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Candidate surname <i>StemUp Model Solution</i>		Other names
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Pearson Edexcel Level 3 GCE

Time 2 hours	Paper reference	9EB0/01
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Economics B

Advanced

PAPER 1: Markets and how they work

You do not need any other materials.

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.

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Answer ALL questions.

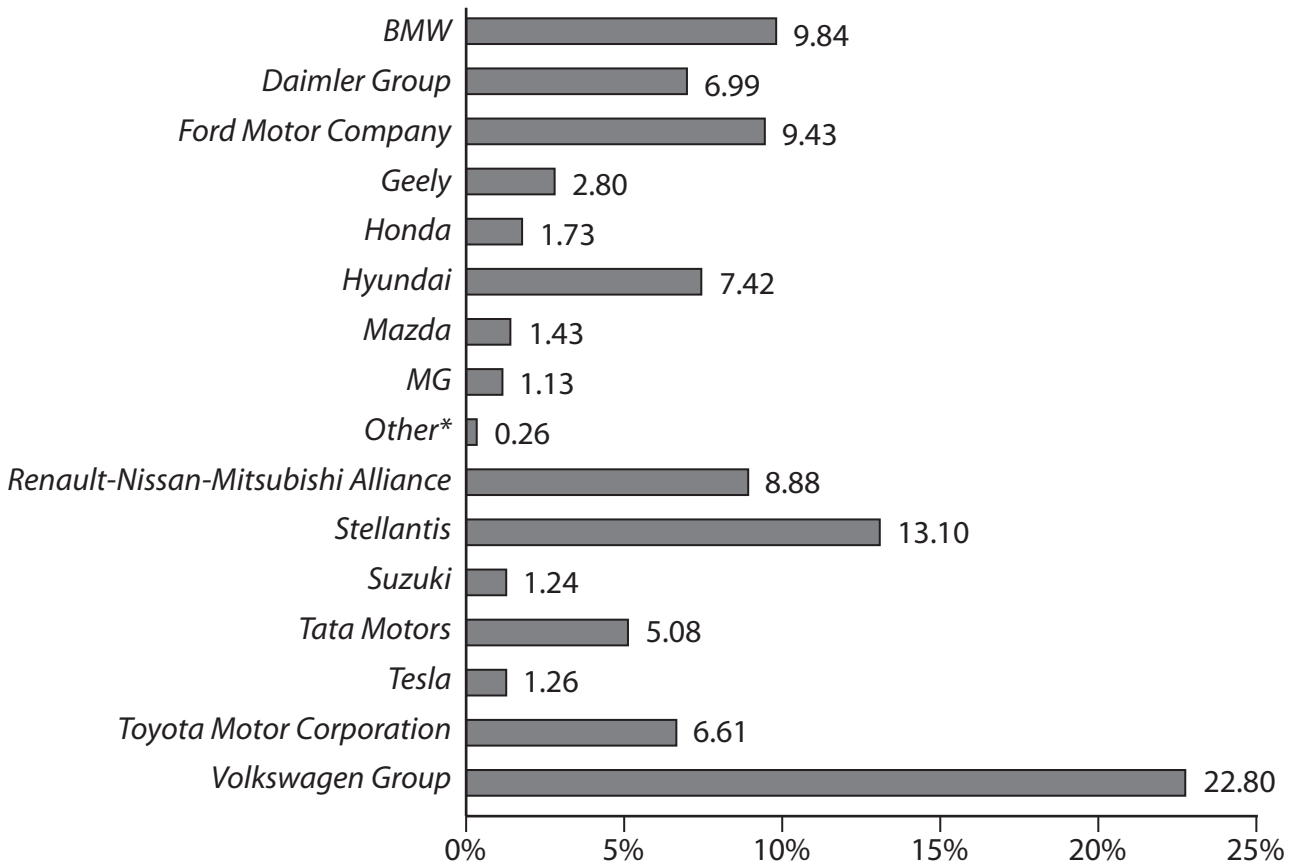
SECTION A

Read the following extracts (A–E) before answering Question 1.

Write your answers in the spaces provided.

Extract A

UK market share figures (%) for car manufacturers in 2020



*Other consists of four smaller brands with market share figures between 0.05–0.08% each.

(Source: adapted from <https://www.autocar.co.uk/car-news/features/winners-and-losers-2020-uk-car-market>)



Extract B**What is *Stellantis*?**

Stellantis is a new firm that has been formed by the merger of several leading car manufacturers. The creation of *Stellantis* in January 2021 created the fourth-largest car firm in the world and brought together some of the car industry's most famous brands under one name.

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Stellantis has 18 car brands in its business, these include *Peugeot*, *Citroen*, *Vauxhall*, *Fiat*, *Alfa Romeo*, *Ferrari* and *Maserati*. There are no plans to have the *Stellantis* name featured on any of the firm's cars.

It is a diverse range of brands – some clearly compete against each other in the high volume sector while others occupy niche markets which, with the correct investment, could be hugely profitable to *Stellantis*. There are similarities with the *Volkswagen Group* in this respect.

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Stellantis results for 2020 showed revenue of €60 734m with profit for the year of €2 022m.

(Source: adapted from <https://cardealermagazine.co.uk/publish/stellantis-what-is-it-which-brands-does-it-have-and-what-does-it-mean-for-customers-and-dealers/214546>

<https://www.stellantis.com/en/investors/reporting/financial-reports>)



Extract C**Ellesmere Port: Vauxhall plant's future secured with electric vehicle production**

Vauxhall's parent firm, *Stellantis*, has revealed a new electric vehicle future for its Ellesmere Port plant in Cheshire, removing a threat of closure for the factory.

Stellantis confirmed that a government subsidy and a £100m investment of its own would safeguard the 1,000 jobs left at the site and 6,000 more jobs in the local supply chain. Ellesmere Port would become *Stellantis*' first manufacturing site dedicated to battery electric vans and some of its passenger car models.

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The announcement follows months of talks between the company and officials on whether the plant was viable on several grounds, including the impact of Brexit. However, the biggest issue for *Stellantis*, in the wake of the UK's trade deal with the EU, was the government's vision for an all-electric car future.

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Chief executive Carlos Tavares had previously described the ban on the sale of new petrol and diesel-powered cars from 2030 as 'brutal' and ministers were warned the plant, which dates back to 1962, may have to shut without state aid for an electric conversion. The amount of money given by the government was not disclosed for reasons of commercial sensitivity but has been reported to be around £30m.

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(Source: adapted from <https://news.sky.com/story/ellesmere-port-vauxhall-plants-future-secured-with-electric-vans-12349750>)

Extract D**UK Government to ban the sale of new petrol and diesel cars by 2030**

New petrol and diesel cars and vans are set to be banned from sale in 2030 in the UK with new plug-in hybrids banned from 2035.

After 2035, the only new cars and vans that can be sold will be electric vehicles such as the *Tesla Model 3* and *Nissan Leaf*, plus any hydrogen-powered cars. However, second-hand petrol and diesel cars will still be able to be sold after 2030.

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To help facilitate the transition from petrol and diesel cars, £1.3bn is being invested in electric vehicle charging points for homes, streets and motorways across England. A further £582m is being set aside for grants to help people buy electric vehicles.

The government is also investing £500m in the development and mass production of batteries, while £525m is earmarked for nuclear power plants, partly to help meet the demand for electricity that the growing number of electric vehicles will bring.

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Prime Minister Boris Johnson said: "My Ten Point Plan will create, support and protect hundreds of thousands of green jobs, whilst making strides towards carbon net zero by 2050."

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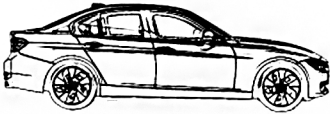
Sales figures for 2020 saw 2.3 million new cars sold and of these 6.3% were electric or plug-in hybrids.

(Source: adapted from <https://www.autoexpress.co.uk/news/108960/2030-petrol-and-diesel-ban-what-it-and-which-cars-are-affected>)



Extract E

Cost of running an electric car compared to a petrol car

	Electric <i>BMW i3</i> £29 570*			Petrol <i>BMW 318i</i> £29 600
 Fuel	3.7p per mile + £354 home charger			14.2p per mile
 Tax	£0			£445
 Loss of value	£16 707			£15 066
 Insurance	£1 089			£824
 Servicing + tyres	£322 + £243			£528 + £87
TOTAL	67p per mile			74p per mile

**BMW i3* cost includes government grant of £2 500

(Source: adapted from <https://www.buyacar.co.uk/cars/economical-cars/electric-cars/650/cost-of-running-an-electric-car>)



- 1 (a) Using Extract A, calculate to two decimal places the 5-firm concentration ratio for the UK car manufacturing industry. You are advised to show your working.

(4)

5-firm concentration ratio = the total market share of the five largest firms in the market.

Five largest from Extract A: Volkswagen Group 22.80%, Stellantis 13.10%, BMW 9.84%, Ford Motor Company 9.43%, Renault-Nissan-Mitsubishi Alliance 8.88%

$$22.80 + 13.10 + 9.84 + 9.43 + 8.88 = 64.05$$

5-firm concentration ratio = 64.05%



(b) Explain **one** reason why there is less likely to be price competition in the car industry.

(4)

The car industry is an oligopoly: a few large firms dominate the market, with the top five holding 64.05% of UK sales. Firms are therefore interdependent, so Stellantis must consider the prices set by rivals such as the Volkswagen Group (22.80% share) before changing its own prices.

If Stellantis cut its prices, rivals would be likely to match the cut, starting a price war in which every firm loses revenue and profit without gaining market share. Because firms cannot act independently of each other, this results in price stability (sticky prices) in the car industry. Instead, car firms compete through non-price competition, such as brand image, passenger safety features and meeting environmental regulations with new electric models.



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- (c) Using Extract B, calculate to two decimal places the profit for the year margin for *Stellantis* in 2020. You are advised to show your working.

(4)

$$\text{Profit for the year margin} = (\text{profit for the year} \div \text{revenue}) \times 100$$

$$= (\text{€2 022m} \div \text{€60 734m}) \times 100$$

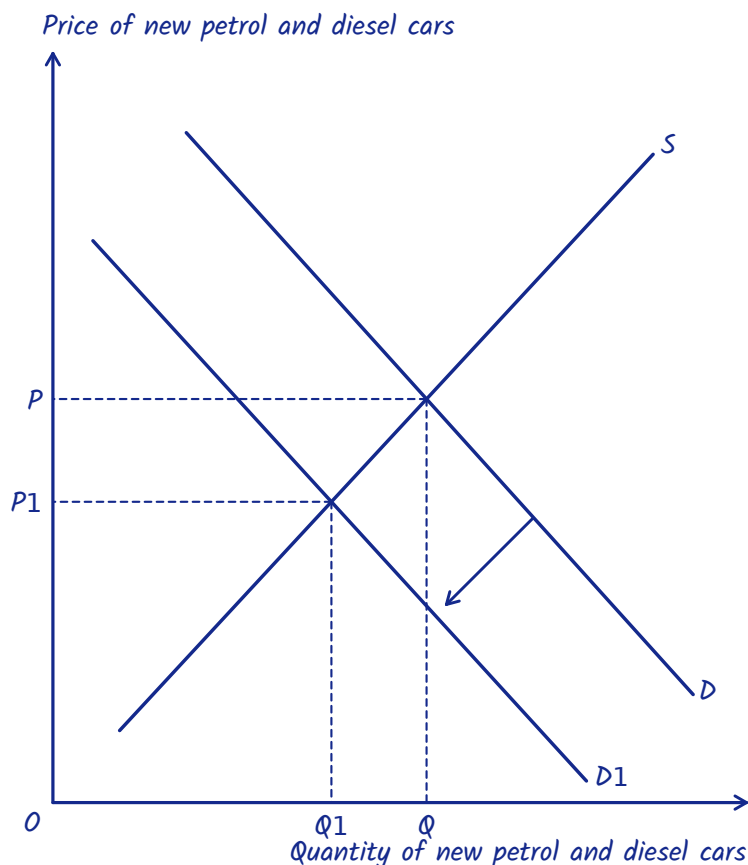
$$= 0.033293... \times 100 = 3.3293...\%$$

$$\text{Profit for the year margin} = 3.33\%$$



- (d) Using a suitable diagram, analyse the likely impact on the market for new petrol and diesel cars if the government increases the subsidy on new electric cars.

(6)



Electric cars are substitute goods for new petrol and diesel cars. A larger government subsidy on new electric cars, such as a bigger grant than the current £2 500 shown in Extract E, lowers their price to buyers, so electric cars become relatively cheaper and more attractive.

As electric cars become cheaper, fewer petrol and diesel cars will be demanded at every price, so the demand curve for new petrol and diesel cars shifts to the left, from D to $D1$, as shown in my diagram. At the original price P there is now excess supply, so manufacturers cut prices and the market moves to a new equilibrium where price falls from P to $P1$ and the quantity bought and sold falls from Q to $Q1$.



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The size of the fall depends on the cross elasticity of demand between the two types of car. Extract E shows that, including the grant, an electric BMW i3 already costs less per mile to run (67p) than a petrol BMW 318i (74p), so a larger subsidy widens this gap and the shift in demand for petrol and diesel cars is likely to be significant. Lower prices and sales would reduce the revenue and profit of firms making petrol and diesel cars, encouraging them to switch production to electric models, as Stellantis is doing at Ellesmere Port.



Of all the vehicles made in the UK, 81% are exported, with over half going to the EU.

- (e) Discuss the likely impact on UK car exports following a depreciation of the pound against the euro.

(8)

The exchange rate is the price of one currency in terms of another currency. A

depreciation of the pound against the euro means £1 buys fewer euros, so goods priced in pounds become cheaper for buyers in the eurozone.

This matters greatly for UK car makers because 81% of the vehicles made in the UK are exported, with over half going to the EU, the UK's largest trading partner for car exports.

For example, if the exchange rate fell from £1 = €1.20 to £1 = €1.10, a car priced at £20 000 would fall in price from €24 000 to €22 000 for an EU buyer. UK manufactured

cars therefore become relatively more price competitive against cars made in Germany or

France, so demand for cars such as those produced at the Vauxhall plant in Ellesmere Port

should rise, increasing the volume and value of UK car exports. Alternatively, UK firms

could keep euro prices the same and earn more pounds per car, raising profit margins.

However, the impact may be smaller than expected. Car production relies heavily on

imported components from the EU, such as engines, electronics and batteries. A weaker

pound increases the cost of these imported components, which raises the costs of

production for UK car makers. If this is passed on in the form of higher prices, much of

the price advantage from the depreciation is lost.

The impact will also depend upon the duration and magnitude of the depreciation of the

pound against the euro: a small or short-lived fall is unlikely to change long-term buying

decisions, while firms may not cut prices at all if they expect the pound to recover. It will

also depend on the price elasticity of demand for UK manufactured cars. Cars are often

bought on brand, quality and design rather than price alone, so if demand is price inelastic

the rise in export volumes will be small. Finally, after Brexit, tariffs and new customs

checks may offset some of the price advantage.



Overall, a depreciation is likely to increase UK car exports in the short run, but the size of the increase depends on the size and duration of the depreciation, the price elasticity of demand and how much of the cost of imported components is passed on to buyers.



(f) Assess the likely benefits for Stellantis of selling a range of different car brands.

(10)

A brand is a unique name or symbol that identifies a product and differentiates it from competitors. Stellantis has 18 different car brands in its portfolio, ranging from mass-market brands such as Peugeot, Citroen, Vauxhall and Fiat to luxury, niche brands such as Alfa Romeo, Ferrari and Maserati.

Firstly, a diverse range of brands enables Stellantis to spread risks between different market segments. If demand for budget family cars falls, for example in a recession, sales of luxury cars to high-income buyers may hold up, so Stellantis is less dependent on any one market.

Secondly, each car brand appeals to a different target audience with different needs and wants. By selling cars aimed at different income groups, lifestyles, mass markets and niche markets, Stellantis can capture a larger share of the total market and increase profits.

Niche brands such as Ferrari can charge premium prices with high profit margins, which with the correct investment could be hugely profitable, while high-volume brands bring in large revenues. This already helped Stellantis earn revenue of €60 734m in 2020 and 13.10% of the UK market.

Thirdly, Stellantis may benefit from economies of scale if car parts, engines and platforms can be shared across a range of different car models. Bulk buying of components lowers average costs, increasing profit margins across all 18 brands.

However, there are costs. Producing many different models increases research and development costs, and different brands may require different components, adding to the number of firms required in the supply chain. Marketing and advertising costs may also be high due to the promotion of a large range of cars with separate brand identities.

Resources may be spread too thin across 18 brands, particularly as some compete against each other for the same target market, such as Peugeot, Citroen and Vauxhall, so one

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brand may simply take sales from another. Bad publicity incurred by one brand could also affect the sales of all brands if consumers are aware that Stellantis owns them.

Overall, the benefits are likely to outweigh the costs because the brands are kept separate (the Stellantis name does not appear on its cars), protecting the group from bad publicity, while it still gains from shared parts and spread risk. The size of the benefit depends on how far Stellantis can share components between brands and avoid its brands competing with each other.



(g) Assess the benefits to the UK economy of subsidising the Vauxhall car plant in Ellesmere Port.

(12)

A subsidy is an amount of money given directly to firms by the government to encourage production and consumption. The government has given a subsidy reported to be around £30m to Stellantis, alongside Stellantis' own £100m investment, to convert the Ellesmere Port plant to produce battery electric vans and cars.

A subsidy lowers firms' costs of production, so the supply curve shifts downwards to the right by the amount of the subsidy, from S to S_1 , as shown in my diagram. This leads to a lower equilibrium price, from P to P_1 , and an increase in the quantity traded, from Q to Q_1 . The £30m subsidy could therefore help to lower the price of electric vans and cars to consumers, increasing demand for electric vehicles and supporting the government's plan to ban new petrol and diesel cars from 2030.

Vauxhall receives the market price plus the subsidy, generating additional revenue and providing an incentive to keep manufacturing cars in the UK rather than closing a plant that dates back to 1962. The plant supports 1,000 direct jobs and 6,000 jobs in the local supply chain. Keeping it open maintains employment levels in Cheshire and avoids a rise in unemployment, with negative multiplier effects on local shops and services. The government also saves on unemployment benefits and keeps the income tax and VAT these 7,000 workers generate, so the net cost may be far below £30m. In the long run it gives the UK a share of the growing electric vehicle industry.

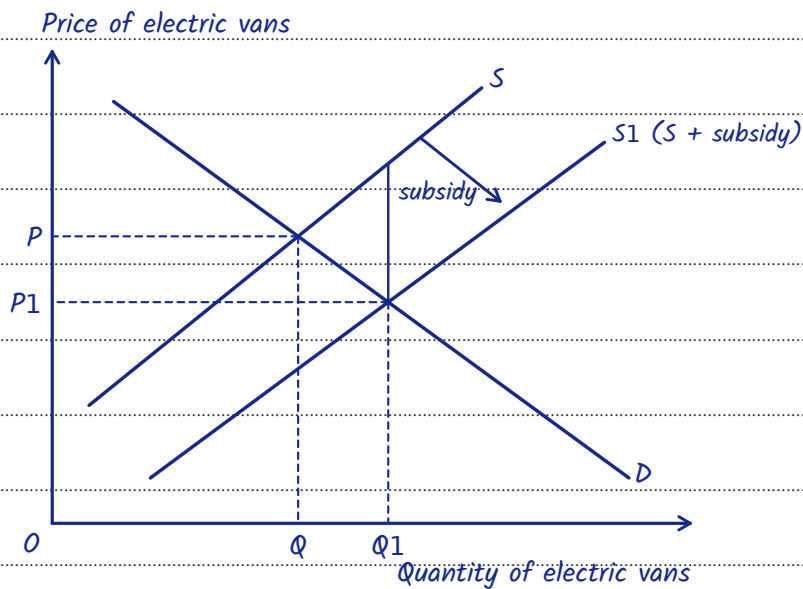
However, subsidies must be funded by the government from either taxation or borrowing, and there is an opportunity cost of the reported £30m: it could have been spent on other public services, such as the NHS or schools, which may give greater benefit to society.

Vauxhall may also not use the subsidy as intended. It may keep some or all of it as extra profit rather than passing it on in lower prices, and production could still move abroad later, so the jobs are not guaranteed in the long term. Other firms may also expect similar



state aid, raising the future cost.

Overall, the subsidy is likely to benefit the UK economy because £30m is a small cost for safeguarding 7,000 jobs, around £4 300 per job. The overall benefit depends on whether the subsidy is passed on to consumers and whether local jobs are secured in the long term.



(h) Assess the likely impact on the UK economy of the Government banning the sale of new petrol and diesel cars from 2030.

(12)

Regulation, such as a ban, can be used to overcome the market failure of over-consumption and over-production of cars that heavily pollute the environment. Petrol and diesel cars create negative externalities, such as carbon emissions and poor air quality, which are costs to third parties not reflected in the market price.

Transport is one of the main sources of greenhouse gases, so banning new petrol and diesel cars from 2030 should help the government achieve carbon net zero by 2050.

Better air quality would improve the health of the population and reduce demands on the NHS, freeing resources for other uses. The government is also investing heavily in the electric vehicle infrastructure: £1.3bn on charging points, £582m on grants and £500m on battery production. This may create new green jobs, as at Ellesmere Port where 1,000 jobs were safeguarded, and the Prime Minister claims the plan will support hundreds of thousands of green jobs, increasing aggregate demand and economic growth. Extract E shows electric cars are also cheaper to run, 67p per mile against 74p for a petrol car, so in the long run consumers save money, which they can spend elsewhere in the economy.

However, regulation is costly in terms of administration and of enacting and enforcing the ban, and there may be unintended consequences for consumers and firms. Extract D shows only 6.3% of the 2.3 million new cars sold in 2020 were electric or plug-in hybrids, so a huge switch is needed in under ten years. Extract E shows electric cars are more expensive to buy initially: the BMW i3 costs £29 570 only after the £2 500 grant, so without it it would cost £32 070 against £29 600 for the petrol model. Many consumers and firms may not be able to afford to switch without government help or borrowing, so more grants might be required, adding to government spending. Electric cars also lose more value (£16 707 against £15 066) and cost more to insure.

In addition, second-hand petrol and diesel cars can still be sold after 2030, so many will



remain on the road and continue to add to pollution, reducing the environmental benefit.

The economy must also adapt its transport infrastructure from petrol stations to electric charging points, and extra electricity demand requires investment such as the £525m for nuclear power. Car makers such as Stellantis described the ban as 'brutal', and plants that fail to convert could close, causing structural unemployment.

Overall, the ban is likely to benefit the UK economy in the long run by reducing negative externalities and creating green jobs, but there will be significant short-run costs. Its impact depends on whether the government provides enough grants and charging points to make electric cars affordable and practical, and on how quickly prices of electric cars fall as production increases.

(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS



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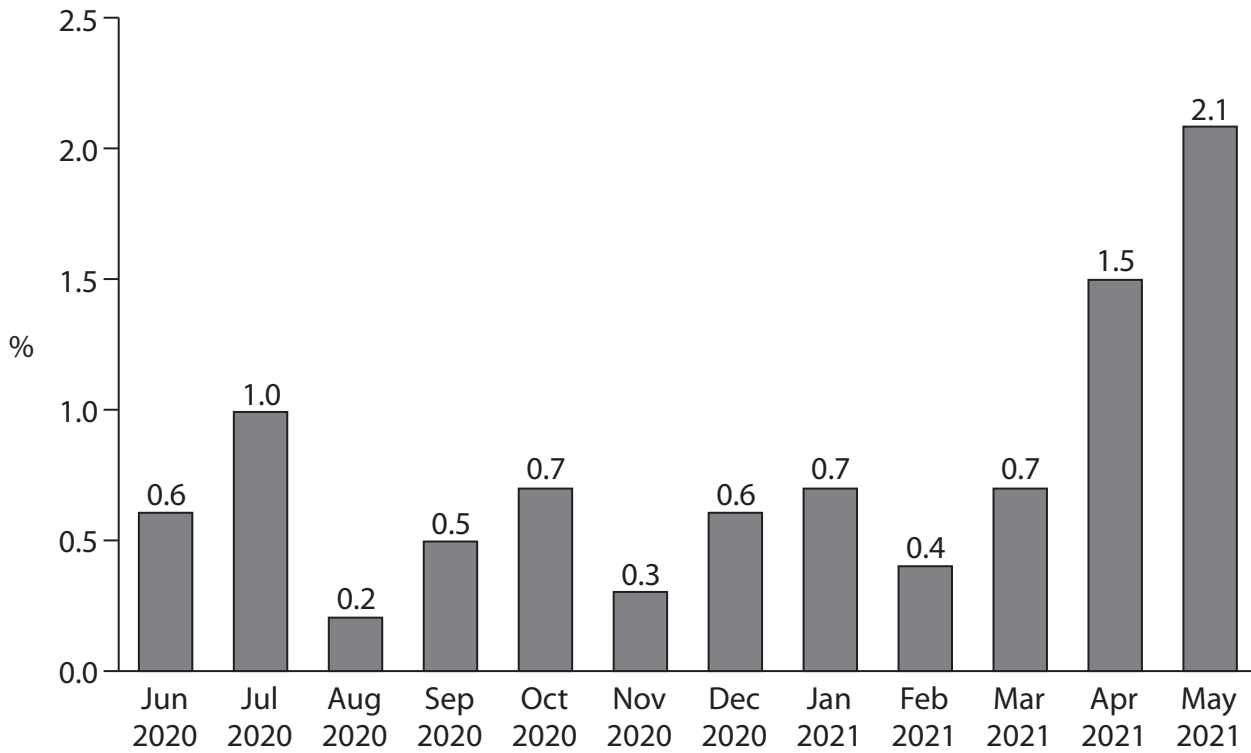
SECTION B

Read the following extracts (F and G) before answering Question 2.

Write your answer in the space provided.

Extract F

UK Consumer Price Index (CPI) inflation rate (%) June 2020 – May 2021



(Source: adapted from <https://tradingeconomics.com/united-kingdom/inflation-cpi>)

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Extract G

UK inflation risk May 2021

The Bank of England (BoE) has sought to calm fears about inflation. It was 2.1% in May 2021 and is expected to exceed 4% in the coming months. The BoE said the surge in prices was 'transitory' and should not affect monetary policy in 2021.

The central bank's message came after data showed inflation rising much faster than it had previously forecast as the economy rebounded more strongly than expected. The main upward pressure came from clothing, motor fuel, recreational goods and meals and drinks consumed outside of the home. The BoE's Monetary Policy Committee (MPC) signalled that it would wait for inflation to subside rather than take action.

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"The committee's central expectation is that the economy will experience a temporary period of strong Gross Domestic Product (GDP) growth and above-target CPI inflation, after which growth and inflation will fall back," the MPC said in its summary of its latest meeting in June 2021.

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The committee voted to keep interest rates at 0.1%, the lowest it has ever been in UK history, and to continue the programme of asset purchases, which is set to raise the total amount of quantitative easing to £895bn.

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(Source: adapted from <https://www.ft.com/content/a2df9e5c-2dd4-4295-9938-890329c4e61f>)



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2 Evaluate the effectiveness of using monetary policy to control inflation in the UK.

(20)

Monetary policy is the use of interest rates and control of the money supply to manage demand in the economy. In the UK it is set by the Bank of England's Monetary Policy Committee, which has a target of 2% CPI inflation. Extract F shows inflation rose from 0.2% in August 2020 to 2.1% in May 2021, above the 2% target, and Extract G states it is expected to exceed 4% in the coming months. This could result in the BoE increasing interest rates from their current record low of 0.1%.

An increase in interest rates raises the cost of borrowing, so households spend less on goods bought on credit and firms postpone investment, slowing down economic activity and reducing inflationary pressure. Higher mortgage repayments reduce disposable income for many homeowners. There is also a greater reward for saving, which may encourage consumers to save rather than spend. Since consumption, such as the clothing, motor fuel, recreational goods and meals and drinks out that Extract G identifies as the main upward pressures, is part of aggregate demand, AD falls.

As my diagram shows, AD shifts to the left from AD to AD₁, so the price level falls from P to P₁ (or rises more slowly), achieving the aim of controlling inflation. A rise in interest rates may also attract hot money inflows, increasing the value of the pound. This makes imports cheaper, reducing imported inflation for goods such as fuel, and makes exports less competitive, further reducing AD. The BoE could also stop or reverse its quantitative easing, which is set to reach £895bn, reducing the money supply.

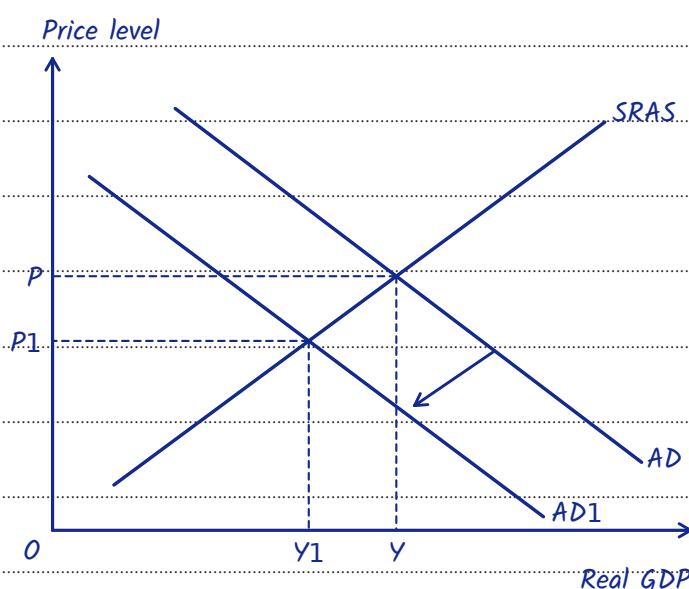
However, there are several limitations. There are time lags of up to 18 to 24 months before a change in interest rates filters through the UK economy, so by the time it works the inflation may have already passed. With rates at only 0.1%, a small rise may have little impact on spending, while a large rise could cause a sharp fall in confidence. Many mortgages are on fixed rates, delaying the effect.



The effectiveness will also depend upon the type of inflation the UK is experiencing.

Monetary policy works on demand-pull inflation, but if inflation is caused by cost-push factors, such as a rise in oil prices pushing up motor fuel, monetary policy will have little or no impact on the rate of inflation. Increasing interest rates also raises firms' costs of borrowing, which may push up costs of production and prices. Extract G suggests the current surge is partly due to the economy rebounding after the pandemic and to temporary supply pressures, which is why the BoE judged it 'transitory' and did not raise rates.

Demand is not totally dependent on interest rates either; confidence, fiscal policy and



world economic conditions also affect spending and inflation. Monetary policy can therefore conflict with other objectives: higher rates reduce economic growth and employment, which is a serious risk while the economy is recovering from the pandemic, and a stronger pound could worsen the current account. Higher rates also increase the cost of government debt. There are other ways to control inflation, including supply-side policies such as investment in training, infrastructure and technology. These increase LRAS, helping the UK economy produce more goods and services at all price levels, reducing inflationary pressures in the long run without reducing growth, although they are slow and costly.

In conclusion, monetary policy is an effective tool for controlling demand-pull inflation,



especially in the medium term, and the credibility of the independent BoE helps keep inflation expectations anchored near 2%. However, it is much less effective against cost-push inflation and acts with long time lags. In 2021, with inflation driven mainly by temporary supply-side pressures and a fragile recovery, the BoE's decision to keep rates at 0.1% was justified; raising rates would have hurt growth with little effect on prices. If inflation became persistent and expectations rose, gradual interest rate rises, supported by supply-side policies, would be the most effective approach.

(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS



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SECTION C

Read the following extracts (H and I) before answering Question 3.

Write your answer in the space provided.

Extract H

Thousands of *Uber* drivers to receive employee benefits

The move comes after the business lost a UK Supreme Court case in March 2021 which found that *Uber* was wrong to class its drivers as independent contractors and should instead treat them as employees. It is believed that around 70 000 *Uber* drivers will benefit from the changes.

5

Uber has said that all of its drivers will now be paid at least the national living wage of £8.91, irrespective of the driver's age. Drivers will also enjoy holiday time based on their earnings. Drivers will automatically be enrolled into a workplace pension scheme, with *Uber* contributing to the pension alongside driver contributions.

The GMB union, which represents *Uber* drivers, welcomed the move. Mick Rix, national officer at GMB, said "It's a shame it took the GMB winning four court battles to make them see sense. Other gig economy companies should take note – this is the end of the road for bogus self-employment."

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(Source: adapted from <https://www.yourmoney.com/household-bills/thousands-of-uber-drivers-to-receive-employee-benefits/>)

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Extract I**Business secretary denies plans to rip-up workers' rights**

Business secretary Kwasi Kwarteng has denied reports that the UK Government wants to reduce workers' rights now that the UK has left the EU. In January 2021, the Financial Times (FT) reported that some workers' protections and rules brought in under the EU's Working Time Directive – including the 48-hour limit on the working week – could be amended by the government.

5

Kwarteng has denied the claim, stating that his department wanted to “protect and enhance workers' rights”.

Labour's shadow Business Secretary Ed Milliband tweeted: “These proposals are not about cutting red tape for businesses but ripping up vital rights for workers. People are already deeply worried about their jobs and health.”

10

“The labour market rules that exist in the UK already strike a good balance between providing protection for workers and flexibility for employers,” said Rachel Suff, employee relations adviser at the Chartered Institute of Personnel and Development (CIPD).

(Source: adapted from <https://www.personneltoday.com/hr/business-secretary-denies-plans-to-rip-up-workers-rights/>)



3 Evaluate the case for a reduction in the regulations that protect UK employees.**(20)**

Regulation is a form of intervention in a market by a government or a regulatory body, using rules to control the behaviour of firms. The UK currently has strong employee protection, such as minimum wage legislation, holiday pay, automatic enrolment in workplace pensions and, from the EU's Working Time Directive, a 48-hour limit on the working week. Extract I reports that the government may amend some of these rules now the UK has left the EU.

There is a case for reducing regulations. Employee regulation may create an unnecessary burden of costs for firms. Extract H shows that, after losing its Supreme Court case, Uber must now treat around 70 000 drivers as employees, paying at least the national living wage of £8.91, holiday pay and pension contributions. These all add to the costs of production, so prices for consumers may be pushed up. This can make UK firms less competitive compared with countries such as China, which may have fewer employee regulations, reducing exports.

Fewer regulations give employers more flexibility, for example to hire workers on flexible contracts when demand rises, which can make the UK an attractive location for multinational firms and contribute to job creation and inward investment. Compliance with regulations also causes delays and increased costs, such as legal and administration costs.

If profits are reduced, firms may invest less in capacity and R&D, so UK firms become slow to market and inefficient. If minimum wages are set too high, they can cause unemployment, especially among young and low-skilled workers, because firms cannot afford to pay the higher wages.

However, there is a strong case against reducing regulations. Without them, some firms may exploit their workers in order to maximise profits, especially where workers have little bargaining power, as with gig economy drivers. A firm may seek to cut costs by cutting



safety standards, putting lives at risk, for example by making employees work more than 48 hours per week. This is particularly important for jobs like lorry or Uber drivers: a maximum working week reduces the risk of fatigue, which could be dangerous with people falling asleep at the wheel, harming third parties as well as the workers.

A universal standard of safety also prevents a 'race to the bottom' in which firms compete by worsening conditions, and many lives have been saved through health and safety legislation at work. If workers feel protected and have good working conditions they will be more motivated, labour turnover and recruitment costs fall, and in the long term this can increase productivity and economic performance. Pension contributions also reduce future pressure on state benefits. As Ed Miliband argues, people are already deeply worried about their jobs and health, so cutting rights could reduce confidence and consumer spending.

The case also depends on how much regulation already costs. The CIPD argues that UK labour market rules already strike a good balance between protection for workers and flexibility for employers, and the UK labour market is already one of the most flexible in Europe. This suggests the gains from cutting regulations would be small, while the costs to workers could be large. Uber has also continued to operate profitably despite paying the living wage, suggesting the burden is manageable.

In conclusion, the case for a broad reduction in employee regulations is weak. Some reform to cut unnecessary red tape and compliance costs, especially for small firms, may be justified, but core protections such as the national living wage, the 48-hour limit and health and safety rules correct a genuine imbalance of power and generate long-run benefits through higher productivity. There has to be a flexible, pragmatic approach: where the market is working imperfectly and firms continue to act unethically, as Uber did with bogus self-employment, regulation is required to benefit all stakeholders.



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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 100 MARKS



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