

Please check the examination details below before entering your candidate information

Candidate surname <i>StemUp Model Solution</i>		Other names
Centre Number	Candidate Number	

Pearson Edexcel Level 3 GCE

Monday 19 May 2025

Afternoon (Time: 2 hours)

Paper reference **9EB0/02**

Economics B

Advanced

PAPER 2: Competing in the global economy

You must have:
Source Booklet (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.

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Answer ALL questions.

SECTION A

Read Extracts A–D in the Source Booklet before answering Question 1.

Write your answers in the spaces provided.

- 1 It is estimated that the income elasticity of demand (YED) for frozen food is -2.37.
- (a) Using this data and data in Extract D, calculate to 2 decimal places, the likely change in demand for frozen food in December 2022. You are advised to show your working.

(4)

$$YED = \% \text{ change in quantity demanded} \div \% \text{ change in income}$$

$$\text{so } \% \text{ change in quantity demanded} = YED \times \% \text{ change in income}$$

$$\text{Change in real income (real pay) in December 2022 from Extract D} = -4.4\%$$

$$\% \text{ change in quantity demanded} = -4.4\% \times -2.37$$

$$= +10.428\%$$

$$\text{Likely change in demand for frozen food} = \text{an increase of } 10.43\%$$

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(b) With reference to Extract B, explain the impact of labour shortages on aggregate supply.

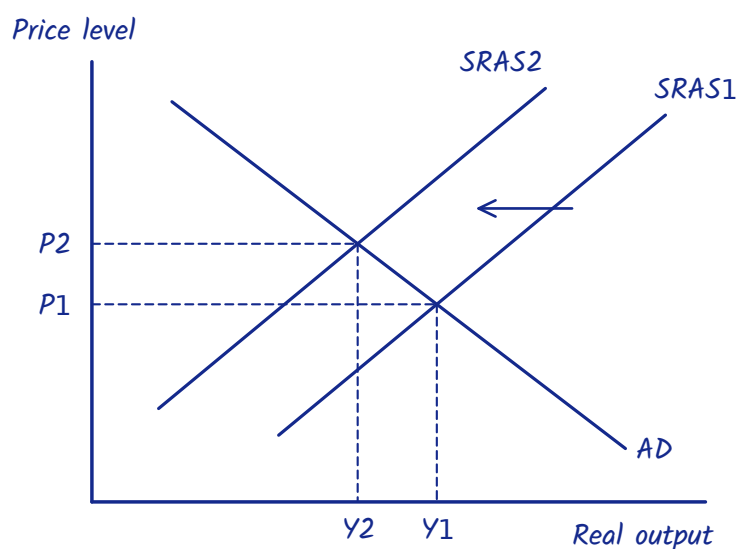
(4)

Aggregate supply is influenced by changes in the costs of inputs and by productivity.

Extract B shows there are 1.13 million vacancies, and firms cannot fill jobs at all skill levels, which is increasing pressure on wages as firms compete for scarce workers.

Higher wages increase the costs of production for firms, and skills shortages mean low productivity, so unit labour costs rise. Rising costs of production reduce aggregate supply:

SRAS shifts left from SRAS1 to SRAS2, raising the price level from P_1 to P_2 and reducing real output from Y_1 to Y_2 , so firms cannot meet domestic and export orders.



- (c) With reference to Extract C, explain **one** reason why high food price inflation might affect the living standards of low or fixed-income groups.

(4)

Low or fixed-income groups, such as pensioners and benefit claimants, spend a high percentage of their income on food, which is a necessity with inelastic demand. Extract C says very high food inflation has forced consumers to change their habits.

As food prices rise, these households have less income available to spend on other necessities such as housing, heating and clothing. They are also forced to buy cheaper brands and discount food (30% of shoppers) or less meat and fish (21%), reducing the quality of their nutrition. Higher food prices therefore mean less real income for other items, which reduces the living standards of these groups.



(d) With reference to Extract A, analyse **two** ways trade unions and professional bodies impact the labour market.

(6)

First, trade unions and professional bodies act on behalf of their members to negotiate better pay. For example, the BMA, the junior doctors' trade union and professional body, demanded a 35% pay increase to make up for 15 years of below-inflation pay rises. If they succeed in raising wages above the market equilibrium, labour costs rise, so the demand for labour from employers may decrease (a contraction along the demand curve), which could cause unemployment or fewer jobs.

Second, they negotiate to improve working conditions. Extract A shows the disputes were also about working hours, pensions and holiday entitlement. Better working conditions make the job more attractive, so they may increase the supply of labour from workers, shifting the labour supply curve to the right and helping employers such as the NHS to recruit and retain staff. However, strikes to achieve these aims mean lost output and lost pay in the short run.

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- (e) With reference to Extract B, discuss the impact of skill shortages on international competitiveness.

(8)

International competitiveness refers to the ability of firms within a country to compete effectively in international markets. Competition may be based on price, or on non-price factors such as quality, product design and the availability and lead times of orders.

Skill shortages tend to force up wages as firms compete for the workers who have the necessary skills; the BCC reports increasing pressure on wages, with 1.13 million vacancies. This increases costs for firms and may result in higher export prices. If costs and prices rise more rapidly in the UK than in other countries, UK goods become less price competitive and export demand falls. Skill shortages also hit non-price competitiveness; the BCC reports firms are struggling to meet both domestic and export orders, so lead times lengthen and foreign buyers may switch to rivals.

However, the impact can be reduced. Skill shortages can be improved through increased investment in education and training, as the BCC urges firms to support staff training, though this only works in the long run. They can also be reduced through inward migration of skilled and unskilled workers via a reformed Shortage Occupation List.

Macroeconomic policy keeping inflation low and stable, such as the Bank of England raising interest rates, helps keep relative prices competitive, and a depreciation of the pound would cut export prices, although this depends on the impact on import prices and costs and on the attractiveness of the UK to migrant workers paid in pounds.

Overall, skill shortages reduce UK competitiveness, but the size of the effect depends on how quickly training and migration fill the gaps.



- (f) With reference to Extract A, assess the economic impact of the increasing number of strikes on the UK economy.

(10)

Strikes involve workers withdrawing their labour for a period of time, stopping or reducing the production of goods and the delivery of services. Extract A shows that hundreds of thousands of UK workers took strike action over the winter of 2022 to 2023, including train drivers, NHS nurses, civil servants, postal workers, teachers and junior doctors.

Workers do not receive pay when they are striking, which reduces their disposable income and decreases consumer spending in the economy. Consumer spending is the largest component of aggregate demand ($AD = C + I + G + X - M$), so AD shifts to the left, reducing real output and economic growth. Extract A notes that this can significantly reduce consumer spending.

Strikes also reduce aggregate supply. Lost working days reduce output directly, and Extract A states that strikes reduce employee motivation and productivity. Lower productivity raises unit costs, so SRAS shifts left, which decreases economic growth and increases inflationary pressures. Train strikes may decrease labour mobility, increase traffic congestion and increase transport costs for firms, further decreasing growth and increasing inflationary pressure. Public sector strikes such as the junior doctor strike, described as the most disruptive in NHS history, lengthen waiting lists, keeping some people out of work and lowering the productive potential of the economy.

However, the impact on AD and AS will depend on the number of strikes and how long they last. Most strikes were for a few days at a time, and if the number of strikes quickly falls as disputes are resolved, the impact on AD may be small. Lower AD may lead to lower growth but also less inflationary pressure, which helps the Bank of England bring inflation down.

If strikes succeed in winning higher wages, this may increase motivation, recruitment

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and retention, so productivity and AS rise in the long run. Higher wages would also raise consumer spending once the dispute ends. Inflationary pressures may increase, however, unless the rise in wage costs is offset by increasing productivity, as a wage-price spiral could develop.

Overall, strikes generally reduce growth and increase inflationary pressures in the UK economy, as both AD and AS fall. The size of the impact depends on how long the disputes last and how widespread they are; short strikes across a few sectors have a limited effect on national output, but prolonged strikes in key services such as health and transport have a much larger impact.



According to the OECD, in 2022 the UK had the third most expensive childcare costs in the world.

- (g) With reference to Extract B, assess how government economic policies might help to reduce the cost of childcare in the UK.

(12)

The UK had the third most expensive childcare costs in the world in 2022. Extract B shows the BCC identifies this as a barrier to the supply of labour, as family members have been forced out of the labour market by high childcare costs, and argues government intervention is needed to reduce them, for example through fiscal policy in the Spring Budget of 2023.

One way is through supply-side policies such as taxes, benefits, grants and subsidies.

Childcare could be provided through government spending as a universal benefit, free at the point of delivery, or subsidised to reduce the price parents pay. A subsidy to childcare providers lowers their costs, so supply shifts to the right, reducing the price of childcare and increasing the quantity provided. This allows parents, mostly mothers, to return to work, reducing economic inactivity, helping firms fill the 1.13 million vacancies, and increasing the productive potential of the economy.

Childcare costs could also be paid out of income before income tax, as with tax-free childcare, or firms could be given tax incentives, subsidies or grants to provide free childcare for their employees. This reduces the effective cost of childcare for working parents and increases the incentive to work, raising the supply of labour.

The government could also encourage more flexible working policies, which the BCC argues firms should adopt. This allows parents to enter the labour market while relying less on expensive childcare, for example by working from home or working around school hours.

A further policy is training and immigration. A key cause of high costs is a shortage of childcare workers, so government spending on training in childcare qualifications would increase the supply of staff. Expanding the Shortage Occupation List may be more



effective still, as it provides cheaper labour for childcare providers in the short run, lowering their wage costs and so the price of childcare.

However, supply-side policies are expensive and there is an opportunity cost: government spending on childcare cannot be spent on the next best alternative, such as healthcare or infrastructure, and may require higher taxes or borrowing. Subsidies may simply be absorbed by providers as higher profits rather than passed on as lower prices if the market is not competitive, and greater demand for subsidised places may push up prices if supply is inelastic. Such policies, especially training, can only be effective over the longer term.

In conclusion, government policies can help reduce the cost of childcare, with subsidies or free provision having the largest and quickest effect on the price parents pay.

However, their success depends on whether the supply of childcare workers can expand, so they are most effective when combined with training and reform of the Shortage Occupation List, and on whether the government is willing to bear the fiscal cost.



(h) With reference to Extract D, assess the impact of falling real pay on the UK economy.

(12)

Real pay is pay adjusted to take into account inflation, so it indicates the amount of goods and services that can be bought, in contrast to nominal wages. Extract D shows real pay in the UK fell in every month between April 2022 and December 2022, for example by 3.2% in May and by 4.4% in December 2022, compared with a rise of 7.8% in April 2021. This represents a sustained decrease in the purchasing power of UK households.

Falling real household income reduces consumer spending, and may also reduce consumer confidence, so households save rather than spend. As consumer spending is the largest component of aggregate demand (around 60%), this reduces AD, all else remaining equal, and through the negative multiplier effect real GDP falls by more than the initial fall in spending, lowering economic growth.

This decrease in AD may reduce sales revenues and profits for firms, especially those selling normal and luxury goods such as restaurants and leisure. Firms may then cut output and jobs, increasing unemployment. Lower consumption and higher unemployment also reduce tax receipts from income tax and VAT and increase welfare spending, worsening the budget deficit. Living standards fall, particularly for low-income households, increasing inequality and the number in relative poverty.

However, firms that sell inferior goods may see an increase in sales revenue and profits as real incomes fall, such as frozen food (which has a YED of -2.37) and discount supermarkets; Iceland increased its market share to 2.3% in 2023. Falling real pay also lowers real labour costs for firms, which may protect jobs and make UK exports more competitive.

In the long run, due to rising unemployment, wage expectations may fall and cost-push inflation may decrease, so the wage-price spiral feared by the Bank of England is

avoided. Unemployment may then fall in response to lower real wages, and economic growth may increase. With lower inflation in 2023 to 2024, it is likely that real pay will increase again, so the fall may be temporary. Households may also have run down savings built up during the pandemic, cushioning spending.

Overall, the evidence suggests falling real pay is likely to reduce aggregate demand and mean lower revenues and profits for most firms, slowing growth. The economic impact will depend upon the size of the reduction in real pay and the length of time over which real pay decreases: a fall of 2% to 4% each month for nine months is significant, but if inflation falls quickly the damage is likely to be short term.

(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS



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QUESTION 2 BEGINS ON THE NEXT PAGE



SECTION B

Read Extracts E–H in the Source Booklet before answering Question 2.

Write your answer in the space provided.

- 2 The water industry in England and Wales has been transferred into the private sector.

Evaluate the extent to which this has resulted in unintended consequences.

(20)

Privatisation is the transfer of firms or industries from the public sector to the private sector. Unintended consequences occur when actions taken by economic decision makers with a specific objective in mind lead to unexpected outcomes. In this case, an economic policy used by the government to achieve the objective of increased efficiency has had the unintended consequence of increased pollution.

Extract E shows that water and wastewater services in England and Wales were privatised in 1989 as a supply-side policy, with the stated aim of increasing efficiency and investment. In theory, efficiency is increased through profit-motivated firms reducing costs, increasing productivity through investment and operating in a competitive market. Privatisation introduces the profit motive into an existing sector, so firms have an incentive to cut waste and achieve productive efficiency, and shareholders put pressure on managers to perform.

However, the industry is dominated by a few large firms, such as Thames Water (revenue £2 177m in 2022 to 2023), Severn Trent (£1 943m) and United Utilities (£1 863m) (Extract F). Water is a natural monopoly and each firm is a regional monopoly, so consumers cannot switch supplier and there is no competition. Extract H shows that Ofwat has allowed these firms to charge inflated prices, at times giving returns on investment twice the appropriate rate expected for a utility. This is allocative inefficiency, as price exceeds marginal cost, and transfers consumer surplus to producers. The policy has created highly profitable firms which have paid record dividends to

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shareholders, but unintended consequences such as water pipe leakage and storm sewage emissions into rivers and coastal waters have been an increasing problem (Extract E).

The firms have failed to meet Ofwat's targets despite public outrage. This is a negative externality of production: the firms' marginal private cost (MPC) is below the marginal social cost (MSC) because the external cost of pollution to river users, wildlife, fishing and tourism is not paid for by the firm. As the diagram shows, the market produces at Q_1 where $MPC = MPB$ rather than the social optimum Q^* , so there is overproduction of the polluting activity, a welfare loss (the shaded triangle) and market failure.

This can be seen as an unintended consequence of the policy, where profits are made by charging high prices and lowering costs. Investing in new sewers and repairing leaking pipes is expensive and only pays off in the long run, so profit-maximising firms with short-term shareholders cut investment and pay dividends instead, letting sewage overflow into rivers.

Furthermore, the regulation of the sector has been ineffective. The behaviour of these large firms is regulated by three government agencies: Ofwat sets prices, service packages and investment levels and can issue fines; the Environment Agency monitors storm overflows and water quality; and the Drinking Water Inspectorate checks drinking water is safe (Extract G). Yet Extract H shows that corrective action has been hindered by asymmetric information, as polluters were left to self-report pollution events and widely under-reported them. Firms have been able to self-monitor and self-regulate, increasing the scale of the unintended consequences, which is an example of regulatory capture and government failure.

However, the extent to which these are unintended consequences can be questioned.

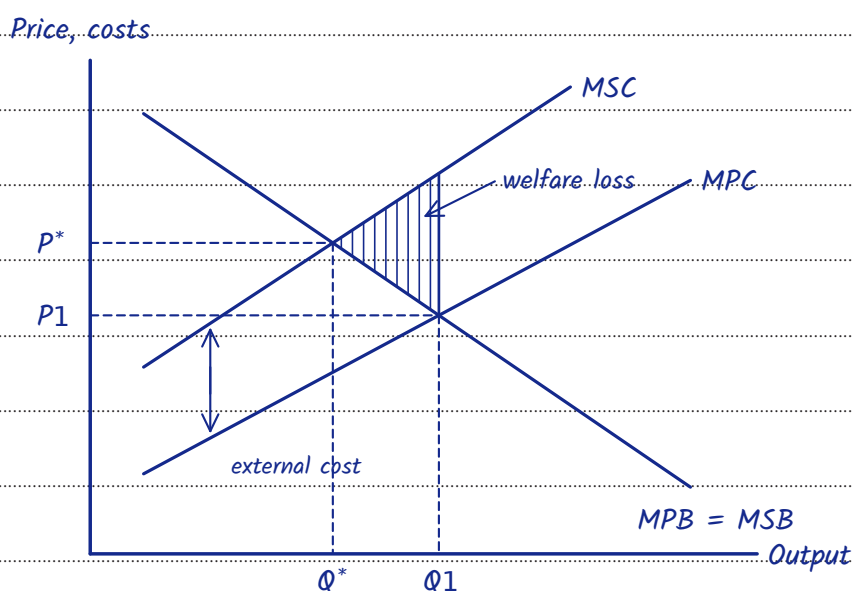
Some outcomes were intended and have been achieved: private firms have invested billions in infrastructure since 1989, drinking water quality is high, and the state no longer has to fund investment from taxation. Sewage overflows also occurred under

public ownership, and part of the problem is an ageing Victorian sewer system and more intense rainfall due to climate change, rather than privatisation itself.

In addition, it can be argued that the problems are due to weak regulation rather than privatisation. If Ofwat set tighter price caps ($RPI - X$), linked dividends to performance, and the Environment Agency carried out independent monitoring with large fines, firms would have an incentive to reduce pollution. Taxes on pollution would internalise the externality, shifting MPC towards MSC.

In conclusion, privatisation of the water industry has resulted in significant unintended consequences: high prices and excessive profits, under-investment and rising pollution.

These outcomes are largely the result of turning a natural monopoly over to profit-maximising firms without effective regulation, and asymmetric information made the problem worse. The extent of the consequences therefore depends mainly on the quality of regulation; with stronger, independent regulation the stated aims of efficiency and investment could still be achieved, but so far the costs to the environment and consumers suggest the policy has largely failed.



(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS



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SECTION C

Read Extracts I–L in the Source Booklet before answering Question 3.

Write your answer in the space provided.

- 3 Evaluate the impact on the UK economy of the decision to leave the EU.

(20)

The EU is a trade bloc, a customs union and single market, which allows the free movement of goods, services, capital and labour between member states, including agricultural products, with a common external tariff. When the UK officially left the single market on 1st January 2021, trade with the EU became governed by the Trade and Co-operation Agreement (TCA), a free trade agreement covering goods and a strictly limited number of services (Extract I).

Since the UK left the EU, UK exports to the EU have been subject to trade restrictions, including non-tariff barriers. Although the TCA is a zero-tariff, zero-quota agreement, exporters must prove their goods meet complex rules of origin, which takes time and generates paperwork, and goods without sufficient local content pay tariffs. Veterinary and sanitary certificates are required for meat, dairy and plant exports, and physical inspections take place at EU borders (Extract K). Different regulations, travel restrictions and the lack of recognition of professional qualifications can be a much greater barrier than tariffs. These increase the costs of exporting, so UK goods and services become less price competitive in their largest market, reducing export volumes, especially for small firms that cannot afford the compliance costs.

Extract J shows that the deficit in the UK balance of trade with the EU increased from £38 589m in 2021 to £82 822m in 2022 and £108 710m in 2023, the largest deficit in the period and higher than the £76 025m deficit in 2016. Since net exports ($X - M$) are a component of aggregate demand, a larger trade deficit reduces AD and, through the multiplier, may have reduced UK economic growth, output and employment

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in exporting industries such as manufacturing, fishing and financial services.

In April 2024 similar non-tariff barriers were imposed on EU agricultural imports, with physical checks at new UK border posts, as WTO rules require the UK to treat the EU like the rest of the world (Extract K). The cost of delays and damage to perishable goods raises costs for UK importers, firms and supermarkets, which may be passed on to consumers as higher food prices, adding to cost-push inflation and reducing real incomes.

The UK agricultural sector also no longer receives the subsidies provided by the EU common agricultural policy (CAP), and the replacement sustainable farming schemes have been delayed (Extract L). The government has under-spent the £2.4bn farming budget by hundreds of millions of pounds, so many farmers have seen incomes fall and are asking for a guaranteed minimum income. Lower incomes reduce investment in farming and may lead some farms to close, harming rural economies. In addition, the end of free movement of labour has contributed to labour shortages in sectors such as agriculture, hospitality and care, raising wage costs and reducing aggregate supply.

However, the non-tariff barriers on imported agricultural products from the EU have only just been introduced, and they may reduce the value of imports from the EU, reducing the trade deficit. The extent to which this happens depends on whether imports from the EU are substituted by imports from non-EU countries, as this would sustain the overall trade deficit, or by UK production, which would raise UK output and jobs.

Leaving the EU also gives the UK freedom to set its own policies. The increasing replacement of EU subsidies with UK schemes for agriculture is designed around environmental goals and, once fully implemented, may improve incomes in the agricultural sector. The UK can negotiate its own trade agreements with other countries and trade blocs, such as those with Australia and New Zealand and joining the CPTPP, giving access to fast-growing markets in Asia. The nature of these agreements will

affect the UK balance of trade in the long run. The UK also no longer pays a net contribution to the EU budget, freeing funds for government spending.

It is also difficult to isolate the impact of leaving the EU, as the period from 2020 to 2023 included the Covid-19 pandemic and the energy price shock after the invasion of Ukraine, which also increased the cost of imports and widened the trade deficit. The 2020 and 2021 figures were distorted by the pandemic, and part of the large deficit in 2022 to 2023 reflects higher import prices rather than lower export volumes.

In summary, the evidence suggests that so far the costs of leaving the EU have exceeded the benefits for the UK economy: non-tariff barriers have raised trade costs, the trade deficit with the EU has widened sharply, and farmers have lost income from delayed subsidies. The overall impact depends on the time period: in the short run the costs dominate, but in the long run the impact depends on whether new trade agreements and UK-designed policies can offset the loss of easy access to the EU single market, which remains the UK's largest trading partner.

(Total for Question 3 = 20 marks)

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



Pearson Edexcel Level 3 GCE

Monday 19 May 2025

Afternoon (Time: 2 hours)

Paper
reference

9EB0/02

Economics B

Advanced

PAPER 2: Competing in the global economy

Source Booklet

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Sources for use with SECTION A

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

Extract A

UK strikes in 2022–2023

The National Health Service (NHS) suffered a junior doctor strike that was described as, “The most disruptive industrial action in NHS history,” by NHS England’s national medical director. Junior doctors demanded a 35% pay increase to make up for what they argued were 15 years of below-inflation pay rises.

5

The Health Secretary accused the British Medical Association, the doctor’s trade union and professional body, of taking a “militant stance” in negotiations. His comments increased tensions between employers and trade unions.

Hundreds of thousands of UK workers took strike action about pay over the winter of 2022–2023. The disputes were also over working conditions, including working hours, pensions and holiday entitlement. This involved train drivers, NHS nurses, civil servants and postal workers. In addition, the National Education Union (NEU) rejected a pay offer leading to school strikes in England in 2023.

10

Striking workers do not get paid for the days when they strike. This not only reduces employee motivation and productivity but can significantly reduce consumer spending in the economy.

15

(Source: adapted from <https://www.independent.co.uk/news/uk/home-news/strike-dates-2023-april-tfl-neu-b2317675.html>)

Extract B

Labour shortages are slowing economic growth

In February 2023, the Head of People Policy at the British Chambers of Commerce (BCC), an organisation representing UK business, said that, "Firms cannot fill job vacancies at all skill levels. This must be the number one focus for government if it is serious about economic growth. There are still a huge number of vacancies, currently 1.13 million. It means firms are struggling to meet both domestic and export orders, putting firms' plans for growth far out of reach. It is also increasing pressure on wages. This has been identified by the Bank of England as a factor in its decisions to raise interest rates in order to reduce inflation.

5

The government plans to get the UK's economically inactive into employment but we need to see more action to address the barriers to employment. The Spring Budget of 2023 represented an opportunity for the use of fiscal policies to ease the pressure on family members who have been forced out of the labour market by high childcare costs.

10

Firms should be adopting flexible working policies and supporting staff training needs to reduce skills shortages and increase productivity. Government should reform the Shortage Occupation List to help firms fill urgent job vacancies from outside the UK when they cannot recruit locally."

15

(Source: adapted from <https://www.britishchambers.org.uk/news/2023/02/labour-shortage-a-huge-dragon-economic-growth>)

Extract C

Changing food expenditure in January to March, 2023

25% of UK shoppers say they are buying more frozen food, according to a survey of 2,000 British adults by the pollster *Opinium* on behalf of *Zipzero*, an app that purchases shoppers' receipt data. The poll found that 30% of people are buying more food from the discount section of supermarkets to try to save money and 21% are buying less meat and fish.

5

Zipzero's Chief Executive said that, "Very high food inflation has shifted consumer habits. Britons have been forced to drastically change where they shop. What they are buying is changing too. Whether it be trying cheaper brands, turning to a more vegetarian diet or stocking up on frozen goods, British consumers are finding solutions to reduce their spending on food. However, there are only so many cost-cutting measures that Britons can take."

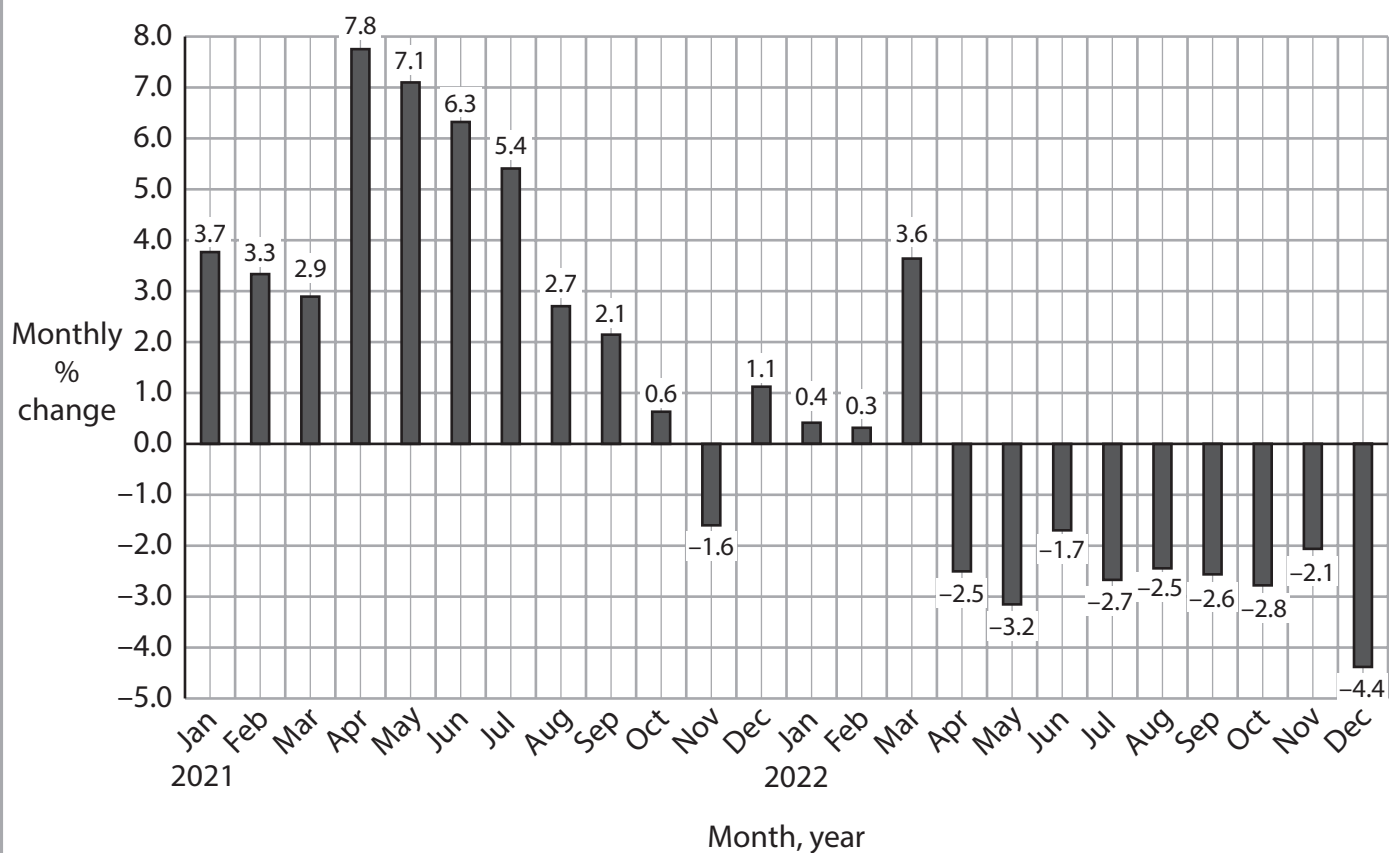
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The frozen food specialist, *Iceland*, performed strongly in the battle for market share, increasing it to 2.3% of UK grocery spending in the first quarter of 2023.

(Source: adapted from <https://www.theguardian.com/business/2023/apr/14/shoppers-in-great-britain-switch-to-frozen-food-amid-cost-of-living-crisis>)

Extract D

Real average monthly pay growth in Great Britain, seasonally adjusted, January 2021 to December 2022



(Source: adapted from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/february2023>)

Sources for use with SECTION B

Read the following extracts (E–H) before answering Question 2.

Extract E

Water privatisation

Since the transfer of the provision of water and wastewater services in England and Wales from the state to the private sector in 1989, the industry has been dominated by a number of large water companies. As a supply-side policy, the stated aim of the policy of privatisation was to increase efficiency and investment. The industry would then be driven by the profit motive once out of state ownership.

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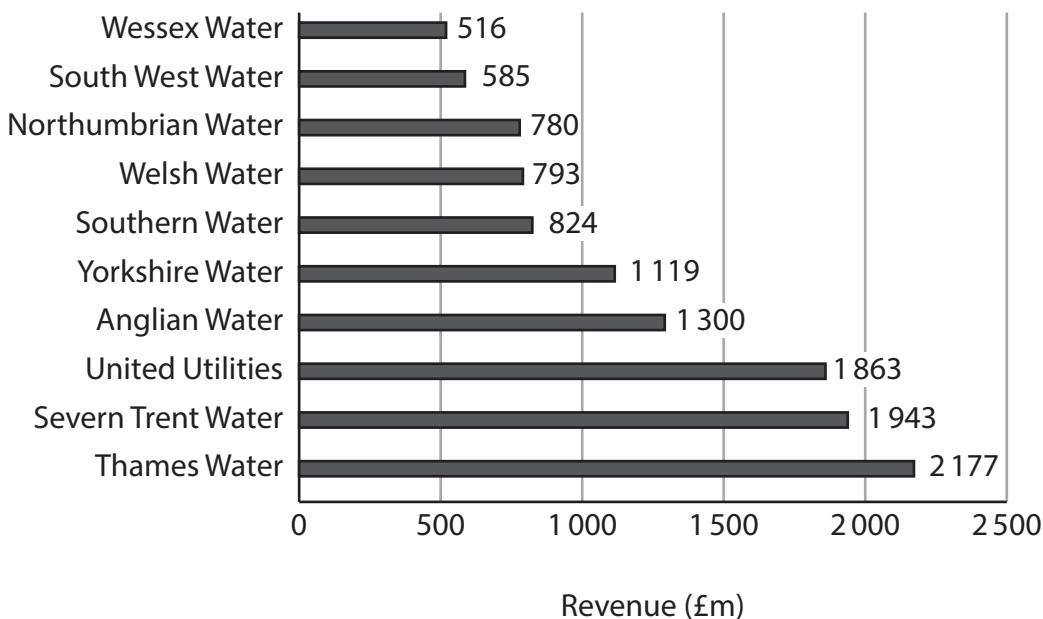
However, while many of these highly profitable water companies have paid record dividends to shareholders, they have failed to meet targets agreed with the industry regulator, Ofwat. For example, they have failed to meet targets to reduce water pipe leakage and storm sewage emissions into rivers and coastal waters. This is despite public outrage at levels of pollution.

10

(Source: adapted from <https://www.birmingham.ac.uk/news/2023/drowning-in-debt-the-over-privatisation-of-englands-water>)

Extract F

Revenue of selected water and wastewater companies in England and Wales, in the financial year 2022–2023 (£m)



(Source: adapted from <https://www.statista.com/statistics/1179995/leading-water-and-sewer-utilities-companies-in-the-united-kingdom/>)

Extract G

Regulation of the water industry in England and Wales

Ofwat is the independent economic regulator of water companies in England and Wales. It is responsible for setting the price and the service package that customers receive, as well as the level of investment made by the companies. It grants licences to water and wastewater companies to allow them to operate and can issue penalties, such as fines, to companies that do not meet the conditions of their licences.

5

The Environment Agency is responsible for regulating water quality and resources, as well as overseeing the environmental performance of water companies. It monitors storm overflow use and tests water quality.

The Drinking Water Inspectorate regulates the quality of drinking water in England and Wales. It checks that water companies in England and Wales supply water that is safe to drink and meets the standards set out in regulations.

10

(Source: adapted from <https://lordslibrary.parliament.uk/river-pollution-and-the-regulation-of-private-water-companies/>)

Extract H

Profit and pollution

The regional, privatised monopolies which make up the water industry have been allowed by the regulator, Ofwat, to charge inflated prices. This has, at times, resulted in returns on investment twice the appropriate rate expected for a utility firm.

Externalities are notorious, notably the widespread release of raw sewage into rivers and onto beaches. Corrective action by regulators over these externalities has been hindered by asymmetric information. Polluters have been left to self-report pollution events but have widely under-reported them.

5

(Source: adapted from <https://blogs.lse.ac.uk/politicsandpolicy/regulating-the-failing-water-and-sewage-industry-lessons-from-the-accounting-profession/>)

Sources for use with SECTION C

Read the following extracts (I-L) before answering Question 3.

Extract I

The Trade and Co-operation Agreement (TCA)

The UK signed a trade agreement with the EU on 30th December 2020. The TCA is a comprehensive free trade agreement that covers goods and a strictly limited number of services.

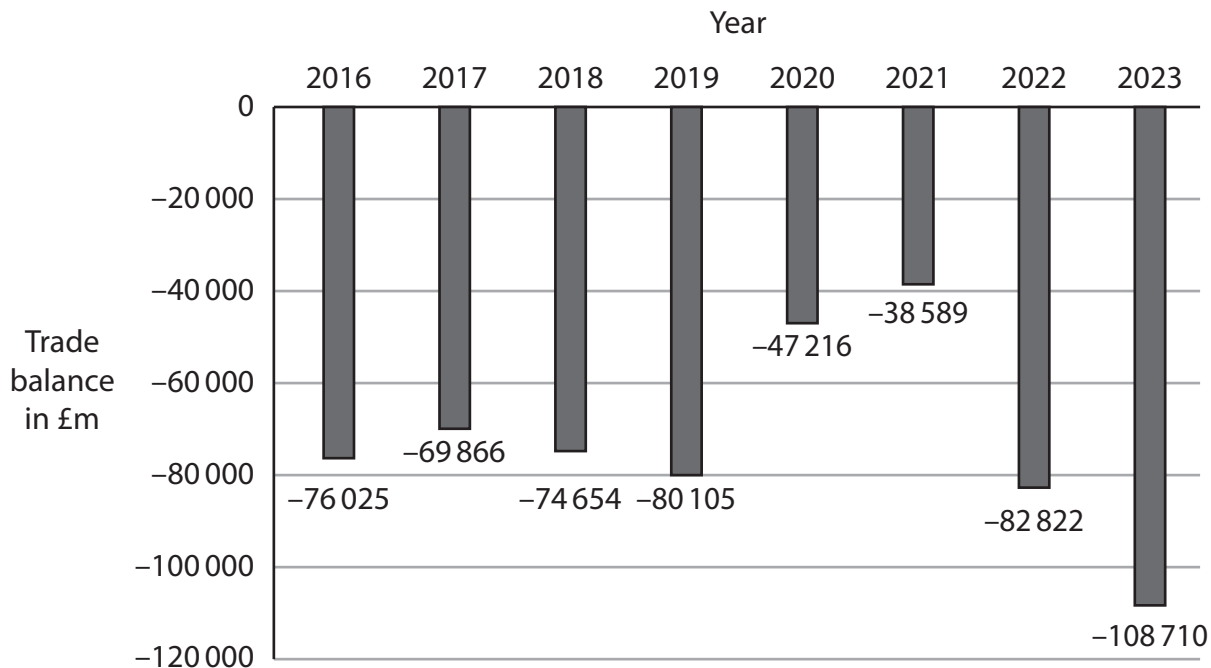
Although it is a 'zero-tariff, zero-quota' agreement, this does not mean that all UK goods automatically enter the EU tariff-free. To avoid paying tariffs, UK exporters must prove their goods are sufficiently 'locally made' to qualify for tariff-free access. The trade deal lays down complex rules that firms must follow - 'rules of origin' - specifying exactly how to calculate whether a good is sufficiently 'local' to enter tariff-free. This takes time and generates paperwork. Goods without sufficient 'local content' pay tariffs when they enter the EU. 5 10

Tariffs are only one small element of what restricts trade across borders. Different regulations, restrictions on travel and recognising professional qualifications ('non-tariff barriers' or NTBs to trade) can be a much greater barrier to cross-border exchange.

(Source: adapted from What Went Wrong with Brexit by Peter Foster, 2023)

Extract J

UK balance of trade with the European Union in goods and services from 2016 to 2023



(Source: adapted from <https://www.statista.com/statistics/551585/united-kingdom-uk-trade-balance-with-eu/>)

Extract K

UK and EU trade

When the UK officially left the single market on 1st January 2021, veterinary and sanitary certificates for meat, dairy and plant products were required for all UK exports crossing the Channel to mainland Europe. Physical inspections were also introduced at EU borders.

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World Trade Organisation (WTO) rules state that UK trade borders with the EU need to match those of the rest of the world, so as not to give the bloc a trading advantage. Therefore, from April 2024 after many delays, animal and plant products coming from mainland Europe have to undergo physical checks at newly installed UK border posts.

The biggest unknowns are the cost of delays at the border and the cost of damage to delayed, perishable goods. Importers of meat, dairy and plant products from mainland Europe are finally having to manage the most significant change in how goods arrive in the UK since it left the single market three years ago.

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(Source: adapted from <https://www.theguardian.com/business/2024/jan/27/its-impossible-to-plan-uk-importers-braced-for-storm-at-ports-amid-new-brexite-checks#>)

Extract L

Farmers ask for a guaranteed minimum income

English farmers are calling for the government to guarantee them a minimum income, saying post-Brexit agriculture subsidy schemes have left many farmers much poorer.

The sustainable farming subsidy schemes, which were intended to replace the EU common agricultural policy (CAP), have been delayed. This means that many farmers in England have seen their incomes fall. The annual farming budget is £2.4bn. However, the delays have led the UK Government to under-spend by hundreds of millions of pounds.

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(Source: adapted from <https://www.theguardian.com/environment/2024/apr/04/british-farmers-want-basic-income-to-cope-with-post-brexit-struggles>)

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