

Edexcel (A) Economics A-level

A-level Paper 2: National and Global Economy

Example answers
International competitiveness



These questions were taken from the old specification but answered and marked according to the new specification marking grid.

The UK fell from 9th to 12th place in the global competitiveness index between 2016 and 2017. Examine the factors which might have caused a decrease in the international competitiveness of the UK's good and services. (20)

International competitiveness is determined by the price, quality and marketing. An increase in competitiveness will mean that UK goods are more favourable and there is a higher appeal to buy it. The fall in competitiveness means there is lower appeal to buy it.

The biggest factor in this fall is because of a fall in relative labour productivity. Labour productivity is the output per worker and this is a big issue to the UK at the moment. A fall in relative labour productivity means that the output per working in the UK has fallen compared to other countries. This means that the UK's relative cost curves will have risen because more labour is necessary in producing the same output, and so it costs more to produce it. This leads to higher prices for UK goods and therefore they are less competitiveness. The fall in productivity can be caused by a fall in investment or because of a lack of training for labour. This has been a long-term issue and has continued to deteriorate over time, making it an important factor because it means that costs are continuing to rise. The government focus on labour productivity in the budget shows that this is a major issue. However, labour costs are only one part of the cost and so this may have had a little impact than originally thought. It will depend on the proportion of labour costs to total costs in the UK; in general, this is likely to be high because of higher wages and a national minimum wage.

On top of this, it may be caused by a rise in relative inflation. If inflation in the UK is higher than in other countries, then this means UK goods will become more expensive over time compared to other countries. As a result, they will become less competitive since they are more expensive. Inflation has reached 3% in the UK, whilst it has been much lower in other countries. When this is taken together with low productivity, prices have risen a lot. However, this is likely to be quite insignificant on its own. The inflation has only been short term and UK goods would have risen by at most 2% compared to other countries, which is unlikely to cause such a large fall in competitiveness. The inflation may also have been offset by the fall in the pound.

The two causes are linked to the lack of stability in the UK. The snap elections and Brexit have led to a fall in confidence in the UK, which has reduced investment and thus reduced productivity and reduced the value of the pound which increased the cost of production due to higher import prices and therefore caused inflation. It could be argued that the lack of stability is the most important factor because it is linked to both of the major causes. However, it may be the cause of the short term fall in competitiveness and therefore the direct cause of the fall in 2016 to 2017 but it is not the most important. If productivity was not already poor, the lack of investment over a year would be unlikely to worsen it that much. Inflation is only short term and the instability has actually weakened the pound, making exports cheaper so therefore improved competitiveness.

Overall, the major cause is labour productivity. This has been a long running issue which has worsened over time. The budget shows that this is the government's main concern and so they believe it to be the biggest cause. Instability has worsened the productivity issue and probably caused competitiveness to fall more than it otherwise would have- but without it, it is likely that competitiveness would have fallen anyway.



Evaluate strategies which may be used by businesses and governments to improve the competitiveness of a country's goods and services. (30)

One way the government could improve competitiveness would be to improve the quality of the workforce through increased spending on education and training. This would improve their skills and thus make them more productive since they are better at what they do. Higher productivity will lower costs and therefore lower prices, so make the goods and services more competitive. On top of this, a more skilled workforce are more likely to create better quality products and this will improve competitiveness since the country will develop a reputation for good quality and even if prices rise, people will still buy from them. Similarly, a more skilled workforce is likely to improve the occupational mobility of labour since they are skilled in more areas. This will mean labour is more flexible and so can be moved from one job to another without wage rises as wage incentives will not be needed to encourage people from other jobs. This will keep labour costs low and therefore keep costs and prices low. The problem with this is that improving education and training will have a high opportunity cost as it will require high levels of government spending. In a country like the UK, it will worsen public finances in a time where there are already high levels of austerity. There is no guarantee that increasing spending on education will lead to more skilled workforce, as the spending may not be directed at the correct area. It also takes a long time for the improvements to have an effect on the market, because it will have little effect on those already in the workforce. Similarly, businesses could improve competitiveness by increasing the training of their staff. On the job training will provide workers with specific skills relevant to their job and so may be more effective than general education. However, this is little incentive for firms to provide training as their workers may just be 'poached' by other firms and so they will see little benefits. They suffer from the free rider problem. On the job training will do little in terms of improving labour flexibility.

In addition, there could be increases in investment, which could be done by either firms or the government. Investment will firstly improve infrastructure, and this will improve competitiveness by increasing the reliability and speed of production and delivery, thus reducing costs. Moreover, it will improve innovation. This will mean new production techniques are developed which will lower costs and lower prices. It will also mean new goods are developed, which will give the country a competitive edge as they have a new product which no one else is producing. For developing countries, infrastructure improvements will be massively important as they lack road networks etc. For developed countries, innovation will be more significant. The problem with investment is that it again has a high opportunity cost for the government and for businesses, they may prefer to simply give the profits to shareholders rather than investing in research and development. Some businesses may not have the profit for investment. Investment is important to remain competitive in the long term.

On top of this, the government can make its goods and services more competitive by being open to trade. They can join the WTO and join trading blocs. This will keep trade barriers, such as tariffs, low and thus make exports more competitive because prices are low, and it is easy to access these goods abroad. However, the problem with this is that some countries may be tempted to raise barriers to make their goods and services more competitive in the domestic market and to



protect jobs. This will mean that other countries will retaliate by increasing barriers and thus making goods less competitive.

Overall, the best way for governments and businesses to improve competitiveness depends on the individual country and which issues they face. It is important for businesses and the government to work together to create the right conditions for competitiveness, including labour skills and investment.

Teachers comments: A

Throughout points are clear and well explained. Evaluation however could be tighter. I would be specific- 'the best way is...'. It is fair enough to explain that in some countries the answer will be different but explain factors that will make the answer different.

