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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Tuesday 4 June 2019 – Morning

A Level Economics

H460/03 Themes in economics

Resource Booklet

Time allowed: 2 hours
plus your additional time allowance

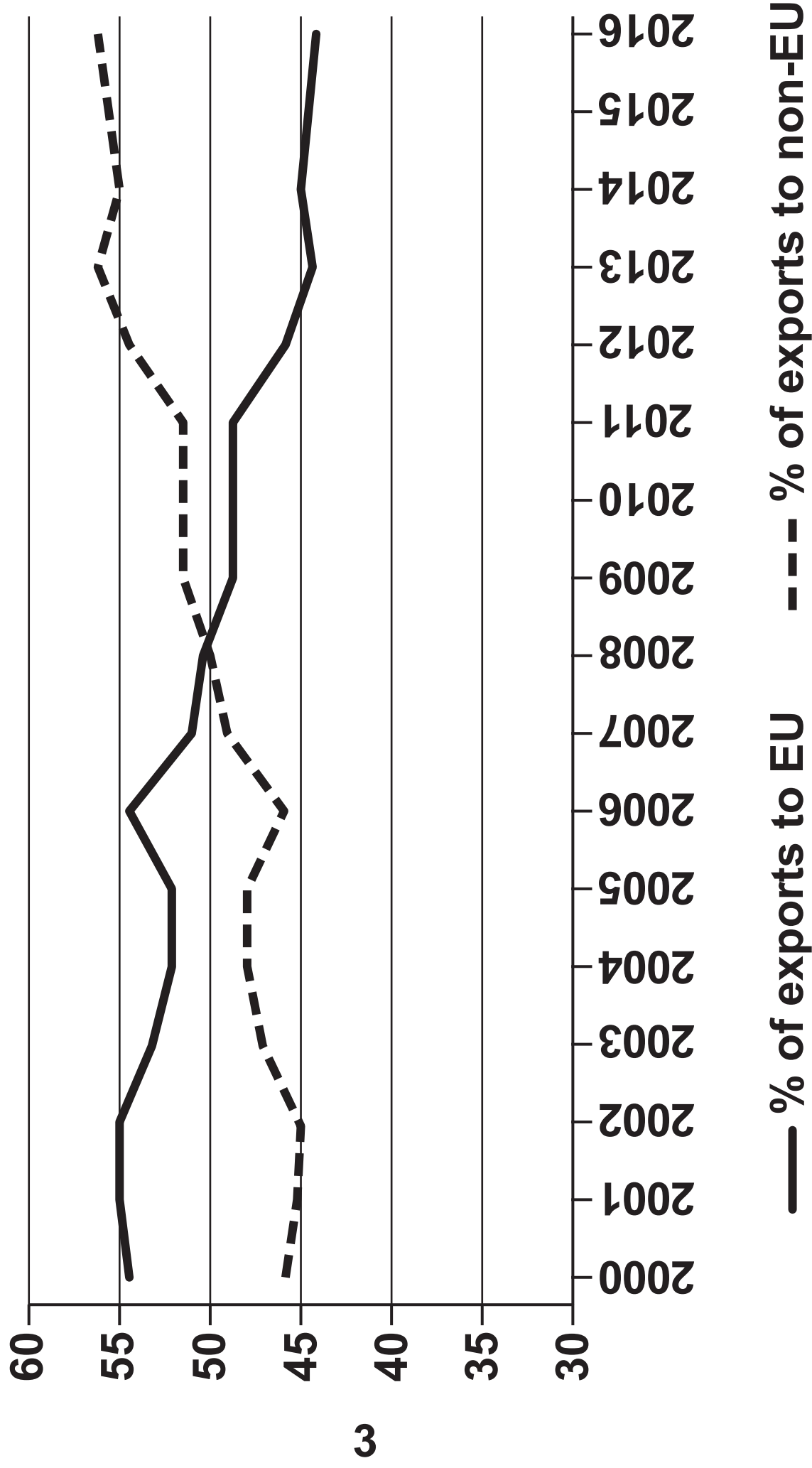


EXTRACT 1 – European Union membership & international trade

On 23rd June 2016, 51.9% of voters in the United Kingdom voted in favour of leaving the European Union. The build up to the referendum was characterised by fierce arguments on both sides about the economic impact of European Union membership, with the debate continuing after the vote as the UK government sought to reach an agreed position on how to negotiate the country's withdrawal from the multilateral organisation it joined in 1973.

One of the biggest areas of disagreement was over the impact Brexit would have on the UK's balance of payments. Membership of the EU gives access to the Single Market, the world's biggest free trade area that enables UK firms to export goods tariff free to other EU member states. Trade with countries outside of the EU is determined by a system of common external tariffs, where non-EU firms have to pay a tariff in order to sell into the Single Market with EU firms usually charged a reciprocal tariff to sell to countries outside of the EU. The destination of the UK's exports is outlined in FIG. 1.1 opposite.

FIG. 1.1 – Destination of UK Exports



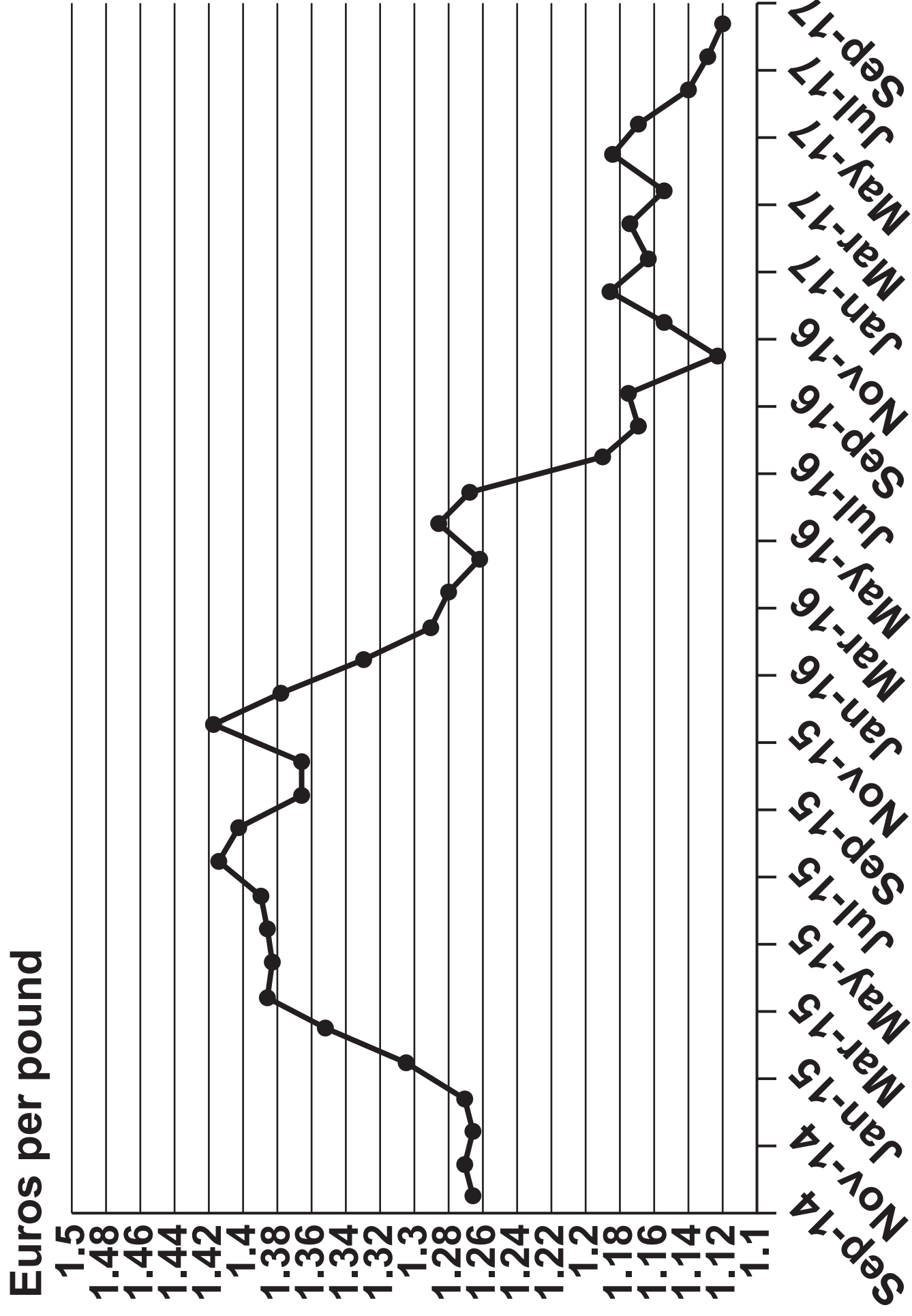
Many economists in favour of remaining in the EU argued that Brexit would fundamentally damage the competitiveness of UK firms, as leaving the Single Market would result in a range of tariff and non-tariff barriers being imposed on UK firms exporting to EU countries. Those in favour of leaving the EU said that this would be outweighed by the gains that would come from negotiating free trade deals with non-EU countries, which would be easier to do once the UK left the trading bloc.

In July 2017, the US government indicated it would be interested in reaching a free trade agreement with the UK. This could have a significant impact on the market for beef. In 2016, approximately two thirds of UK beef imports came from Ireland with no beef imported from the US, despite US beef being priced significantly lower on world markets (approximately £2000 a tonne compared to £3400 for Irish beef). Those in favour of Brexit argue this is a harmful example of trade diversion, with Irish beef being artificially competitive as a result of tariffs exceeding 50% being imposed by

the EU on US beef imports. A free trade deal with the US could result in a large proportion of beef imports coming from the US at the expense of Irish producers.

The value of the pound is a crucial determinant of the international competitiveness of UK firms. FIG. 1.2 opposite illustrates the impact the vote to leave the EU had on the exchange rate.

FIG. 1.2 – Sterling-Euro Exchange Rate 2014–2017

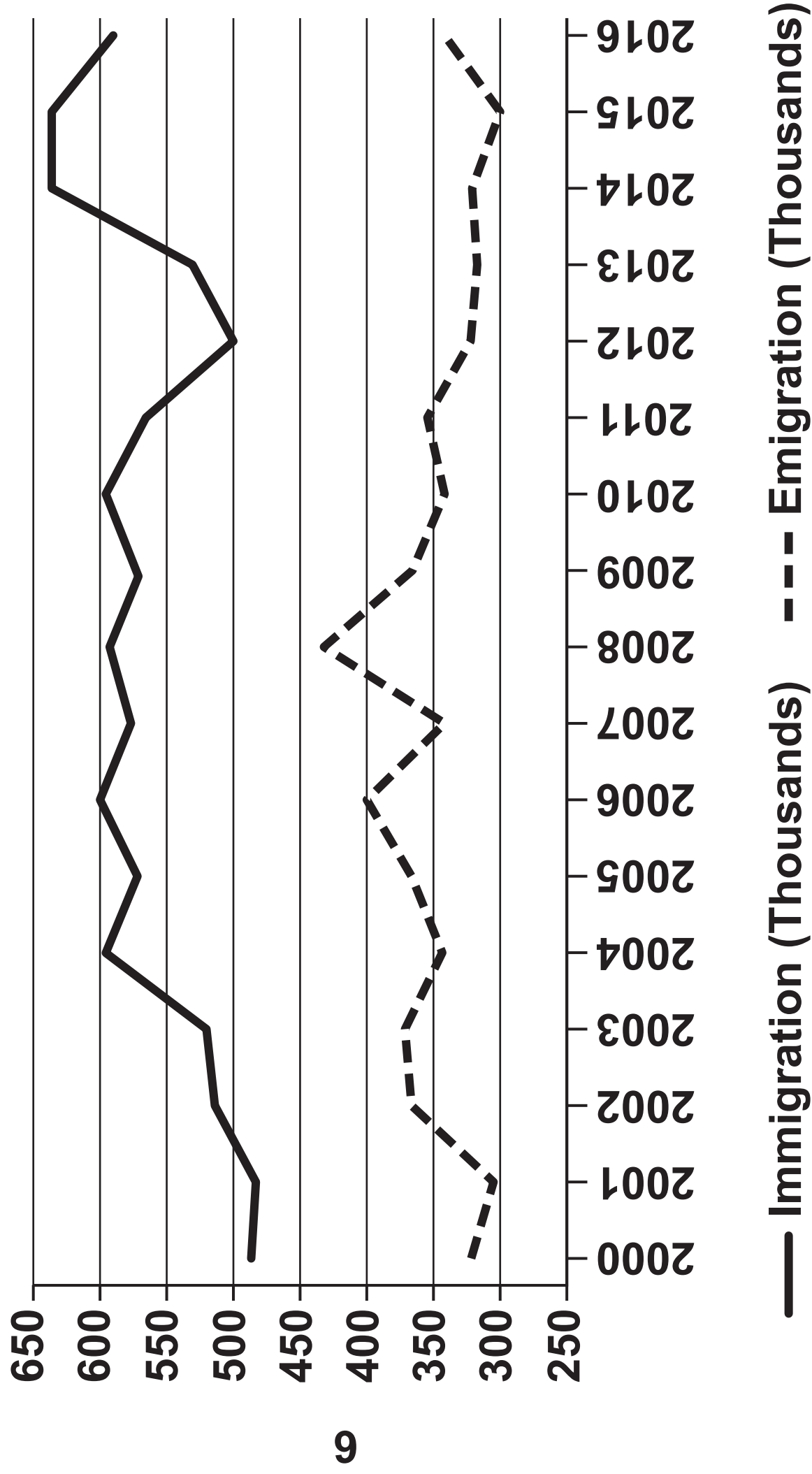


EXTRACT 2 – European Union membership & migration

The ‘four freedoms’ of the European Union – the freedom of movement of goods, people, services and capital across borders – are a core element of EU membership. In the UK, it was disagreement over the relative merits of the most contentious of these – the free movement of people – that arguably led to the country voting to leave the EU.

The freedom of movement came under sharper focus in 2004, when the EU experienced its largest ever expansion that saw ten new member states join and the population increase by more than 100 million citizens. This resulted in a large influx of immigrants into the UK from individuals attracted by the relatively high wages on offer, with nearly a million workers coming from Poland alone in their first ten years of EU membership. The further expansion of the EU in 2007 to include the low wage countries Bulgaria and Romania fuelled concerns that immigration would spiral in the UK, with much debate over the potential impact of this. FIG. 2.1 illustrates how migration in the UK changed during this period.

FIG. 2.1 – UK Migration 2000–2016



One of the main benefits Leave campaigners argued would result from leaving the European Union was the ability this would give the UK government to take control of its borders. They argued that rising immigration had put increasing pressure on public services, pushed house prices up and depressed the wages and employment opportunities for low skilled workers.

However, many economists argued the end of free movement presented many risks to the prosperity of the UK economy. Empirical evidence suggests that EU immigrants tend to be younger than the native population and more likely to work and pay taxes than claim benefits, in doing so addressing the problems an ageing population could cause the economy. Moreover, a number of industries such as healthcare and construction are reliant on immigrants to fill skills shortages, with immigration allowing the UK to benefit from greater labour market flexibility.

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EXTRACT 3 – The Paris Climate Accord

Although enacting the process of leaving the European Union, the UK remained committed to participating in multilateral action of a different kind – combating climate change. It is estimated that, left untackled, climate change would cause around 60 000 deaths globally by 2030 and 260 000 deaths by 2100.

In April 2016, the most ambitious global climate change agreement was reached in Paris, with 195 countries committing to take action to hold the average global temperature to well below 2 degrees centigrade above pre-industrial levels by the end of the century. Each country made their own voluntary pledges to reduce emissions to a specific level by 2020, after which each nation's targets will be re-evaluated.

Nicaragua, one of only two countries that did not sign up to the accord, boycotted it in protest about its unambitious goals. The accord experienced its biggest setback in June 2017, when the US indicated it

would be withdrawing from the agreement. Supporters, however, argued that this was a step towards a unified front against climate change, providing a loose-fitting framework that got the backing of some of the world's biggest polluters whilst leaving each country to develop their own climate change strategies.

One such strategy adopted in parts of the world is a carbon trading scheme. The biggest of these is the European Union's emissions trading scheme (ETS), whilst some countries outside of the EU have adopted more localised schemes. FIG. 3.1 outlines the participation of the world's biggest polluters in the Paris Accord and tradable pollution permit schemes.

FIG. 3.1 – Global carbon emissions & climate change policy participation

Rank	Country	% of global carbon emissions	Paris Accord?	Carbon Trading Scheme?
1	China	29.51	Yes	Limited
2	United States	14.34	No	Limited
3	India	6.81	Yes	No
4	Russia	4.88	Yes	No
5	Japan	3.47	Yes	Limited
6	Germany	2.16	Yes	Yes
7	Iran	1.76	Yes	No

8	South Korea	1.71	Yes	Yes
9	Canada	1.54	Yes	No
10	Saudi Arabia	1.40	Yes	No
European Union		9.62	Yes	Yes

In July 2017, the UK government announced a plan to outlaw all new diesel and petrol cars by 2040, in doing so eliminating one of the biggest causes of carbon emissions. This is an ambitious target given the electric car market accounted for just 1% of UK market share in 2016. There is though inspiration to be found from Norway, where more than a third of new car sales in 2016 were electric as a result of heavy government subsidies. The UK government has earmarked £900 million to support the electric car industry, with BMW announcing in July 2017 their intention to build the new e-Mini at a UK car plant. The hope is that such subsidies will go a long way in making electric cars price competitive enough to quicken the move away from traditional diesel and petrol cars.

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