



Oxford Cambridge and RSA

Monday 19 May 2025 – Afternoon

A Level Economics

H460/02 Macroeconomics

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** parts of Question 1.

What is the future for Bolivia?

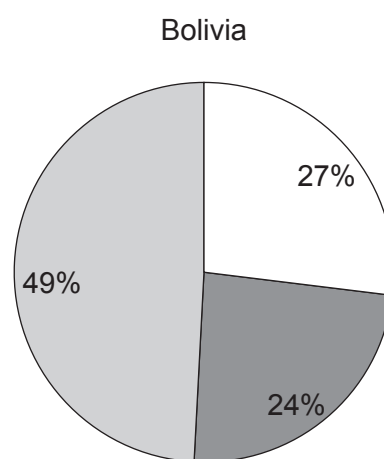
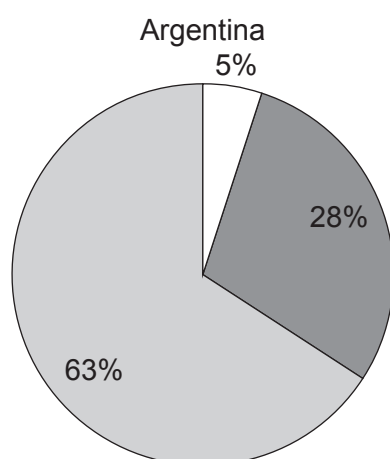
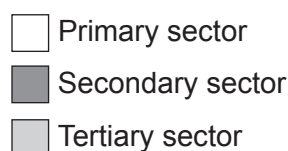
Export tariffs and quotas are imposed by a number of countries. Reducing exports can increase domestic supply which can affect the price of products sold on the home market and the country's tax revenue. It can also affect the supply of the country's raw materials available to rival foreign producers.

Both Argentina and Bolivia, impose export tariffs on soya beans. Argentina also imposes an export tariff on lithium, a rare earth metal used in the production of electric cars. Bolivia has the world's largest resources of lithium which it is just beginning to extract. Bolivia already mines gold, silver, nickel and other natural metals. Mining is part of the primary sector. Fig. 1 shows the share of the labour force in the different sectors in Argentina and Bolivia in 2021.

5

Fig. 1

Share of the labour force in the different sectors in Argentina and Bolivia 2021



Exporting lithium can affect Bolivia's terms of trade and the current account of its balance of payments. In 2021, Bolivia's terms of trade were 62 and its index of average export prices was 85.56. In that year, Bolivia had a surplus on its current account. It also had the lowest inflation rate in South America.

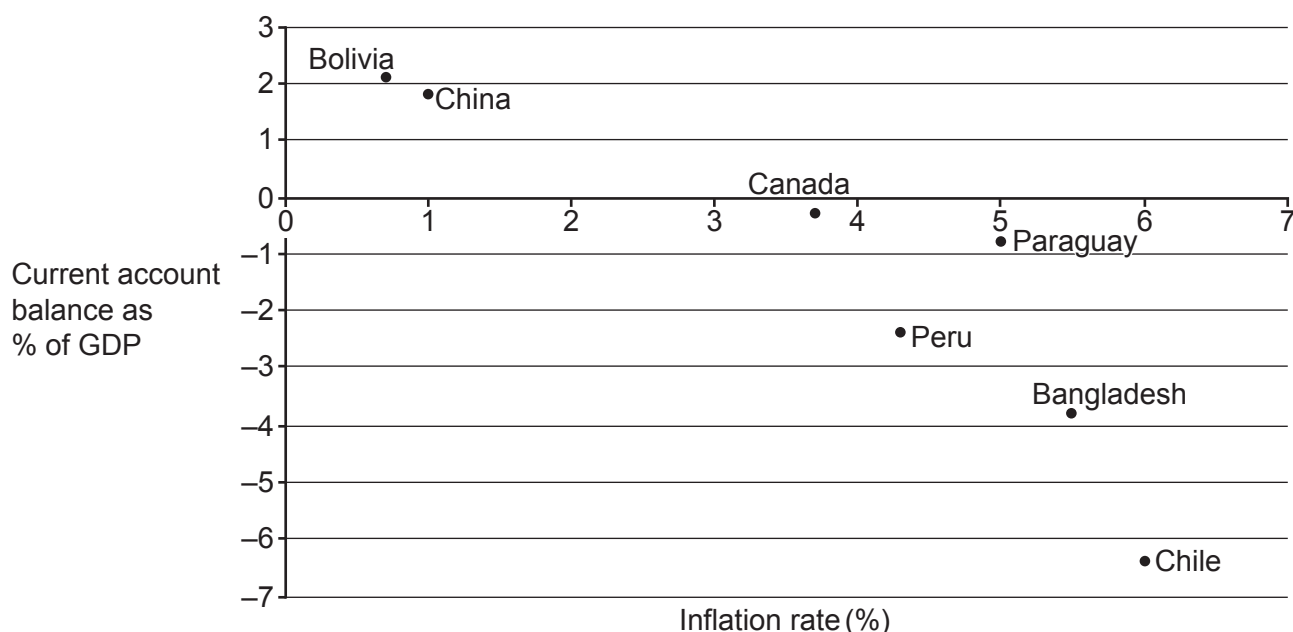
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Fig. 2 shows the inflation rate and current account balance as a percentage of GDP of selected countries in 2021, when the global average inflation rate was 3.5%.

15

Fig. 2

The inflation rate and current account balance as a percentage of GDP of selected countries 2021



A current account surplus can put upward pressure on a country's exchange rate. There are, however, other influences on a country's exchange rate. Bolivia has a fixed exchange rate against the US dollar. This fixed exchange rate has provided some certainty and is credited with helping to keep inflation low. In 2023, speculation put downward pressure on the exchange rate. Bolivia's central bank, Banco Central de Bolivia, intervened to support the value of the boliviano which significantly reduced the country's foreign exchange reserves.

20

As well as maintaining the exchange rate, the Banco Central de Bolivia manages the country's national debt. A country's national debt increases as a result of government budget deficits. Bolivia has had a government budget deficit for many years. A relatively high proportion of Bolivians work in the informal economy and do not pay any income tax. The country has a relatively low flat rate of income tax of 13%. Some economists suggest that a rise in this rate of income tax would increase government tax revenue and reduce the budget deficit. Others have suggested that Bolivia should introduce a progressive income tax system. Bolivia has the highest income inequality in South America, that is gradually reducing.

25

Bolivia has a standard rate of VAT of 13%. Additional indirect taxes are imposed on other products such as cigarettes, alcohol and luxuries, including perfume and cosmetics.

30

1

(a) Using information from the stimulus material, identify **two** reasons for imposing export tariffs.

1. *To raise government tax revenue from exports such as soya beans.*

2. *To increase domestic supply, which reduces the price of products sold on the home market.*

[2]

(b) Using Fig. 1, explain how Bolivia's level of development compared to Argentina's level of development in 2021.

Bolivia was less developed than Argentina: 27% of its labour force was in the primary sector compared with 5% in Argentina, and only 49% was in the tertiary sector compared with 63%. A large tertiary (service) sector is a characteristic of more developed economies.

[2]

(c) Calculate Bolivia's index of average import prices in 2021.

Terms of trade = (index of average export prices ÷ index of average import prices) × 100

62 = (85.56 ÷ import price index) × 100

Import price index = (85.56 ÷ 62) × 100 = 138 (138.0)

[2]

- (d) Using Fig. 2 and the stimulus material, explain the relationship between the inflation rate and current account balance of the selected countries in 2021.

The expected relationship is inverse (negative): countries with lower inflation tend to have a higher current account balance. Bolivia had inflation of about 0.7% and a surplus of about 2% of GDP and China about 1% and a surplus of 1.8%, while Chile had inflation of about 6.7% and a deficit of about 6% of GDP and Bangladesh 5.5% and a deficit of 3.8%. High inflation makes exports less price competitive and imports relatively cheaper, so exports fall, imports rise and the current account worsens. An exception is Paraguay, with inflation of 5%, well above the 3.5% global average, but a deficit of under 1%. Other factors also affect the current account, such as natural resource exports, exchange rates and investment income. [4]

Question continues on the next page

- (e) Using information from the stimulus material, evaluate whether Bolivia should keep a fixed exchange rate.

A fixed exchange rate is one where the central bank keeps the currency at a set parity against another currency; Bolivia pegs the boliviano to the US dollar. The central bank defends the peg by buying and selling its currency with foreign exchange reserves and by setting interest rates, so exchange rate stability takes priority over independent monetary policy. The main argument for keeping the peg is price stability. The peg acts as a nominal anchor for inflation expectations and stops import prices rising through depreciation, and it is credited with Bolivia having the lowest inflation rate in South America in 2021. The certainty reduces exchange rate risk for firms, which builds investor confidence and should attract the foreign direct investment. Bolivia needs to develop its lithium mines and encourage trade. It also stops the current account surplus pushing up the boliviano, so mining and soya exports stay price competitive. However, the peg is costly to maintain. In 2023 speculation reduced the demand for bolivianos from D1 to D2 in the diagram, so the Banco Central de Bolivia had to buy bolivianos with dollars to shift demand back to D1 and hold the rate at the peg e^* . This significantly reduced its foreign exchange reserves. If reserves keep falling, speculators may attack again and Bolivia could be forced into a sudden, large devaluation, causing instability and imported inflation. The [8]

(continued on page 16)

- (f)* Using information from the stimulus material, evaluate whether Bolivia's income tax revenue is likely to increase in the future.

Income tax is a direct tax on the income earned by individuals, such as wages and salaries.

Bolivia has a relatively low flat rate of 13%, and revenue depends on both the tax rate and the size of the tax base.

Revenue is likely to increase for several reasons. Bolivia has the world's largest resources of lithium, which it is just beginning to extract, and global demand is rising for electric cars.

Lithium exports are an injection that shifts AD to the right and, through the multiplier, raise real GDP and incomes. New formal jobs in mining draw workers from unemployment or the informal economy, widening the tax base, so more people pay income tax and those already paying earn more.

The government could also raise the 13% rate, as some economists suggest. The Laffer curve shows that tax revenue rises with the tax rate up to an optimum rate t^* . Since 13% is a low rate, an increase to t_1 is likely to move Bolivia up the curve, raising revenue from R_1 to R_2 .

Alternatively, a progressive income tax system would tax higher earners at higher marginal rates. Because Bolivia has the highest income inequality in South America, a large share of income goes to the rich, so taxing them more would raise significant revenue. As inequality gradually falls, more middle-income earners move into income bands that pay the tax.

However, a relatively high proportion of Bolivians work in the informal economy and pay no income tax. Unless the government brings these workers into the formal sector through better tax administration and enforcement, higher rates will raise little because they apply to a narrow base. Higher rates may encourage tax evasion, tax avoidance, tax exiles and more informal work, or reduce incentives to work; if the rate passes t^* , revenue would actually fall. Raising rates or introducing a progressive system also needs effective tax offices and political support, and could be resisted by the powerful elite.

Lithium revenue is also uncertain. The pace depends on how quickly the industry develops. [12]

(continued on page 16)

Section B

Answer Question 2 or Question 3.

- 2* In February 2023, the Bank of England raised the base rate of interest from 3.5% to 4%. There were concerns that this could reduce the country's economic growth rate.

Evaluate, with the use of an appropriate diagram(s), whether there is a conflict between the two economic objectives of low inflation and full employment. [25]

OR

- 3* In January 2023, Japan had an unemployment rate of 2.4%. It was considered to be achieving full employment.

Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will benefit an economy. [25]

Question 2.....

Inflation is a sustained increase in the general price level over a period of time, measured in the UK by the Consumer Prices Index (CPI). Low inflation means prices rise slowly and steadily, and the UK target is 2% $\pm$ 1%. Full employment is when all those willing and able to work at the going wage rate are employed, except for those temporarily between jobs (frictional unemployment). A conflict exists if achieving one objective makes it harder to achieve the other.

In the short run there is likely to be a conflict. When the economy grows quickly, AD may increase faster than aggregate supply, causing demand-pull inflation. In February 2023 the Bank of England raised the base rate from 3.5% to 4% to reduce inflation. Higher interest rates raise the cost of borrowing and the reward for saving, and increase mortgage repayments, so consumption and investment fall. Higher rates also attract hot money inflows, causing the pound to appreciate, so UK exports become less price competitive and net exports fall. In Diagram 1, instead of AD rising from AD to AD₂, which would raise real GDP to Y₂ but push the price level to P₂, the rate rise means AD only rises to AD₁. Inflationary pressure is reduced (P₁ instead of P₂), but output is only Y₁. Through the negative multiplier, lower spending reduces the derived demand for labour, so cyclical unemployment rises and the economy moves away from full employment. This is why there

were concerns that the rise would reduce

economic growth.

The conflict is clearest near full capacity. On a

Keynesian AS curve, when there is spare capacity

AD can rise with little inflation, but as the

economy approaches full employment, firms

compete for scarce labour and raw materials,

wages and costs rise, and further increases in AD

mainly raise prices rather than output. The

short-run Phillips curve (SRPC) in Diagram 2

shows this trade-off: reducing unemployment from U_1 to U_2 raises inflation from 2% to

5%, as a tight labour market gives workers more bargaining power and higher wages are

passed on in prices. The policymaker must choose a point on the curve.

The conflict is even sharper with cost-push inflation. External shocks, such as the energy

price spike in 2022, shift SRAS to the left, causing stagflation: higher inflation and lower

real GDP together. Raising interest rates to bring inflation back to target then reduces

demand further and deepens the downturn, so more aggressive tightening may be needed

and unemployment worsens.

However, in the long run there may be no conflict. Monetarists argue that the long-run

Phillips curve (LRPC) is vertical at the natural rate of unemployment (NAIRU), U^* in

Diagram 2. If the government tries to push unemployment below this, workers' inflation

expectations adjust upwards, the SRPC shifts up and unemployment returns to U^* at a

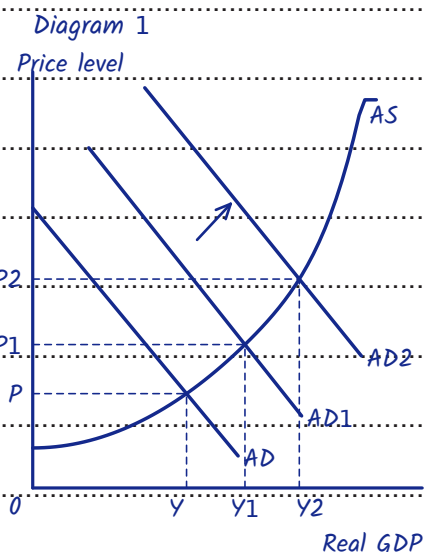
higher rate of inflation. Full employment is best defined as the natural rate, and this is

consistent with any stable inflation rate, so keeping inflation low does not prevent full

employment in the long run.

Low inflation can also support full employment. Low and stable inflation creates a stable

macroeconomic environment, which boosts business confidence and investment and keeps UK



goods internationally competitive, creating jobs. In turn, full employment raises output and tax revenue and reduces welfare spending, creating fiscal space for supply-side investment. Supply-side policies, such as improving skills, training and infrastructure, shift LRAS to the right, so the economy can grow without inflationary pressure and both inflation and unemployment can fall together. Even higher interest rates can lower inflation without much unemployment: an appreciation of the pound reduces the cost of imported raw materials, lowering firms' costs of production and shifting SRAS to the right, which lowers the general price level and raises real GDP. If inflation expectations are well anchored because the Monetary Policy Committee is credible, only small rate rises are needed, reducing the trade-off.

The extent of the conflict depends on several factors. It depends on the stage of the economic cycle: with a large negative output gap, AD can rise without inflation. It depends on the type of inflation: demand-pull inflation can be reduced by cooling demand at the cost of some jobs, whereas cost-push inflation

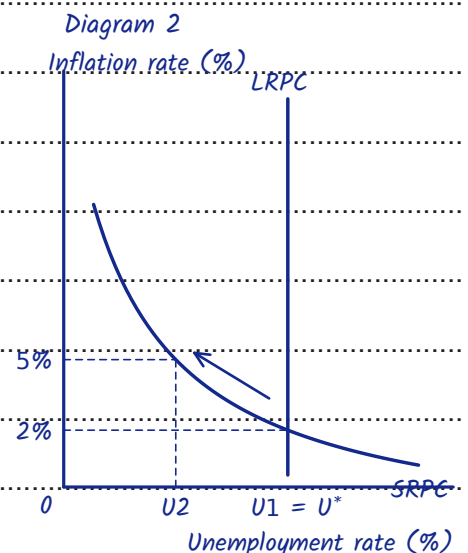
creates the hardest trade-off. It depends on the credibility of policy and expectations, and on the flexibility of labour and product markets. There is also the risk of hysteresis: if tight policy causes long-term unemployment, workers lose skills and leave the labour force, raising the natural rate of unemployment and making full employment harder

to reach in future. In 2023 the UK had both

high inflation, caused largely by energy costs, and

a tight labour market with unemployment of around 4%, so the base rate rise did risk slowing growth.

In conclusion, there is a conflict between low inflation and full employment in the short run, especially when the economy is overheating or recovering from a supply shock, as in



2023. However, in the long run this conflict may disappear if inflation is kept low and stable, because low inflation creates a better environment for investment and job creation, and supply-side policies can raise LRAS so that both objectives are achieved together.

Section C

Answer Question 4 or Question 5.

- 4* The Central African Republic has a very uneven distribution of income and a low Human Development Index (HDI) value.

Evaluate whether a very uneven distribution of income will result in a country having a low HDI value. [25]

OR

- 5* In 2023 the BRICS (Brazil, Russia, India, China and South Africa) overtook the G7 countries in their share of world GDP.

Evaluate whether the UK government should increase trade restrictions on the BRICS. [25]

Question ..4.....

An uneven distribution of income, or income inequality, is when a small proportion of the population receives a large share of national income, creating a large gap between the rich and the poor. It is shown by a Lorenz curve and measured by the Gini coefficient. The Human Development Index (HDI) is a composite measure of development combining three dimensions: health, measured by life expectancy at birth; education, measured by mean and expected years of schooling; and standard of living, measured by GNI per capita (PPP). It ranges from 0 to 1, and a low HDI means poor health, education and income standards. The Central African Republic (CAR) has both a very uneven distribution of income and a low HDI. In the diagram, the further the Lorenz curve is from the line of equality, the more unequal the distribution. The Gini coefficient is $\text{area } A \div (A + B)$, so CAR's curve would be far from the diagonal with a high Gini coefficient. If income is concentrated in the hands of a small elite, most of the population lives in absolute poverty, even if average income looks higher. A very uneven distribution leads to a low HDI because poorer people have limited access to healthcare, nutrition, clean water and decent housing, so life expectancy is low. Poor families cannot afford school fees, uniforms or the lost income from children not working, so children leave school early and mean years of schooling are low. Two of the three HDI

components are therefore held down for the

majority, and the national average falls.

Inequality also traps people in a cycle of poverty:

low incomes mean low savings, so there is little

investment in physical and human capital,

productivity stays low, and incomes remain low.

This reduces economic growth, so GNI per capita,

the third component, also stays low. The rich

have a higher marginal propensity to save and to

spend on imports, and may move their wealth

abroad through capital flight, so there is less domestic demand and investment.

Inequality also weakens government finances. The rich may avoid taxes and the poor do not

earn enough to be taxed, so the government cannot collect enough tax revenue to fund

public education and healthcare, and spending on these is low. High inequality can reduce

social cohesion and lead to political instability and conflict, which CAR has experienced,

discouraging foreign direct investment and destroying infrastructure such as schools and

hospitals. It can also discourage inclusive policies, as the elite who hold power may resist

redistribution.

However, a very uneven distribution of income will not always result in a low HDI. The HDI

uses average GNI per capita, which is not directly reduced by inequality: a country with high

national income can have a high HDI despite inequality. Some oil-rich countries, and the

USA, have high incomes and high inequality but still have a high HDI because they can

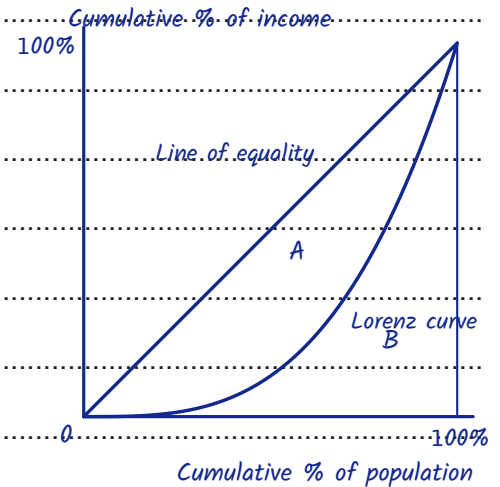
invest heavily in human development. Natural resources or tourism can raise GNI per capita

even if inequality remains high.

A country can also have a high HDI despite income inequality if the government

redistributes income and provides services through free education, public healthcare and

welfare programmes, such as Brazil's Balsa Família conditional cash transfers, which raised



school attendance and health among poor families. In this case, health and education
 outcomes depend on government provision rather than private incomes. If the rich invest in
 the economy, they may create jobs and raise incomes and living standards over time.
 Moreover, CAR's low HDI may be caused mainly by other factors: a very low level of
 national income overall, conflict, weak governance, corruption, being landlocked and poor
 infrastructure. Even if income were distributed equally, average GNI per capita would still be
 very low, so HDI would remain low. Inequality may therefore be a symptom of
 underdevelopment rather than its cause. Also, because HDI is an average, it does not fully
 show inequality unless the inequality-adjusted HDI (IHDI) is used, which reduces the HDI
 value of unequal countries.

The impact depends on the extent of inequality, the level of national income, how well the
 government uses tax revenue to support the population, and whether economic growth is
 inclusive. If inequality prevents most people from accessing education and healthcare, HDI is
 likely to be low.

In conclusion, a very uneven distribution of income usually leads to a low HDI, especially in
 poorer countries like CAR, where most people lack access to basic services. However, it does
 not have to: the effect depends on government policy and the overall level of income.
 Overall, inequality makes a low HDI more likely, but the key factor is whether the majority
 can access health and education.

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EXTRA ANSWER SPACE

If you need extra space use these lined pages. You must write the question numbers clearly in the margin.

1(e) peg also means a loss of monetary policy autonomy: interest rates must follow the US

even though Bolivia has had a budget deficit for many years and may need looser policy, and the currency cannot fall to absorb an external shock such as a fall in lithium prices, which could leave Bolivia with an overvalued currency and rising unemployment. It also imports US conditions, such as US inflation or recession.

On balance, Bolivia should keep the fixed rate in the short run, as it keeps inflation low and gives investors confidence, but only if it rebuilds reserves and cuts its budget deficit.

In the medium term, once lithium revenue

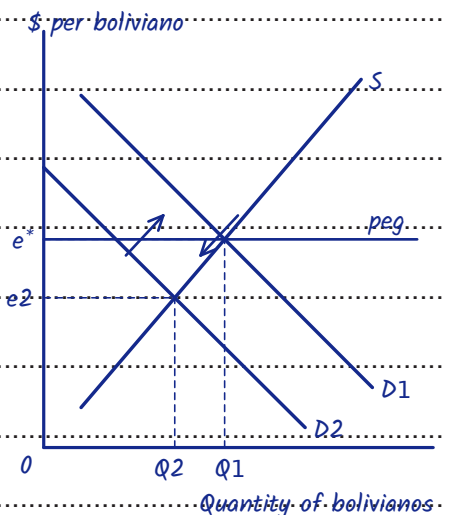
flows and reserves are healthy, a move to a

crawling peg or managed float would give

more flexibility without losing all stability. It

depends on how quickly reserves can be

rebuilt.



1(f) and on world lithium and metal prices: a fall

in prices would stall wages and profits and

shrink the tax base. Much of the gain may

be profits of foreign firms rather than taxable

wages. Bigger tax-free allowances to protect

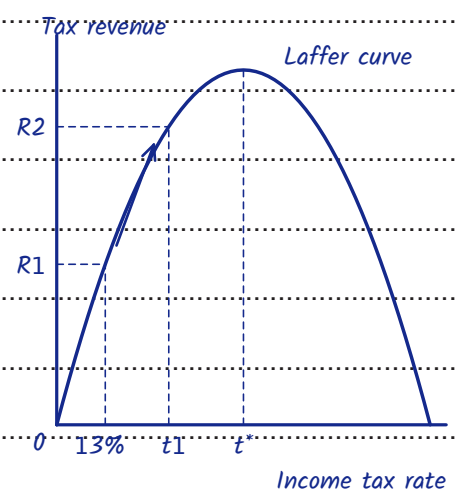
low earners under a progressive system would

offset some of the extra revenue.

Overall, income tax revenue is likely to

increase in the future, mainly because the

lithium industry should raise formal



employment and incomes. However, the size of the increase depends on shrinking the informal economy and building better tax administration; without this, even higher statutory rates will raise little extra, and the government may find it easier to raise revenue through VAT and other indirect taxes.

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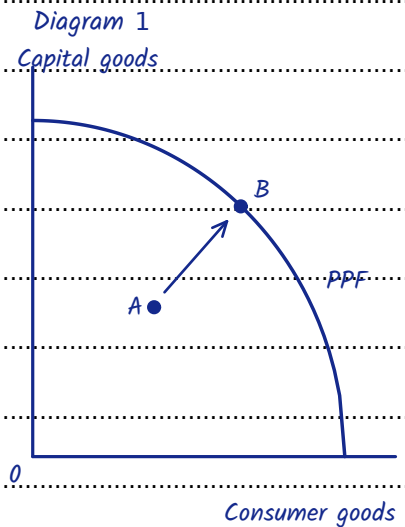
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ADDITIONAL ANSWER SPACE

3

Full employment is the lowest level of unemployment an economy can sustain, where all those willing and able to work at the going wage rate have a job. It means there is no cyclical unemployment, but it does not mean 0% unemployment, as frictional and structural unemployment still exist. Japan's unemployment rate of 2.4% in January 2023 is close to its natural rate, so it is considered to be at full



employment. It is one of the main macroeconomic objectives, alongside low inflation, economic growth and a balanced current account.

Achieving full employment benefits an economy because it raises output. When resources are unemployed the economy operates inside its production possibility frontier, at point A in Diagram 1. At full employment it moves to point B on the frontier, producing more goods and services with the same resources, so actual growth occurs and the opportunity cost of wasted labour is removed. On the Keynesian AS curve in Diagram 2, an increase in AD from AD1 to AD2 when there is spare capacity raises real GDP from Y_1 to Y_f with little rise in the price level.

More jobs mean higher household incomes, which boost consumption, a component of AD. Through the multiplier effect, this extra spending creates further rounds of income and employment, and strong demand improves business confidence, so firms invest more (the accelerator), increasing the capital stock and long-run productive potential. Living standards rise, as families can afford better housing, food and education, and the social costs of unemployment, such as poverty, poor health and crime, are reduced.

Full employment also improves the government's finances. Fewer people claim

ADDITIONAL ANSWER SPACE

unemployment benefits, so welfare spending

falls, while more people pay income tax

and spend more, raising VAT revenue. This

reduces the budget deficit, which is very

important for Japan, which has one of the

highest national debts in the world, and

creates room to spend more on public

services such as health and education. It

also avoids hysteresis: workers keep their

skills and work habits, so the natural rate

of unemployment does not rise.

However, full employment will not always benefit an economy. On the Keynesian AS

curve, as the economy reaches full capacity, further increases in AD from AD2 to

AD3 only raise the price level from P2 to P3, causing demand-pull inflation; the

economy may overheat if AD pushes output beyond its productive potential. A tight

labour market creates labour shortages: firms struggle to recruit, so they bid up

wages, which raises costs of production and can lead to cost-push inflation and a

wage-price spiral. Higher inflation reduces the international competitiveness of exports,

and higher incomes suck in imports, worsening the current account. These pressures

may force the central bank to raise interest rates, slowing growth.

Productivity may also fall if firms have to hire less-skilled workers to fill vacancies.

In Japan, very low unemployment partly reflects an ageing population and a shrinking

labour force rather than a booming economy, so labour shortages restrict growth. Full

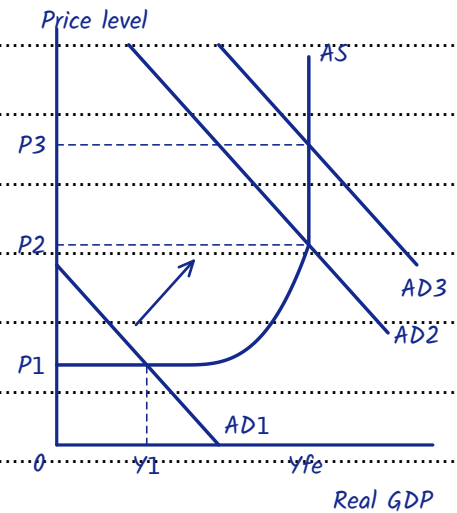
employment can also hide deeper structural problems: many Japanese workers are in

low-paid, insecure, non-regular or part-time jobs, so there may be underemployment,

where people work fewer hours than they want or in jobs that do not use their

skills. Regional inequality and low wage growth may remain, and Japan has had full

Diagram 2



ADDITIONAL ANSWER SPACE

employment alongside slow growth and deflation for long periods. Higher output and consumption may also cause more pollution and overuse of natural resources.

Whether full employment benefits an economy therefore depends on how it is achieved and whether it is sustainable. If it comes from excessive demand, it is likely to be temporary and inflationary. If it comes with supply-side policies, such as education, training and investment that shift LRAS to the right and raise productivity, the economy can enjoy full employment with low inflation. It also depends on the quality of jobs, since full employment is not the same as the absence of underemployment, and on the type of supply-side policy used.

In conclusion, achieving full employment generally brings strong benefits, such as higher output, incomes, living standards and tax revenue, and lower welfare spending.

However, if it leads to inflation, labour shortages or overheating, it may harm the economy in the longer term. Overall, full employment is beneficial, but it needs to be managed carefully alongside other policies, especially supply-side policies to raise productivity, to avoid inflation and labour shortages.

ADDITIONAL ANSWER SPACE

5

Trade restrictions, or protectionism, are measures that limit imports to protect domestic industries, such as tariffs (taxes on imports), quotas (limits on the quantity of imports), embargoes, subsidies to domestic producers and non-tariff barriers such as regulations. BRICS is an acronym for five major emerging economies: Brazil, Russia, India, China and South Africa. It is a cooperative group, not a trading bloc like the EU, and its members are geographically dispersed with different economic structures. BRICS account for over 40% of the world's population, and in 2023 they overtook the G7 (UK, US, Canada, France, Germany, Italy and Japan) in their share of world GDP, showing how fast they are growing.

The UK government could increase trade restrictions to protect UK industries. Cheap imports, such as steel from China, may be sold below cost (dumping) and undercut UK manufacturers. In the diagram, a tariff raises the domestic price from P_w to $P_w + T$. Domestic production rises from Q_1 to Q_2 , so UK firms sell more and protect jobs, while imports fall from $Q_1 - Q_4$ to $Q_2 - Q_3$ and the government gains tariff revenue (the rectangle between Q_2 and Q_3). Protecting key industries keeps employment in regions that depend on manufacturing and may allow infant or sunrise industries, such as electric vehicle batteries, to grow and gain economies of scale until they can compete.

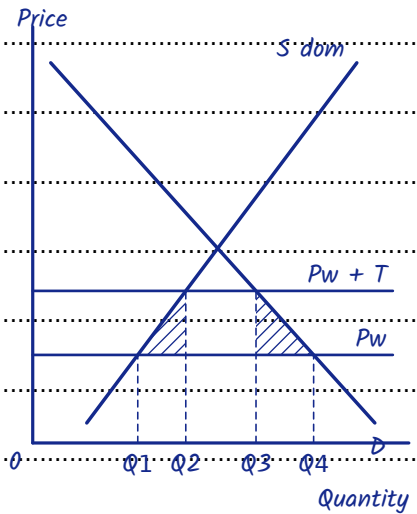
Trade restrictions can also improve national security. Restricting imports of technology from countries such as Russia or China, for example 5G equipment, reduces security risks, and sanctions on Russia after its invasion of Ukraine used trade to put political pressure on its government. The UK can also use trade restrictions as political leverage over human rights or foreign policy. Limiting imports from the BRICS reduces the UK's dependence on them for critical goods such as rare earth metals and solar panels, helping it diversify its supply chains and avoid disruption.

Restrictions could also help correct trade imbalances. The UK has a large current account deficit and a trade deficit with China. Reducing imports increases net exports

ADDITIONAL ANSWER SPACE

$(X - M)$, shifting AD to the right and through the multiplier, raising real GDP and employment. If imports are reduced, UK businesses may expand, leading to more investment and jobs.

However, there are strong arguments against increasing trade restrictions. A tariff raises prices for consumers, such as on electronics and clothing, and reduces choice. In the diagram, consumer surplus



falls by the area between P_w and $P_w + T$, and the two hatched triangles are deadweight welfare losses: one from inefficient higher-cost domestic production and one from lost consumption. UK firms that use imported components and raw materials face higher costs, which shifts SRAS to the left, causing cost-push inflation and reducing the competitiveness of UK exports. This would worsen the cost of living for low-income households, which spend a larger share of their income on cheap imported goods.

BRICS countries are likely to retaliate by imposing tariffs on UK exports, harming UK firms, especially in services and high-tech sectors where the UK has a comparative advantage. The BRICS are fast-growing markets, so restrictions would mean missed opportunities, such as selling to India's growing middle class, with which the UK has negotiated a free trade agreement. Trade diversion may also occur, as UK buyers switch to higher-cost suppliers from other countries. Protected UK firms face less competition, so they have less incentive to innovate and cut costs, leading to X-inefficiency and a loss of global competitiveness. The UK must also follow World Trade Organisation rules, which discourage protectionism and do not allow it to discriminate against particular countries, except through anti-dumping duties or on

ADDITIONAL ANSWER SPACE

security grounds.

It also depends on which BRICS country is involved. The BRICS are very different:

Russia is subject to sanctions for security reasons, whereas India and Brazil are

important trading partners. Broad restrictions on all BRICS would therefore be

unsuitable. The effect depends on the price elasticity of demand for imports, on

whether UK producers can increase supply, and on the size of any retaliation.

In conclusion, the UK government could use targeted trade restrictions to protect key

strategic industries from dumping or for national security reasons, especially against

Russia. However, broad restrictions on all BRICS nations would raise prices for UK

consumers and firms, provoke retaliation and reduce access to the fastest-growing

markets, harming long-term growth. Overall, increasing trade restrictions on the

BRICS is likely to be harmful, unless they are carefully targeted in specific situations

and used within WTO rules.