



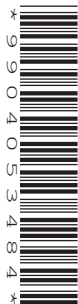
Oxford Cambridge and RSA

Wednesday 15 May 2024 – Morning

A Level Economics

H460/01 Microeconomics

Time allowed: 2 hours



You can use:

- a scientific or graphical calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

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Last name

StemUp Model Solution

INSTRUCTIONS

- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **20** pages.

ADVICE

- Read each question carefully before you start your answer.

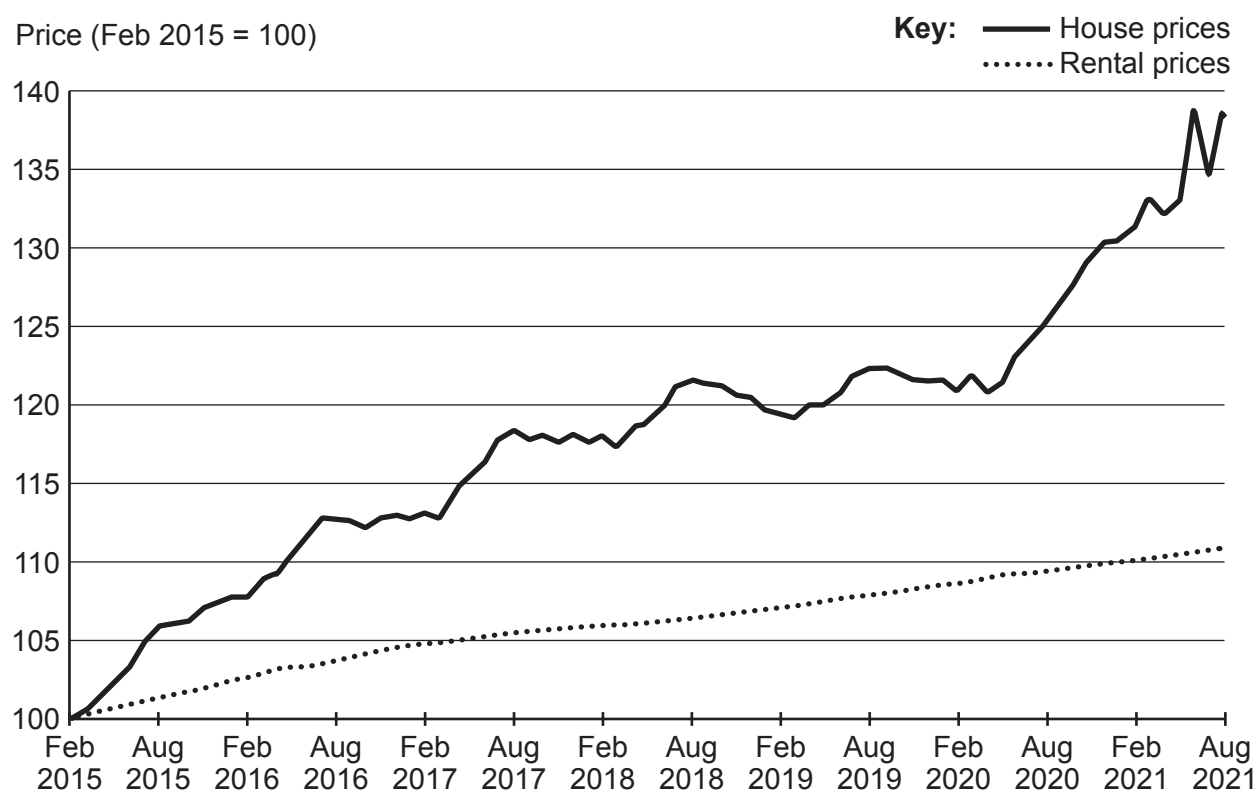
Section A

Read the stimulus material and answer **all** the parts of Question 1.

Is the UK housing market in crisis?

Between August 2020 and August 2021, average house prices in the UK rose from £239 000 to £280 825. 2021 was a record year for house sales in the UK. Very high demand continued, with many in the market saying that there is considerable shortage in supply. This prompted predictions that prices would continue to rise as they had since the start of 2020. (see Fig. 1).

Fig. 1
UK average house and rental price index



Partly due to competitive supply, trends in the market for houses also affected those wanting to rent properties. Record demand in 2021 for rental properties outside of London forced average rental prices up by 4.2%. At the same time, average rents in London fell by 7.8% in a year.

5

Converting empty shops into homes has been proposed as one way to increase the supply of housing and tackle the shortage of housing in the UK. A change to legislation in 2021 means that planning permission is no longer required to convert commercial buildings, such as shops, restaurants and gyms, into homes. However, critics highlight research which suggests that 89% of commercial buildings in the London Borough of Barnet could be lost due to the new legislation.

10

One private sector retailer taking advantage of changes in the law is John Lewis plc. During 2020 and 2021, John Lewis plc announced the permanent closure of 16 of its 50 UK department stores. In July 2021 it announced plans to convert some of its closed stores to create 100 000 new homes.

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The City of London Corporation is the public sector organisation responsible for managing the historic centre of London, known as 'The Square Mile'. It is responding to housing shortages by planning to convert empty office space into 1500 homes.

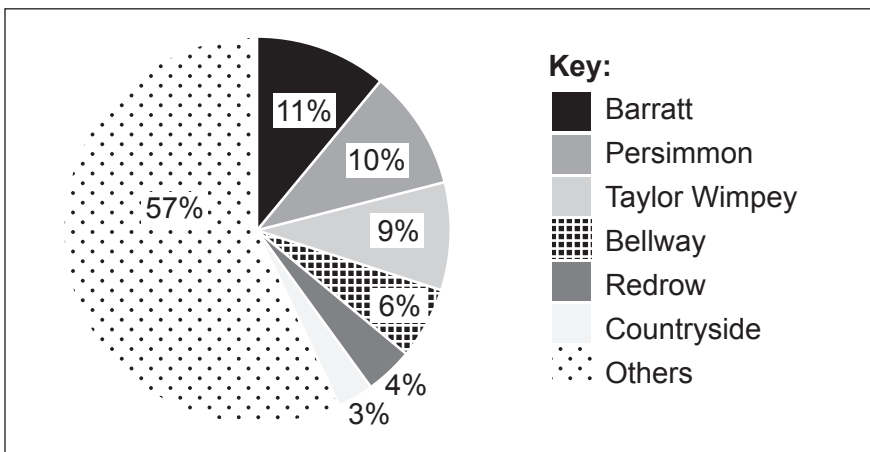
Regulations mean that all new homes must be of a high quality and meet legal space standards and building regulations. However, concerns have been raised about many new developments. Some politicians have complained that while more homes are needed, the necessary infrastructure (such as roads, schools, and doctors) will not follow.

20

There are also worries about the concentration of power in the housebuilding industry (see Fig. 2). In 2019, four of the UK's largest housebuilders – Barratt, Countryside, Persimmon and Taylor Wimpey had a relatively large market share. Some economists and politicians suggested these companies were acting as a cartel, deliberately slowing down construction and controlling competition.

25

Fig. 2
Market share of UK housebuilders – 2019



According to the House of Lords' Economic Affairs Select Committee, "The UK's big developers [housebuilders] have become far too powerful with the result that profit margins can be as high as 30%." Instead of competing on quality and price, each housebuilder focuses on separate geographical locations giving potential house buyers little choice. As smaller housebuilding firms continue to go out of business, six of the largest housebuilders own more than one million sites ready for new building.

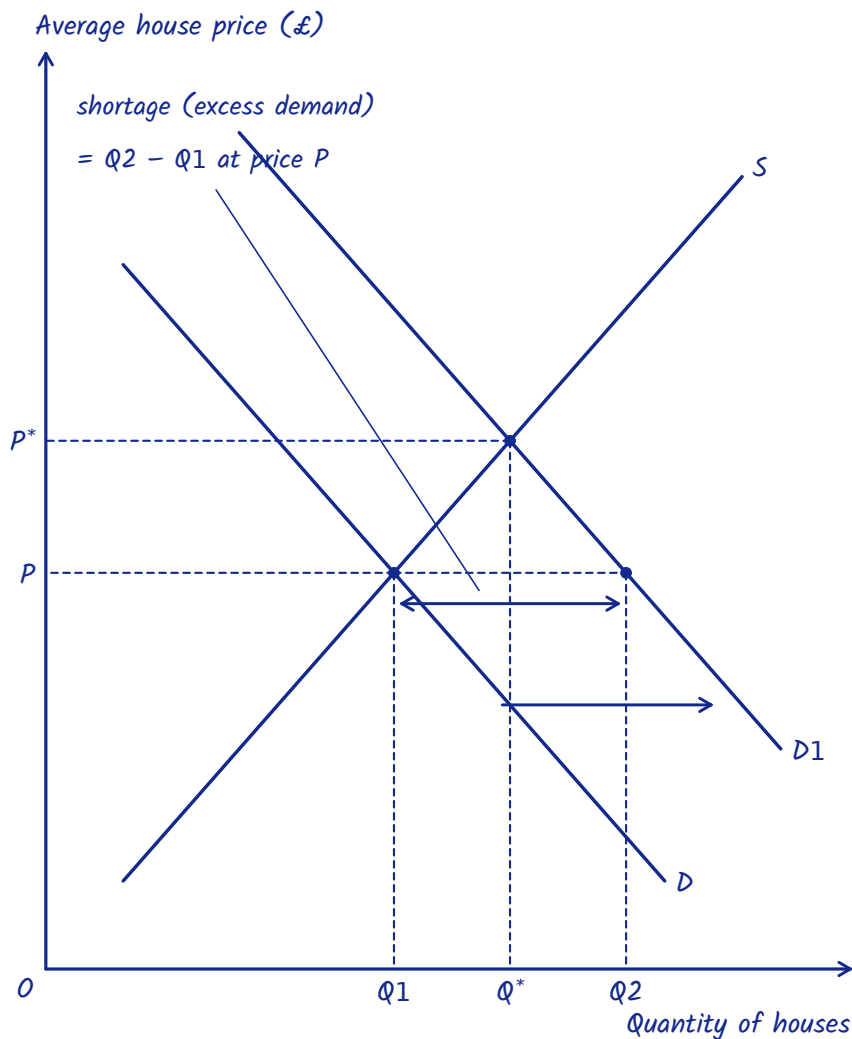
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1

(a) Explain what is meant by 'competitive supply'.

Competitive supply occurs when the same factors of production (land, labour, capital) can be used to produce alternative products, e.g. a developer's land and builders can supply either homes for sale or homes to rent. So increasing the supply of one good requires a reduction in the supply of the other, as resources are diverted away from it. [2]

(b) Explain, using an appropriate diagram, the situation in the housing market described in lines 1–3.



Very high demand shifts D to $D1$. At the current price P , quantity demanded ($Q2$) exceeds quantity supplied ($Q1$), a shortage, so P is below the new equilibrium price P^* . As supply is price inelastic, the excess demand puts upward pressure on prices, explaining the rise from £239,000 to £280,825. [4]

(c) Refer to Fig. 1.

- (i) Calculate the percentage change in average house prices between August 2020 and August 2021.

$$\begin{aligned} \text{\% change} &= (\pounds 280\,825 - \pounds 239\,000) \div \pounds 239\,000 \times 100 \\ &= \pounds 41\,825 \div \pounds 239\,000 \times 100 \\ &= 17.5\% \text{ increase} \end{aligned}$$

[2]

- (ii) Compare the trend in average house prices and rental prices between 2015 and 2021.

Both average house prices and rental prices increased, but house prices rose at a much faster rate: by about 38% (index 100 to 138) compared with about 11% for rents (100 to 111), roughly three times as much. House prices were also more volatile, e.g. flat in 2016 to 2018, then rising sharply after 2020, while rents rose steadily.

[2]

Question continues on the next page

- (d) "A change to legislation in 2021 means that planning permission is no longer required to convert commercial buildings...into homes." **Lines 9–11.**

Evaluate, using evidence from the stimulus material, the effectiveness of reducing regulation, such as planning permission, in order to increase the supply of housing and tackle the shortage of housing in the UK.

Regulation is the use of rules by government to control production and consumption in a market. Planning permission acts as a barrier to entry, because it adds time, cost and uncertainty for anyone wanting to build or convert property. Removing the need for planning permission to convert shops, restaurants and gyms into homes lowers entry barriers and the cost of supplying housing. New firms can enter the market: John Lewis plc plans to convert some of its 16 closed stores to create 100 000 homes and the City of London Corporation plans 1500 homes from empty offices. The supply curve of housing shifts to the right, so more homes are offered at each price, reducing the excess demand and shortage that pushed average prices from £239 000 to £280 825. More competition may also encourage innovation and dynamic efficiency, e.g. cheaper conversion methods. However, the effect may be limited. Conversions take time, so supply is price inelastic in the short run and the shortage persists. Other regulations remain: all new homes must meet legal space standards and building regulations, raising conversion costs and making some buildings unprofitable to convert. Large housebuilders own more than one million sites and may act as a cartel deliberately slowing construction, which deregulation does not tackle. Without infrastructure such as roads, schools and doctors, new homes may be unattractive to buyers. There is also a trade-off: 89% of commercial buildings in Barnet could be lost, reducing the supply of commercial property. Overall, reducing regulation will increase supply modestly, but its effectiveness depends on the cost of conversion, whether firms can profit from it and the behaviour of the large housebuilders. Given the size of the shortage, it is unlikely to be sufficient alone; combining it with subsidies for new entrants and investment in infrastructure would be more effective.

[8]

- (e)* Evaluate, using evidence from the stimulus material, the extent to which the UK housing market can be considered to be an oligopoly. [12]

An oligopoly is a market dominated by a few large, interdependent firms, with a high concentration ratio, high barriers to entry and differentiated products, where firms often use non-price competition and may collude.

There is evidence that housebuilding is an oligopoly. From Fig. 2 the three-firm concentration ratio is 30% (Barratt 11%, Persimmon 10%, Taylor Wimpey 9%), the four-firm ratio is 36% and the six-firm ratio is 43%. Moreover, each housebuilder focuses on separate geographical locations, so buyers in a local market have little choice; local concentration is much higher than national figures suggest, giving firms the ability to set prices.

Barriers to entry are high: six of the largest housebuilders own more than one million sites ready for building, so new firms struggle to obtain land, and smaller builders continue to go out of business. As entry is restricted, abnormal profits are not competed away, consistent with profit margins as high as 30%. Firms compete on location, quality and design (non-price competition) rather than on price.

There are also claims of collusion: economists suggest the big four acted as a cartel, deliberately slowing construction to restrict supply and keep prices high, which is typical of collusive oligopoly aiming at joint profit maximisation.

However, 57% of the market is supplied by other firms, so national concentration is low compared with classic oligopolies such as supermarkets; nationally the market looks closer to monopolistic competition. There is little evidence of price rigidity, a key prediction of the kinked demand curve: Fig. 1 shows prices rising almost continuously, flat only briefly in 2016 to 2018. The stimulus gives no direct evidence of interdependence, and the cartel claims are only suggestions. Also, the reduction in planning regulation lowers entry barriers, letting new firms such as John Lewis enter, making the market more contestable.

Overall, the UK housing market is only moderately concentrated nationally, but local

..markets show strong oligopolistic features: land banks as entry barriers, 30% profit.....
..margins and possible collusion. The extent depends on how contestable the market.....
..becomes, the sunk costs facing new entrants, the success of planning reforms and.....
..whether the CMA acts on collusion. I judge it a loose oligopoly nationally but a tight.....
..oligopoly locally.....

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Section B starts on the next page

Section B

Answer Question 2 or Question 3.

- 2* There are more than 10 million dogs in the UK, with 34% of UK households owning a dog. In 2023, demand for the services of dog walkers increased in the UK. Dog walkers operate in a monopolistically competitive market, similar to that for hairdressing and painting and decorating.

Evaluate, using an appropriate diagram(s), whether monopolistic competition benefits consumers.

[25]

OR

- 3* In March 2020 the Welsh Government introduced a minimum price for alcohol of £0.50 per unit. According to the minimum pricing formula in Wales, a 70 cl bottle of vodka priced at £9.75 in England would have to be sold at a minimum price of £13.12 in Wales.

Evaluate, using an appropriate diagram(s), the likely microeconomic effects of such minimum prices.

[25]

Question No. 2.....

..Monopolistic competition is a market structure with a large number of small firms, low.....
 ..barriers to entry and exit, and differentiated products, so each firm has a small degree.....
 ..of price-setting power. Dog walking fits this: with more than 10 million dogs and 34%.....
 ..of households owning one, there are many walkers, set-up costs are low, and each.....
 ..walker differentiates their service through reliability, group size, location and their.....
 ..relationship with owners, as do hairdressers and decorators.....
 ..Because the service is differentiated, each dog walker faces a downward sloping demand.....
 ..(AR) curve. In Diagram 1 a profit-maximising walker produces where $MC = MR$ at.....
 ..output Q_1 and charges P_1 . As P_1 is above average cost C_1 , the firm earns abnormal.....
 ..(supernormal) profit, the shaded area P_1abC_1 . The rise in demand in 2023 would have.....
 ..created exactly this situation.....
 ..However, abnormal profit attracts new entrants, and with low barriers new dog walkers.....
 ..enter the market. Each existing firm's demand falls and becomes more price elastic, as.....
 ..there are more close substitutes, so AR shifts left until it is tangent to AC (Diagram.....
 ..2). In the long run $P_2 = AC$ and only normal profit is made at Q_2 . Consumers benefit.....
 ..as price falls from P_1 to P_2 : profits are not earned at consumers' expense, unlike.....

Diagram 1: short run

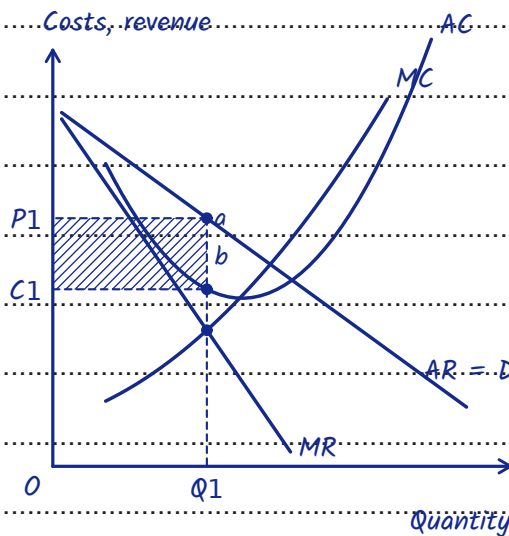
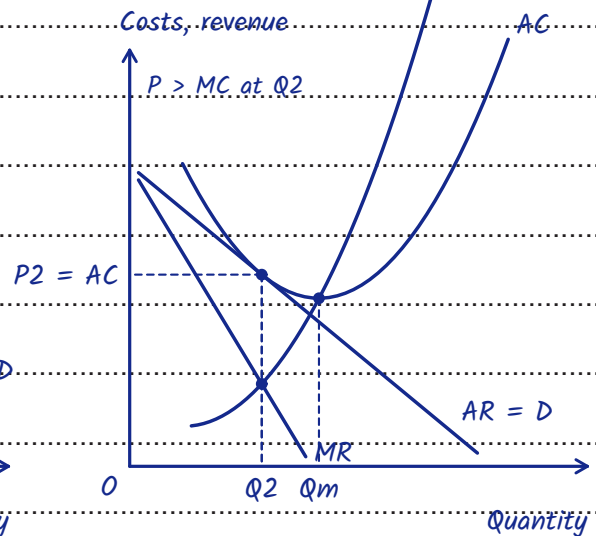


Diagram 2: long run



monopoly, where barriers to entry protect abnormal profit in the long run.

Consumers also benefit from choice. With many firms, consumers can select the service that best matches their preferences, e.g. solo walks for a nervous dog or cheaper group walks, which raises satisfaction and utility. Under perfect competition products are homogeneous, so this variety would not exist.

Low barriers to entry also protect consumers in the long run: if an existing dog walker raised prices or let quality fall, customers would switch and new walkers would enter quickly, so no firm can exploit consumers for long. The personal nature of these services also means firms respond to individual needs, such as flexible times for owners who work long hours, which a large firm offering a standardised service may not.

Product differentiation and competition also drive innovation: to capture consumers' attention firms develop new services such as GPS tracking, photo updates or loyalty discounts, and hairdressers adopt new styles and techniques. As consumers can easily switch to a rival, firms must keep quality high, a dynamic benefit to consumers.

However, monopolistic competition is not allocatively efficient. In Diagram 2, at Q_2 price P_2 is above MC , so consumers pay more than the marginal cost of the service and consumer surplus is lower than under perfect competition, where $P = MC$. It is also productively inefficient: Q_2 is to the left of the minimum point of AC (Q_m), so firms

have excess capacity, e.g. a walker who could take more dogs at a lower average cost.
 Prices are therefore higher than in a more efficient market structure.
 In the short run, before entry occurs, consumers pay prices above average cost, as in
 Diagram 1, so after the 2023 rise in demand dog owners may have faced higher prices
 for some time; how long this lasts depends on how quickly new walkers enter.
 Firms also spend resources on differentiation, such as branding, advertising and websites,
 which raises costs that may be passed on through higher prices. Some advertising may
 be misleading, so consumers pay more for features they do not really value. Small firms
 cannot exploit economies of scale, so average costs, and prices, stay higher than in a
 market of large firms.
 Information may be imperfect: consumers cannot easily judge the quality or
 trustworthiness of a dog walker or decorator before buying, so choices may not be
 optimal, and with so many options consumers may suffer choice overload, making
 decisions complicated and time-consuming.
 On balance, monopolistic competition does benefit consumers. The efficiency losses are
 likely to be small because the many close substitutes make each firm's demand highly
 price elastic, so the gap between P and MC and the excess capacity are small. It
 depends on the value consumers place on choice compared with price: for dog walking,
 where trust and personal care matter, variety is worth a slightly higher price. If
 consumers make a poor choice they can easily find a better walker, so losses are not
 significant. The alternatives deliver fewer benefits: perfect competition gives homogeneous
 services and monopoly gives even higher prices and less choice. Therefore monopolistic
 competition gives the best overall outcome for consumers in these markets, especially
 where online reviews reduce information gaps.

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Section C starts on the next page

Section C

Answer Question 4 or Question 5.

- 4* In May 2023, NHS waiting lists for routine hospital treatment rose to 7.42 m, the highest figure since records began in 2007.

Evaluate whether healthcare should be provided by the government.

[25]

OR

- 5* In recent years, labour mobility has not changed significantly in the UK. Governments seek to increase the mobility of labour using a range of policies.

Evaluate the impact an increase in labour mobility is likely to have on labour markets.

[25]

Question No. 4.....

Healthcare can be provided by the market, through private hospitals funded by fees or insurance, or by the government, as with the NHS, funded by taxation and free at the point of use. Government provision is a form of government intervention to correct market failure.

Healthcare has positive externalities: vaccination reduces the spread of disease to others, and a healthy workforce raises productivity. In a free market consumers consider only their private benefit, so $MSB > MPB$. In Diagram 1 the market consumes Q , where $MPB = MPC$, below the social optimum Q^* , where $MSB = MSC$, so healthcare is under-consumed and there is a welfare loss (shaded).

Healthcare is also a merit good: because of information failure people undervalue its private benefit (perceived $PMB < actual PMB$), e.g. skipping screening, and find it hard to value insurance. Government provision free at the point of use moves consumption towards Q^* , removing the welfare loss and improving allocative efficiency.

Government provision also reduces asymmetric information. Doctors know more than patients, so if paid per treatment in a private system they have an incentive to recommend unnecessary treatment; a salaried NHS doctor does not. Private insurance markets may also be missing for the elderly, children, those with congenital diseases or pre-existing conditions and remote rural areas, because insurers face high risks and

Diagram 1: positive externality

Costs, benefits

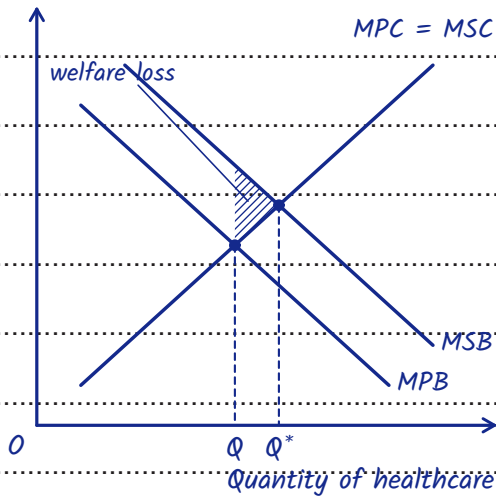
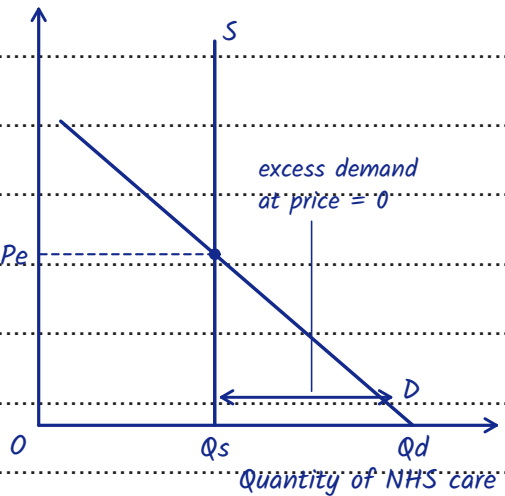


Diagram 2: NHS excess demand

Price



adverse selection. Government provision fills these missing markets.

Private insurance also suffers from moral hazard: once insured, people may take less care of their health or overuse services, raising premiums and pricing out low-risk and low-income people. In a free market, care would be allocated by ability to pay, so those with the greatest need, such as the elderly and chronically ill, who often have lower incomes, would receive the least care, widening health inequalities and reducing workforce productivity.

Equity is another argument: private healthcare insurance may be unaffordable for low-income households, so provision free at the point of use, based on need rather than ability to pay, is more equitable. Preventative treatment, such as breast, cervical and colon cancer screening, is cheaper than late treatment and is best organised nationally. Government provision may also be more efficient. The NHS operates close to capacity, reducing unit costs, and gains economies of scale and buying power for drugs. It eliminates transaction costs such as invoicing insurance companies and administration charges, which are high in private systems: the USA spends around 17% of GDP on healthcare compared with about 11% in the UK. The profit incentive can also misallocate resources ahead of patient needs.

However, there is a risk of government failure. As the price is zero, the price mechanism

does not ration healthcare. In Diagram 2, NHS capacity is fixed at Q_s by its budget, but demand at zero price is Q_d , so there is excess demand of Q_s to Q_d , rationed by waiting lists. This is shown by waiting lists rising to a record 7.42 m in May 2023. Long waits mean conditions worsen, causing lost output and higher treatment costs later. Without competition and the profit incentive, state providers have less incentive to cut costs or innovate, causing X-inefficiency, and patients have little choice. In private markets the price mechanism rations, signals and gives incentives: high prices signal shortages and encourage new providers to enter, increasing capacity, while competition increases choice and drives up standards. Budget constraints also limit what government can provide, and tax revenue has an opportunity cost, such as spending on education. Government also needs accurate information about the size of the external benefits to provide the socially optimal quantity Q^* ; if it overestimates MSB, resources are over-allocated to healthcare, and political pressure may direct spending towards visible targets rather than patient need. Moreover, a growing population and rising life expectancy increase demand for healthcare faster than tax revenue, so government provision may no longer be affordable or efficient without higher taxes, which may reduce incentives to work. Overall, positive externalities, information failure, missing markets and equity mean the government should ensure that healthcare is provided, but there are other solutions to market failure, and it need not provide all of it directly. The record waiting list shows that government failure is significant. The best approach depends on political will and on reform of the NHS to encourage greater efficiency. Alternatives include buying operations from private providers to cut waiting lists, or compulsory health insurance with means-tested basic healthcare for those on low incomes. I conclude that government should fund and largely provide core healthcare, especially emergency, preventative and chronic care where market failure is greatest, while using private capacity and competition to raise efficiency.

END OF QUESTION PAPER

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Diagram 1: minimum price

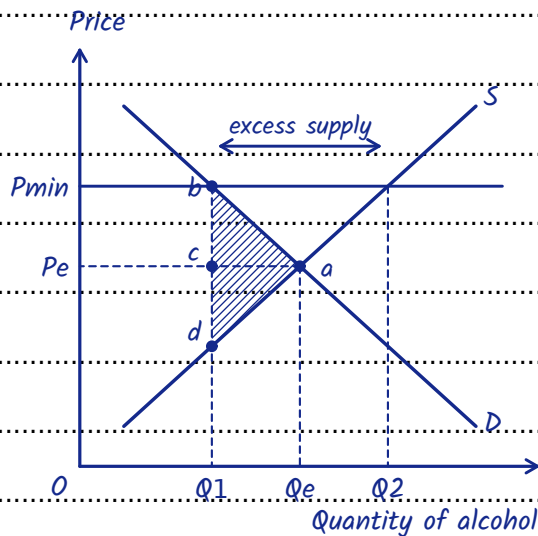
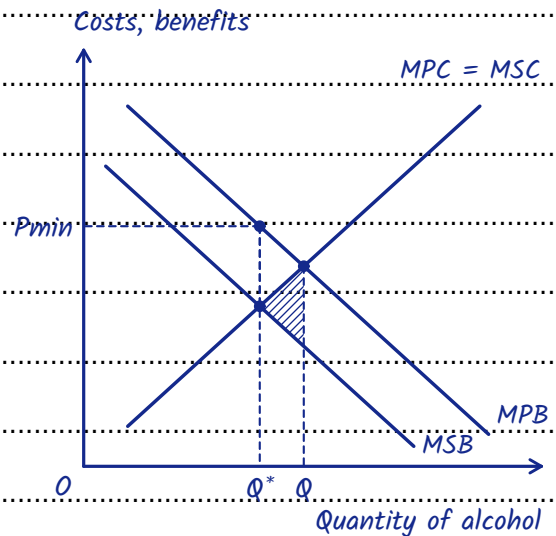


Diagram 2: externality



- 3 A minimum price is a price set by government legislation below which it is illegal to sell a good. To be effective it must be set above the free market price. In Wales the minimum is £0.50 per unit, so a 70 cl bottle of vodka must rise from £9.75 to at least £13.12, an increase of $(13.12 - 9.75) \div 9.75 \times 100 = 34.6\%$. Alcohol is a demerit good with negative consumption externalities: drinkers ignore the external costs of crime, anti-social behaviour and NHS treatment of alcohol-related illness. So $MSB < MPB$ and, in Diagram 2, the free market overconsumes at Q , where $MPB = MPC$, above the social optimum Q^* , causing a welfare loss (shaded).
- In Diagram 1 the minimum price raises the price from P_e to P_{min} and reduces quantity demanded from Q_e to Q_1 . If P_{min} is set at the right level, consumption falls to the socially optimal level Q^* (Diagram 2), removing the welfare loss. Lower sales of alcohol reduce external costs: fewer hospital admissions reduce pressure on healthcare services, and fewer working days lost raise workforce productivity, life expectancy and quality of life. Because minimum unit pricing raises the price of cheap, strong drinks most, such as supermarket vodka and strong cider, it targets heavy drinkers who create most of the external costs, while moderate drinkers

ADDITIONAL ANSWER SPACE

buying drinks already above £0.50 per unit are barely affected. The fall in consumption will be greatest where demand is more price elastic, such as among young drinkers on low incomes, a key target group for reducing harm.

There may also be increased demand for substitutes such as low or no-alcohol beers and wine or soft drinks, raising output and employment in those markets, depending on the cross elasticity of demand.

Because the minimum is based on alcohol content, producers have an incentive to reformulate products with lower strength, e.g. cutting the strength of cheap cider, which further reduces harm. Lower spending on alcohol frees income for other goods such as food and leisure, and reduced alcohol-related crime lowers policing costs, a further external benefit.

However, there are costs. Consumer surplus falls by area $P_eP_{min}b_a$ in Diagram 1, as consumers pay more and buy less. Producers gain area $P_eP_{min}b_c$ on units still sold but lose area cad on lost sales, so the change in producer surplus is $P_eP_{min}b_c - cad$. Unlike a tax, the extra revenue goes to retailers and producers rather than the government. There is a loss of economic welfare (area dba), and if producers supply more at the higher price there is excess supply of Q_1 to Q_2 , i.e. wasted resources.

Lower sales may reduce employment in alcohol production and retailing. The policy also affects income distribution: it is regressive, as low-income drinkers spend a larger share of their income on alcohol, so responsible low-income drinkers are penalised.

Retailers and producers keep the extra revenue from higher prices, so supermarkets may enjoy higher profit margins on alcohol; critics argue this rewards the industry rather than funding the treatment of alcohol harm. It also prevents supermarkets from selling alcohol as a loss leader below cost.

The key factor is price elasticity of demand. Alcohol is habit forming, so demand,

ADDITIONAL ANSWER SPACE

especially from dependent drinkers, is price inelastic; a 34.6% rise in the price of vodka may cause only a small fall in quantity, so the reduction in external costs is small, and dependent drinkers may cut spending on food or heating instead.

Cross-border shopping also matters: vodka is £3.37 cheaper in England, so people living near the border may buy alcohol there, reducing the effect on consumption and shifting sales to English retailers. A hidden, informal market in illegal or counterfeit alcohol could also develop, with dangerous products and lost tax revenue.

Overall, the minimum price is likely to reduce consumption of cheap, strong alcohol and the associated external costs, especially among heavy drinkers, but the size of the effect depends on PED, on the extent of cross-border shopping into England and on the size of any informal market. It also depends on whether £0.50 per unit is set at the level that achieves Q^* , which requires information about external costs that government may lack. The policy is most effective if combined with education and treatment for dependent drinkers. An alternative is an indirect tax, which raises revenue to fund treatment, but supermarkets can absorb a tax by cutting margins, which a minimum price prevents, so minimum pricing is a more reliable way to raise the price of the cheapest alcohol.

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Diagram 1: region gaining workers

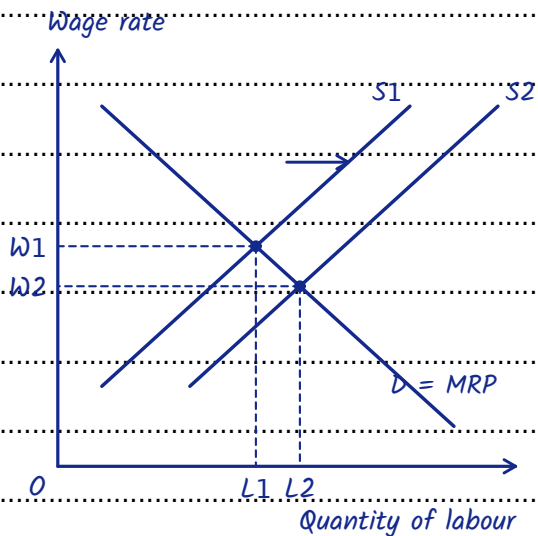
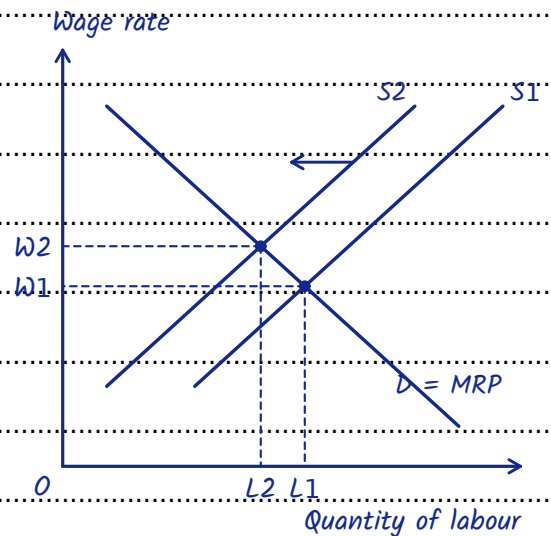


Diagram 2: region losing workers



5

Labour mobility is the ease with which workers can move between jobs.

Occupational mobility is the ability to move between occupations, limited by mismatched skills, lack of training and lack of labour market information;

geographical mobility is the ability to move between regions, limited by housing costs, family ties and search costs. Governments use policies such as retraining schemes, apprenticeships and relocation support to raise both.

Improved occupational mobility allows workers in declining sectors, such as manufacturing hit by technological change, to retrain for growing sectors such as IT and healthcare. For example, retraining former steel workers for jobs in renewable energy lets them use transferable engineering skills rather than remain unemployed. Workers previously unemployed or underemployed find work, so incomes and living standards rise and poverty and inequality fall. Human capital and labour productivity rise, so labour is allocated more efficiently, reducing labour market failure. Firms expanding into new markets can attract qualified labour more easily, so innovation and expansion do not meet supply constraints, and firms can respond quickly to changing market conditions, reducing costs and becoming more competitive.

ADDITIONAL ANSWER SPACE

Improved geographical mobility increases the supply of labour to markets attractive to workers, where there are shortages. In Diagram 1, as workers move into a region with labour shortages, supply shifts from S_1 to S_2 , the wage rate falls from W_1 to W_2 and employment rises from L_1 to L_2 , reducing the shortage. In Diagram 2, the region workers leave, supply falls from S_1 to S_2 , so wages rise from W_1 to W_2 and regional unemployment falls. Regional wage differentials narrow and labour market efficiency improves. A mobile workforce also helps regions adjust to asymmetric shocks, since workers can leave areas where jobs are scarce. If mobile workers are skilled, their higher productivity raises MRP, shifting the demand for labour right. The internet and social media now reduce the search costs of moving.

Greater mobility also makes labour supply more wage elastic, so a smaller wage rise attracts more workers to a market with shortages and labour markets adjust more quickly to changes in demand. It also reduces the monopsony power of dominant employers in local labour markets, since workers can leave for jobs elsewhere, pushing wages towards MRP and raising employment.

However, the impact may be limited by other factors such as the general availability of labour, the level of unemployment and trade union power. If demand is weak everywhere, workers have nowhere to move to, and if unions keep wages above equilibrium, extra supply raises unemployment rather than employment.

Increased supply may also push down wages in some occupations and regions, harming existing workers.

The quality of jobs matters too. The relative decline of manufacturing has caused many workers to lose well-paid, permanent manual work; with low education levels, the new opportunities are often temporary, insecure jobs, so workers feel that mobility requires a decline in employment status. An economy relying on high labour mobility can make labour markets more stressful, with workers relying on

ADDITIONAL ANSWER SPACE

zero-hour contracts without any guarantee of sufficient work.

High levels of net migration, internal or international, can also cause social issues in receiving areas, such as pressure on the limited housing stock, raising rents, and on education and health services. Regions losing workers may suffer a brain drain and further decline.

Mobility is also selective: the young and highly skilled are the most mobile, so regions losing workers lose their most productive labour, which may widen regional inequality, as with the North to South divide. Firms may also become reluctant to fund training if trained workers can easily leave for rivals, a free-rider problem that could reduce human capital in the long run.

Overall, an increase in labour mobility is likely to improve labour market efficiency, reducing shortages, structural unemployment and regional wage differentials.

However, the impact depends on the current performance and flexibility of UK labour markets, which are already relatively flexible, so gains may be modest. It also depends on time: improvements in occupational mobility are long term, depending on the time taken to train workers, the availability of training providers and changes to the education curriculum. The growth of working from home reduces the relevance of geographical immobility. Since mobility has not changed significantly, I judge that policies improving occupational mobility through training in shortage skills would have the greatest long-term impact.

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