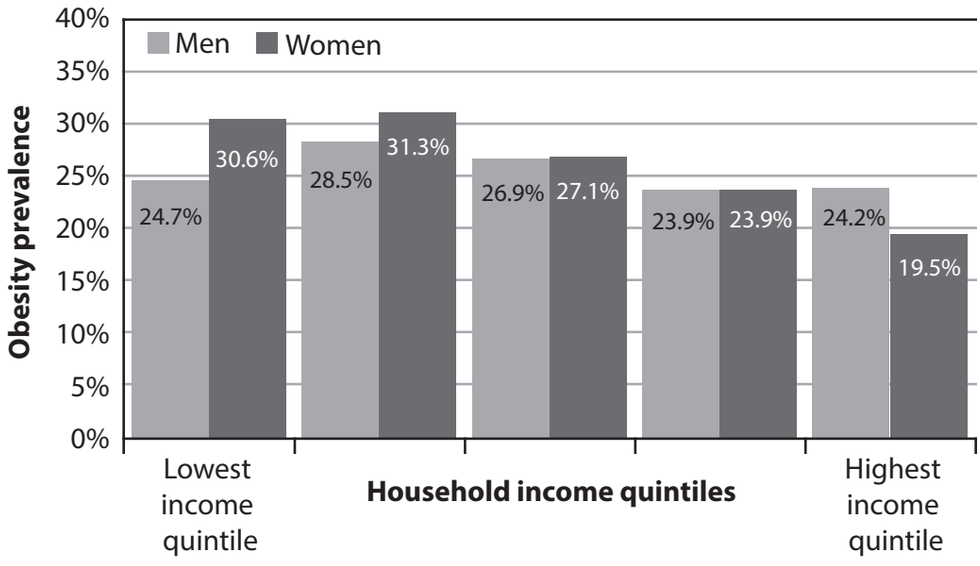
The social costs

The *McKinsey* report finds that there is an inverse correlation in the UK between obesity and different measures of socioeconomic status, including household income, the occupational status of the parent, educational achievement, and a measure of area deprivation. The prevalence of obesity is almost double among women with unskilled occupations (35.2%) than among professional women (18.2%). The most prevalent correlation for men is from education, with the more highly educated being generally less overweight. Children in the bottom decile of most deprived areas are twice as likely to be obese as children in the decile of least deprived areas.

(Source: adapted from © Consultancy.uk)

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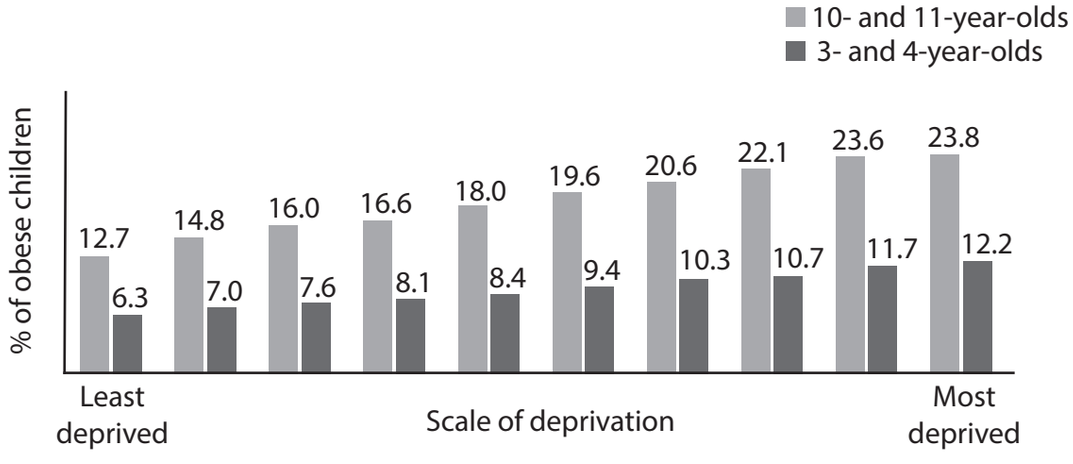
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(Source: adapted from © Crown Copyright)

Figure 2

Adult obesity prevalence by income, Health Survey for England 2007-2011



(Source: 'McKinsey Quarter')

Figure 3

Children of all ages are twice as likely to be obese in the most deprived areas as in the least deprived areas

Proportion of children, England, 2010-11

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Extract C

Sugar tax could help solve Britain's obesity crisis, expert tells MPs

A sugar tax could decrease purchases of the types of sugary food and drinks blamed for Britain's obesity crisis, according to research presented to MPs by Dr Alison Tedstone, chief nutritionist at Public Health England (PHE).

Members of the Commons health select committee were told by Dr Tedstone that a "fiscal approach" could help cut the consumption of sugary drinks. 5

"The higher the tax increase the greater the effect," she told the committee, which was given a taster of some of the findings from a review by PHE into evidence about how to reduce the population's sugar intake.

(Source: adapted from Sugar tax could help solve Britain's obesity crisis, expert tells MPs, Ben Quinn © Guardian News & Media Limited 2015)

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1 (a) Discuss the extent to which the UK obesity problem can be seen as market failure in the food industry.

(8)

Market failure occurs when the free market allocates resources inefficiently, so that social welfare is not maximised. One form is externalities: if consumption of foods high in fat, salt and sugar creates external costs, the market overproduces and overconsumes them, because consumers ignore costs that fall on third parties.

Extract A shows that obesity costs the UK economy £51bn a year, or 3% of GDP, second only to smoking (£63bn). Part of this falls on taxpayers, as the NHS spends about £6bn a year treating obesity-related conditions (Extract B). These are external costs imposed on others by obese people, so the social cost of unhealthy food exceeds its private cost and too much is consumed, a net social welfare loss. Unhealthy food can be seen as a demerit good, and information failure adds to this, as consumers underestimate the long-term health effects of their diet.

It can be argued that the food industry is responsible, because it provides too many cheap, heavily advertised foods high in fat, salt and sugar, and profit-maximising firms have no incentive to take the external costs into account.

However, obesity itself is not produced by the food industry market: it is people who eat too much that cause the externalities. Unlike drugs, tobacco or alcohol, which are always damaging to health, food is essential for survival, and the food industry is actually very good and efficient at producing affordable food which is healthy and nutritious. Obesity is also caused by human behaviour and a lifestyle involving labour-saving devices, motorised transport, sedentary work and lack of exercise.

Overall, obesity is only partly a market failure in the food industry. The external costs show resources are misallocated, but the failure lies more in consumer behaviour, information failure and lifestyle than in the industry itself, so the extent depends on how far firms' marketing drives over-consumption.

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(b) Using Extract B and Figures 2 and 3, assess whether poverty reduction policies are the most effective way of dealing with the obesity crisis in the UK.

(10)

Extract B and Figures 2 and 3 appear to show a positive correlation between poverty and obesity. Figure 2 shows that women in the highest income quintile have the lowest obesity prevalence (19.5%), while the two lowest quintiles show the highest prevalence for women (30.6% and 31.3%). Extract B states that obesity is almost double among women in unskilled occupations (35.2%) than among professional women (18.2%). Figure 3 shows that 23.8% of 10 to 11 year olds in the most deprived areas are obese compared with 12.7% in the least deprived, and 12.2% against 6.3% for 3 to 4 year olds, so deprived children are nearly twice as likely to be obese.

Poverty may cause obesity because energy-dense processed food high in fat and sugar is cheaper per calorie than fresh fruit, vegetables and lean meat, low-income households have less time and fewer facilities to cook and less access to sport, and lower educational achievement may mean less knowledge of nutrition. Reducing poverty, through policies such as a higher national living wage, tax credits and better education in deprived areas, should therefore reduce the number of obese adults and children, so the government should regard these policies as a priority.

However, correlation does not prove causation, and Figure 2 is not a perfect correlation: the lowest quintile is actually less likely to be obese than the next lowest for both men (24.7% against 28.5%) and women (30.6% against 31.3%). There is also a marked difference between men and women. For men the rate in the lowest quintile (24.7%) is barely higher than in the highest (24.2%), suggesting little correlation between poverty and obesity for men, for whom education matters more (Extract B).

Poverty reduction is also expensive and slow to work, and higher incomes may simply be spent on more food. Other policies tackle other causes of obesity and may be more cost-effective: encouraging more exercise, better education, more informative food

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labelling, restrictions on food advertising, healthy eating campaigns and a sugar tax.

Overall, the evidence suggests poverty reduction policies are important, especially for women and children, but they are unlikely to be the most effective policy on their own. They should be part of an overall package alongside measures aimed at diet and exercise across the whole population.

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(c) Using suitable **diagrams**, assess the likely success of a sugar tax in reducing obesity in the UK.

(12)

Extract C suggests that sugary foods and drinks are responsible for much of Britain's obesity crisis. A sugar tax is an indirect tax which increases producers' costs, shifting the supply curve inwards (upwards by the amount of the tax) from S to S + tax, as in both diagrams below. The price rises from P1 to P2 and the quantity bought falls from Q1 to Q2. Lower consumption of sugar should in turn reduce obesity levels, and the tax internalises some of the external cost of over-consumption, such as the £6bn a year cost to the NHS (Extract B).

However, the reduction in quantity, and so the effectiveness of the tax, depends on the price elasticity of demand (PED) for sugary food and drinks. If demand is relatively price elastic, as in Diagram 2, the tax has a large impact on quantity and a more effective impact on obesity. In theory demand should be price elastic, as there are many substitutes for foods and drinks with lots of sugar, such as diet drinks, water and low-sugar products, so a sugar tax should be effective. As Dr Tedstone said, "the higher the tax increase the greater the effect". Firms may also reformulate products to cut their sugar content to avoid the tax, reducing sugar intake even if sales do not fall.

By contrast, if demand is relatively price inelastic, as in Diagram 1, the price rises by more but there is only a small reduction in quantity, so the tax has little impact on obesity. For many consumers the substitutes are unpalatable and sugary products are habit-forming, so their demand is price inelastic. An extra few pence on the price of a can of sugary drink is a tiny share of income and will make little if any difference. Existing taxes on alcohol and tobacco suggest such taxes are more effective in raising revenue (the shaded areas) than in reducing consumption.

The tax is also regressive, falling hardest on low-income households who, from Figures 2 and 3, are most likely to be obese. Consumers may switch to untaxed foods high in fat

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or salt, and if firms absorb the tax rather than pass it on, prices may hardly rise.

Overall, a sugar tax is likely to have some success, especially in the long run when demand becomes more elastic and firms reformulate, but alone its effect will be limited because demand for many sugary products is price inelastic. Its success depends on the size of the tax and on using the revenue for complementary measures such as education and school sport.

Diagram 1: price inelastic demand

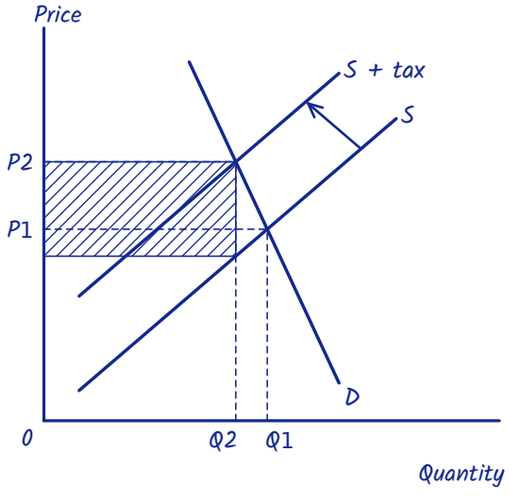
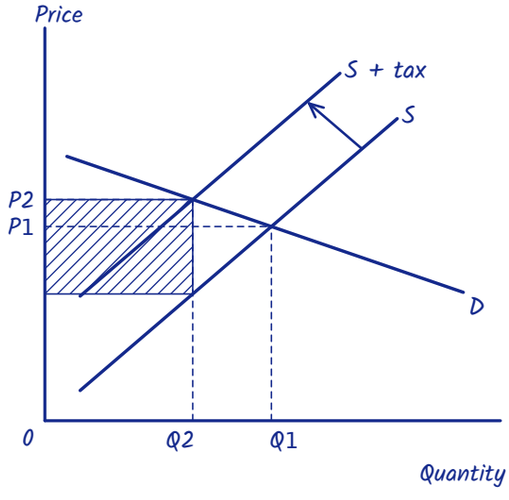


Diagram 2: price elastic demand



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(d) Evaluate the argument that market failure can be solved by government intervention.

(20)

Market failure occurs when the free market fails to allocate resources efficiently, so social welfare is not maximised. A common cause is negative externalities, where social costs exceed private costs: resources are not allocated efficiently because consumers and producers do not have to pay for the external costs associated with the goods and services they consume. Someone else pays, so too much is produced. Other forms include merit goods, which are under-provided, demerit goods, which are over-consumed, public goods and information failure.

The government intervenes to correct market failure for various reasons: to reduce the impact of externalities, to encourage the production of goods and services that the free market under-provides, and to reduce consumption of those it over-provides. Its tools include indirect taxes, subsidies, regulation and legislation, state provision and information campaigns.

For negative externalities, regulation can be effective. For example, the UK Environment Agency sets out regulations that affect the environment in the UK, ranging from fishing rod licences to the rules for disposing of hazardous waste. Taxes such as the landfill tax raise the private cost towards the social cost, so output falls towards the socially optimal level where marginal social cost equals marginal social benefit, and the revenue can fund clean-up. In the same way, a sugar tax aims to reduce the £51bn annual cost of obesity (Extract A).

For merit goods, education and health care would not be provided in sufficient quantities without government intervention, as people underestimate their benefits and many could not afford them. State provision through state schools and the NHS, free at the point of use, raises consumption towards the social optimum and brings positive externalities such as a healthier, more productive workforce.

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For demerit goods, drugs are made illegal and the government regulates and legislates to reduce their use and negative impacts, while high taxes on tobacco, advertising bans and age limits have helped to cut UK smoking rates significantly over several decades. However, the extent to which this intervention 'solves' market failure is debatable. Pollution still happens, drugs are ever-present and there are many who criticise aspects of health care and education provision, such as long NHS waiting lists. Smoking still costs the UK £63bn a year (Extract A), the largest of all the social issues shown, despite decades of high taxes, because demand for cigarettes is price inelastic.

There are also cases of government failure, where attempts to solve market failure result in either a worsening of the problem or the creation of another problem in its place, the law of unintended consequences. For example, the Help to Buy scheme raised demand and led to higher house prices; NHS targets can lead to a fall in the standard of care as staff focus on the target; regulatory bodies can suffer from regulatory capture, acting in the interests of the firms they regulate; windfall taxes can discourage investment; and increased taxation of demerit goods such as cigarettes encourages smuggling and black markets. Similarly, a rent cap (Extract F) could reduce the supply of rented housing.

Government failure often arises from imperfect information: it is very hard to put a money value on an externality, so a tax may be set too high or too low. Politicians may also act for short-term electoral reasons, interventions have administration and enforcement costs, and spending in one area has an opportunity cost elsewhere.

The success of intervention therefore depends on the type of market failure and the policy chosen. Where the external cost can be measured and demand is price elastic, taxes and regulation work well; where behaviour is habitual, as with smoking or obesity, a package of taxes, regulation and education is needed. Market-based tools such as tradeable pollution permits can also reduce government failure by letting firms find the

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cheapest way to cut emissions.

In conclusion, it is highly unlikely that government intervention can fully solve market failure, as the costs of intervention and the risk of government failure mean the outcome will never be perfectly efficient. However, there is a great deal to be said in favour of intervention to correct or reduce market failure, since without state education and health care or pollution regulation, welfare would be far lower. The intervention needs to be carefully thought through, correctly applied and reviewed over time for it to be successful.

(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS

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SECTION B

Read the following extracts (D to F) and Figures 4 and 5 before answering Question 2.

Write your answers in the spaces provided.

Extract D

Whitbread warns of hit from UK minimum wage hike

Whitbread, which owns *Premier Inn* hotels and the *Costa Coffee* chain, is one of Britain's biggest employers. It said it faced a big rise in costs and would probably take on fewer extra staff due to a rise in the minimum wage, adding to industry warnings the move could dampen economic growth.

Renamed by the government in 2016 as the national living wage, the hourly minimum wage will rise from April 2016 to £7.20 for those aged over 25, from £6.50.

Other companies have also voiced concerns. Cleaning services firm *Interserve*, said the increases could cost it up to £15m. Pub group *JD Wetherspoon* also warned higher wages could put many pubs out of business.

(Source: adapted from Whitbread warns of hit from UK minimum wage hike, Neil Maidment and Sarah Young © 2016 Reuters)

Extract E

Lidl to pay 9,000 staff the full living wage

The Living Wage Foundation is a campaign that sets a voluntary hourly rate of pay linked to the basic cost of living in the UK. The Foundation's full living wage is distinct from and higher than the 'national living wage' announced by George Osborne in 2016.

Lidl has said it will pay 9,000 of its UK workers at least the full living wage from October 2015 as the first major high street name to embrace the higher pay campaign. It has promised it will not raise prices to cover the bill for higher pay. The 14% average pay rise, costing £9m, will take minimum pay at *Lidl* past the level recommended by the Living Wage Foundation.

The German-owned supermarket chain said the move represented an average pay rise of £1,200 per year for thousands of staff, with all UK employees receiving at least £8.20 an hour in England, Scotland and Wales and at least £9.35 in London. Since launching in the UK in 1994, Lidl has grown into a 620-strong chain and made more than £4bn in sales over the last financial year.

(Source: adapted from Lidl to pay 9,000 staff the full living wage, Sean Farrell © 2016 Guardian News and Media Limited)

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Extract F

Calls for rent cap in London grow after policy is introduced in Berlin

Housing campaigners have called for the introduction in London of a rent cap policy to control soaring rents. A rent cap is effectively a price limit and would prevent rents from rising by more than an agreed limit, keeping them below the free market level and making housing more affordable.

Jacky Peacock OBE, from the charity Advice4Renters, said: "We support a rent cap similar to the one recently introduced in Berlin. High rents are driving more and more people in low paid jobs out of London and we are seeing more 'hidden homeless' than ever before."

The Camden Federation of Private Tenants, said it commonly sees tenants facing rent rises of between 10-30%. Nicky Gavron, Labour's planning spokesperson on the London Assembly, said: "In London millions of renters are left with no protection from unfair yearly rent rises and ever increasing fees."

However, Government housing minister Brandon Lewis opposed such a rent cap and said: "The measures we've taken give tenants the information and confidence they need to rent, and enable developers to build specifically for private rent. We are doing all of this without the need for excessive state regulation that would destroy investment in new housing, push up prices and make it far harder for people to find a flat or house to rent."

(Source: adapted from Calls for rent cap in London grow after policy is introduced in Berlin, Sebastian Mann © Evening Standard Ltd)



(Source: adapted from © Office for National Statistics / Crown Copyright)

Figure 4

Employment rates by region and comparison year on year, seasonally adjusted, June to August 2014 and June to August 2015

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	Male		Female		All persons		All persons		
							Monthly change		
	No	Rate	No	Rate	No	Rate	No	% chg	Rate chg
Great Britain	468,987	2.4	274,435	1.4	743,421	1.9	1,894	0.3	0.0
North West	72,208	3.2	39,939	1.8	112,143	2.5	2,924	2.7	0.1
Cumbria	3,076	2.0	1,643	1.1	4,720	1.6	28	0.6	0.0
Allerdale	731	2.5	416	1.4	1,146	2.0	1	0.1	0.0
Barrow-in-Furness	803	3.8	385	1.8	1,182	2.8	5	0.4	0.0
Carlisle	585	1.7	349	1.0	936	1.4	25	2.7	0.0
Copeland	621	2.8	299	1.4	917	2.1	5	0.5	0.0
Eden	123	0.8	76	0.5	197	0.6	–3	–1.5	0.0
South Lakeland	214	0.7	125	0.4	339	0.6	–12	–3.4	0.0

(Source: adapted from © Cumbria County Council)

Figure 5

Claimant count for Great Britain, The North West, Cumbria and the six districts within Cumbria – August 2015

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2 (a) Discuss the likely impact of an increase in the minimum wage on a firm such as *Whitbread*.

(8)

The national living wage is a legal minimum wage, so Whitbread must pay its employees more than the free market wage rate. Extract D shows it rising from £6.50 to £7.20 an hour for those over 25, an increase of about 10.8%. As one of Britain's biggest employers, with many low-paid staff in Premier Inn and Costa Coffee, Whitbread faces a big rise in costs.

Labour is a large share of costs in hotels and coffee shops, so profit margins will be squeezed. At the higher wage the quantity of labour demanded falls, so Whitbread may cut the size of its workforce, reduce hours or abandon plans to take on more workers, as it says it would "probably take on fewer extra staff". It may also replace labour with capital, such as self-service check-in.

Alternatively, Whitbread may pass on the increase in labour costs by raising prices to customers. The success of this will depend on the PED for its products: Costa faces strong competition from Starbucks, Caffè Nero and independent cafés, so demand may be price elastic and higher prices could cut revenue.

However, the impact may be smaller than feared. Whitbread could absorb the increase, depending on the number of employees on the minimum and the cost involved. A higher wage may motivate staff, raising productivity and reducing staff turnover, and the firm may increase training, leading to increased efficiency and keeping employment stable.

Previous experience suggests that increases in the minimum wage do not have a great impact on employment levels, and higher wages raise consumer spending, which may increase demand for coffee and hotel stays.

Overall, Whitbread is likely to face higher costs and slower job growth rather than large job cuts, with the size of the impact depending on PED and how far productivity improves.

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(b) Assess *Lidl*'s decision to become the first UK supermarket to pay 'at least the full living wage' (Extract E, line 4).

(10)

Extract E says Lidl's decision will cost £9m, a 14% average pay rise, and it has promised not to raise prices to cover the bill. For staff this represents an average increase of £1,200 a year in pay, with all UK employees receiving at least £8.20 an hour, or £9.35 in London, well above the £7.20 national living wage.

In the short run this will have an immediate impact on Lidl's profitability, as costs rise but prices do not, which may not please its German owners. For many businesses, especially supermarkets where competition is fierce and margins are thin, raising wages above the legal minimum is something that would be resisted.

However, Lidl may have decided to do this for several reasons. Staff may well be more motivated by the extra rewards, as efficiency wage theory suggests, and work harder, increasing productivity. Staff turnover may fall, reducing recruitment and training costs, which are high for a chain of 620 stores. As unemployment is falling (Figure 5 shows a GB claimant rate of only 1.9%), the labour market is tight, so higher pay makes it easier for Lidl to find and recruit the right quality staff.

Customers may find staff more welcoming, so they shop more at Lidl, increasing turnover. From a PR and corporate social responsibility point of view, being the first major high street name to pay the full living wage is a positive move that improves its brand image and may attract ethically minded shoppers. It also puts pressure on the other supermarkets, such as Aldi and Tesco, to follow suit, raising their costs.

Although £9m sounds a lot, it is not that much from sales of over £4bn, only about 0.2% of turnover, so the cost is small relative to the potential gains. On the other hand, if rivals match the pay rise, Lidl's advantage in recruitment and image disappears while it is committed to higher costs, and its promise not to raise prices may be hard to keep if costs rise further.

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Overall, the decision appears sensible: the cost is small relative to sales, and the gains in productivity, lower staff turnover and reputation are likely to outweigh it in the long run, although this depends on whether productivity actually rises and how competitors respond.

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(c) Using a suitable diagram, assess the effectiveness of a rent cap in solving the problems of the London housing market.

(12)

A rent cap is a maximum price set below the free market equilibrium rent. In Diagram 1 the free market rent is Pe and the quantity of rented housing is Qe; a rent cap sets rent at PMax. This would reduce the cost of rented housing from Pe to PMax and make living in London more affordable for low-income earners, who Extract F says are being driven out of London by rent rises of 10 to 30%.

It would alleviate the hardship many lower paid workers face and prevent future rent increases. Tenants would in effect see a rise in their disposable income, which would increase their standard of living and reduce 'hidden homelessness'. Local businesses would benefit from increased spending as households spend less on rent, and public services would find it easier to recruit key personnel such as nurses and teachers who cannot currently find affordable housing. Rent control works in other countries like Switzerland, the Netherlands and Germany, where Berlin has introduced a cap.

However, a rent cap would reduce the profitability of investment for buy-to-let landlords. As Diagram 1 shows, at PMax the supply of rented accommodation falls from Qe to Q1 while quantity demanded rises to Q2, creating excess demand of Q1 to Q2. This reduces the amount of housing available to would-be tenants, supporting the housing minister's warning that a cap would "destroy investment in new housing".

Shortages may lead to waiting lists, discrimination by landlords and black markets, and there is a danger that the quality of the rental housing stock falls as landlords neglect maintenance to preserve margins. In the long run supply is more price elastic, so the shortage grows over time.

High rents are caused by excess demand and not enough supply, so there are more effective solutions than crude manipulation of the market. The government could relax planning laws and building controls, or subsidise the building of rental accommodation.

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As Diagram 2 shows, this shifts supply from S to S1, lowering rent from Pe to P1 while increasing the quantity of housing from Qe to Q1. This should bring down the price of new housing and rents would then reflect this, although building takes many years.

Overall, a rent cap would help existing tenants in the short run but is unlikely to solve London's housing problems, as it reduces supply and worsens the shortage. Its effectiveness depends on how far below the market rent it is set and on the elasticity of supply; a moderate cap combined with policies to increase supply would be more effective.

Diagram 1: rent cap

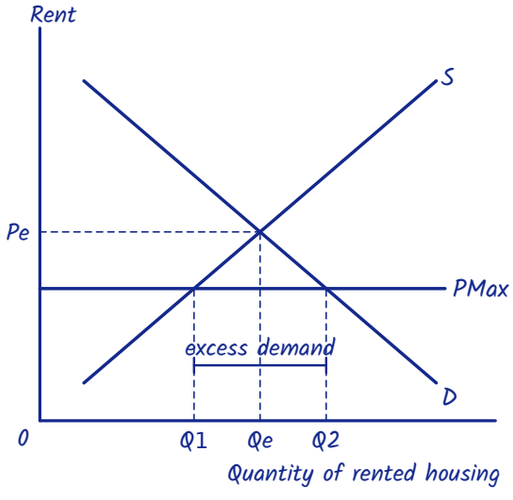
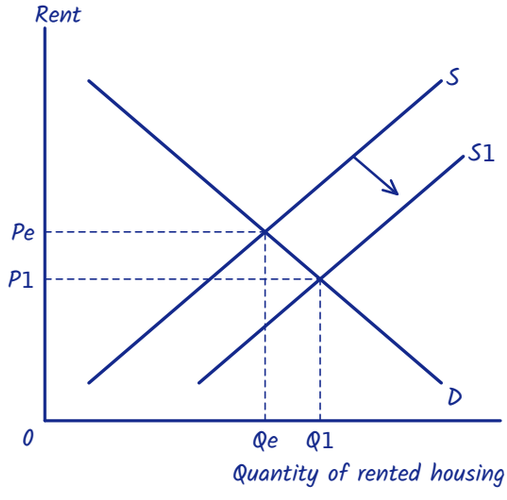


Diagram 2: increase in supply



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(d) With reference to Figures 4 and 5, evaluate the success of UK government policies in reducing regional variations in unemployment.

(20)

Regional variations in unemployment exist because unemployment rates differ between areas of the UK. These areas may be large, such as the North West in Figures 4 and 5, or small, such as Eden in Cumbria. Figure 5 shows that in August 2015 the claimant count rate was 1.9% in Great Britain, 2.5% in the North West and 2.8% in Barrow-in-Furness, but only 0.6% in Eden and South Lakeland. Figure 4 shows 2015 employment rates ranging from about 78% in the South West to under 68% in Northern Ireland.

Rates vary mainly because of structural change, where traditional industries such as coal, steel, shipbuilding and textiles have lost competitiveness and closed down, leaving declining areas such as the North East, Wales and parts of the North West with high unemployment. Barrow, which depends heavily on shipbuilding, has the highest claimant rate in Cumbria. Other areas such as Northern Ireland have suffered from political problems that deter investment and job creation.

The government has used a wide variety of supply-side policies to reduce such regional disparities. These include market-based and interventionist policies such as reforming the labour market, improving the skills of the labour force through apprenticeships and training, subsidising new businesses, regional grants such as the Regional Growth Fund, Enterprise Zones with tax breaks, relocating public sector jobs such as part of the BBC to Salford, and 'Northern Powerhouse' transport investment. These help to give unemployed people new skills and attract new businesses to the regions to create jobs. Figure 4 shows some success. Of the 12 regions, 8 increased their employment rates between 2014 and 2015, with the North West (about 70.5% to 71.5%), South West (about 76% to 78%), Wales (about 69% to 71%), West Midlands and East Midlands all significantly increasing employment on the previous year. Wales and the West

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Midlands, traditionally depressed regions, rose by about 1.5 to 2 points, much more than the UK average of about 0.6 points, so the gap for these regions is narrowing.

However, the policies have not removed the variations. The North East, Yorkshire and the Humber, Scotland and Northern Ireland all saw employment rates fall, and the North East and Northern Ireland, already the lowest at about 68%, fell further, so the gap between the highest and lowest regions widened from about 8.6 to about 10.6 percentage points. Figure 5 shows the North West's claimant count rising by 2,924 (2.7%) in one month, far faster than the 0.3% rise for Great Britain, and its male claimant rate (3.2%) is much higher than the female rate (1.8%), suggesting lost manufacturing jobs have not been replaced.

It is arguably almost impossible to eradicate regional unemployment, as the geographical and occupational immobility of labour are major obstacles. Workers in Barrow cannot easily move to South Lakeland or London because of high house prices, family ties and lack of information, and many lack the skills needed in growing service industries. These are the main reasons for areas such as the North East, North West, Wales and the West Midlands having relatively low employment rates in Figure 4, and these areas also have long-term unemployment problems which are difficult to shift.

Supply-side policies such as education are often costly and long-term, so it is difficult to assess their effectiveness in the short term from one year of data. Improvements in the regions may also be due to national factors such as the economic recovery after the financial crisis rather than the government's regional policies: UK employment rose overall, and the South West, already one of the strongest regions, had the largest rise. Grants may also simply move jobs from one region to another, or attract firms that leave when the subsidy ends.

In conclusion, UK government policies have had partial success: most regions improved and some depressed regions such as Wales and the West Midlands narrowed the gap,

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but the North East and Northern Ireland fell further behind and large differences remain even within one county, such as Barrow (2.8%) and Eden (0.6%). It is hard to separate policy from the national recovery, but it is probably fair to say that without such policies regional disparities would be much greater. Success depends on long-term investment in skills and infrastructure in the weakest areas rather than short-term grants.

(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Pearson Edexcel Level 3 GCE

Economics B

Advanced

Paper 3: The economic environment and business

Monday 19 June 2017 – Afternoon
Time: 2 hours

Paper Reference
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Investigating the Economic Environment and Business

Context

This year the context is **government intervention** and **market failure** in the UK.

Research

To prepare for this year's context, you should research:

- the different ways that the government intervenes in the economic and business environment
- its reasons for doing so
- to what extent government intervention is successful and reasons for government failure
- market failure and its impact on stakeholders (economic agents)
- if market failure can be solved by government intervention.

You **cannot** take any of your research or investigation data carried out as part of pre-release into the examination.

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