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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Thursday 14 October 2021 – Afternoon

A Level Economics

H460/03 Themes in economics

Stimulus Material Insert

Time allowed: 2 hours

plus your additional time allowance



EXTRACT 1 – Public sector pay

In July 2020, the government announced it was offering significant wage increases for almost 900 000 public sector workers. Teachers and doctors received the largest annual increases, of 3.1% and 2.8% respectively. The government said that this not only rewarded public sector workers for the vital contribution they made during the Covid-19 pandemic, but would also help to attract and retain highly skilled individuals to work in the public sector.

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The announcement was not universally well received, with trade unions representing members in these professions arguing that these wage increases did not go far enough to correct for the erosion of public sector pay that took place as a result of deficit-reducing policies implemented after 2010. They also pointed to the warning from the Treasury that it will need to “exercise restraint in future public sector pay awards” as evidence that public sector workers are likely to suffer from small pay increases in the years ahead as the government seeks to reduce the near record levels of debt it incurred as a consequence of locking down the economy in response to the global pandemic. Fig. 1.1 shows what has happened to public sector wages and the price level over the past decade.

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FIG. 1.1 – Public Sector Pay & Consumer Price Index 2009–2019

	Average Annual Public Sector Wage	Consumer Price Index (2009 = 100)	
2009	£23 296	100.0	
2010	£23 868	103.2	
2011	£24 284	107.9	30
2012	£24 752	111.0	
2013	£24 908	113.7	
2014	£25 272	115.5	
2015	£25 584	115.5	
2016	£26 000	116.3	35
2017	£26 416	119.4	
2018	£27 092	122.3	
2019	£27 976	124.5	

Nevertheless, at a time of rising unemployment and stagnant wages in the private sector (with private sector wages falling 1.2% in the year to May 2020), it is certainly the case that public sector employment became more financially attractive as a result of the announcement.

Whether it would result in filling shortages in the teaching and medical profession was, however, more debatable. For example, doctors require many years of specialist training, whilst nursing is often described as being a ‘vocation’, a career individuals pursue because of their love of the job. Moreover, more

than half of the adult population is excluded from supplying their labour as a teacher because they do not hold an undergraduate degree. This has led some to argue that the best way to increase the supply of workers to these professions is instead by offering more substantial training subsidies and, crucially, enabling foreign workers to immigrate to fill the skills shortages. In healthcare in particular the problem is becoming urgent, with the NHS unable to cope with rapidly rising demand.

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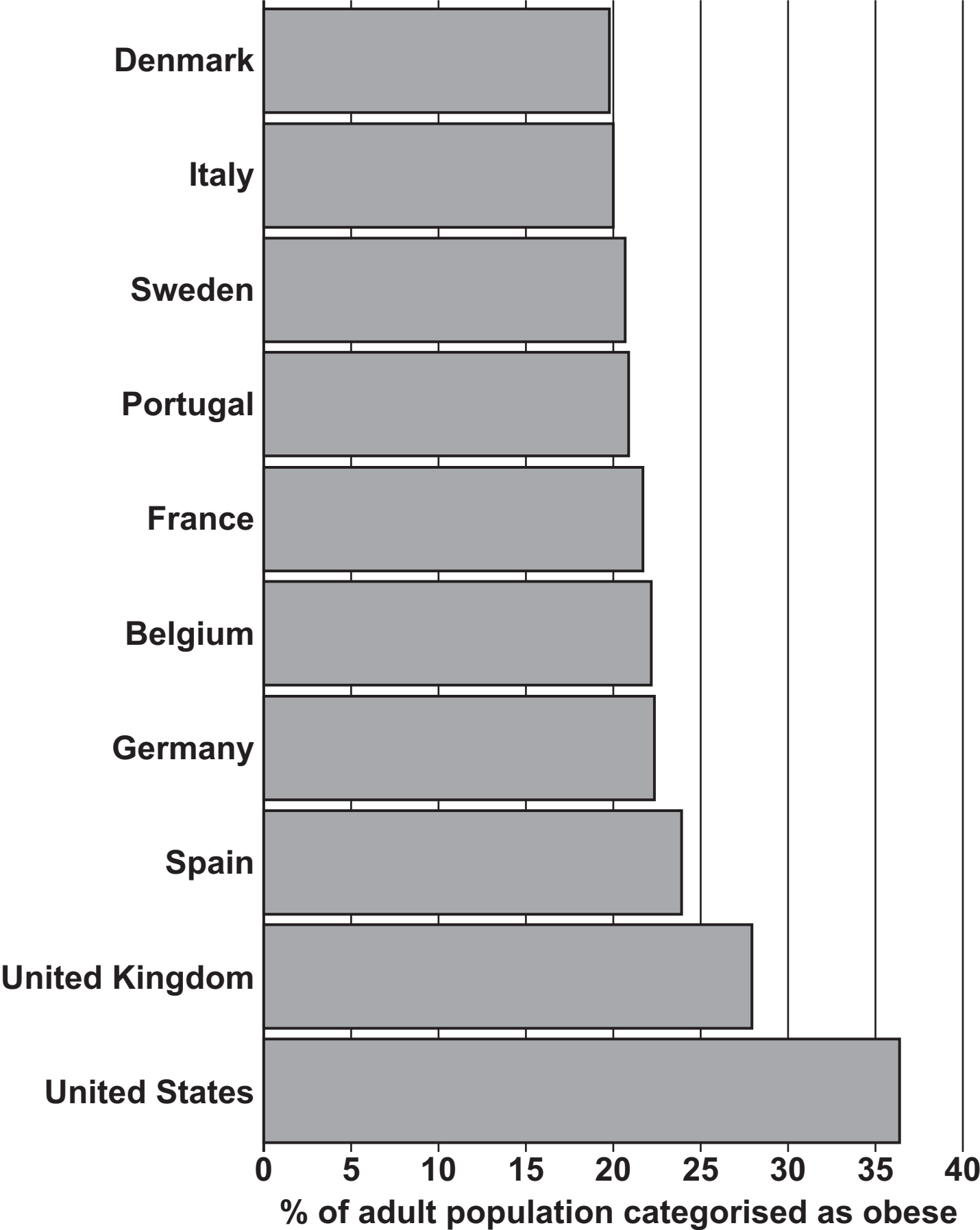
EXTRACT 2 – Tackling obesity

One of the major contributors to increased strain on the health service has been rising levels of obesity. Almost two thirds of adults in the UK are overweight with more than a quarter categorised as being obese, with the government estimating this costs the NHS more than £6bn a year. In 2019, nearly a million people were admitted to hospital in England with obesity related conditions. The UK's obesity rate is significantly above the European average of 23% and indeed is one of the highest in the world. Fig. 2.1 illustrates the different levels of obesity seen in a number of Western countries.

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FIG. 2.1 – Adult obesity rates in selected countries (2017)



In an attempt to reverse the trend of rising obesity rates, the UK government announced a raft of measures as part of its “Better Health” campaign designed to help people lose weight and live healthier lives. Strategies included GPs being encouraged to prescribe cycling to those who would benefit from more exercise, whilst also banning unhealthy food adverts on television and online before 9pm when children are most likely to see them. Evidence from the World Health Organisation suggests that exposure to these adverts can affect and shape what children eat both in the short term and as they transition into adulthood. However, the policy is not without controversy, with critics arguing this is an example of the “nanny state” – the government interfering with personal choice on an issue people already have sufficient information to make rational decisions about.

Others argue that these policy solutions fail to address the underlying cause of unhealthy diets, with many individuals turning to ‘junk’ food for the simple reason that it is available more cheaply than healthier alternatives. The food industry as a whole has undergone rapid change in recent years, with established supermarket chains offering promotions to ensure their market share is not eroded by the arrival of German discounters such as Aldi and Lidl or the potential of online retailers like Amazon expanding their market share. Consumers have also enjoyed more readily available access to takeaways than ever before, with the development of platforms such as Uber Eats and Deliveroo that deliver meals from outlets such as McDonald’s and KFC direct to people’s homes. The reduction in barriers to entry that have arisen from technological progress have contributed to making several submarkets in the food industry more contestable.

EXTRACT 3 – Emerging economies and international trade

Whilst much of the developed world grapples with the challenge of trying to reduce people’s food intake to improve their health, it remains the case that in many of the world’s least developed countries (LDCs), millions of citizens suffer from malnourishment as a result of living in absolute poverty. High and sustained rates of economic growth are considered essential in overcoming this problem, with the diet of individuals living in emerging economies noticeably improving as a result of the rapid economic growth they have seen in recent years. Fig. 3.1 illustrates how GDP and population size has changed in selected countries over the past 20 years.

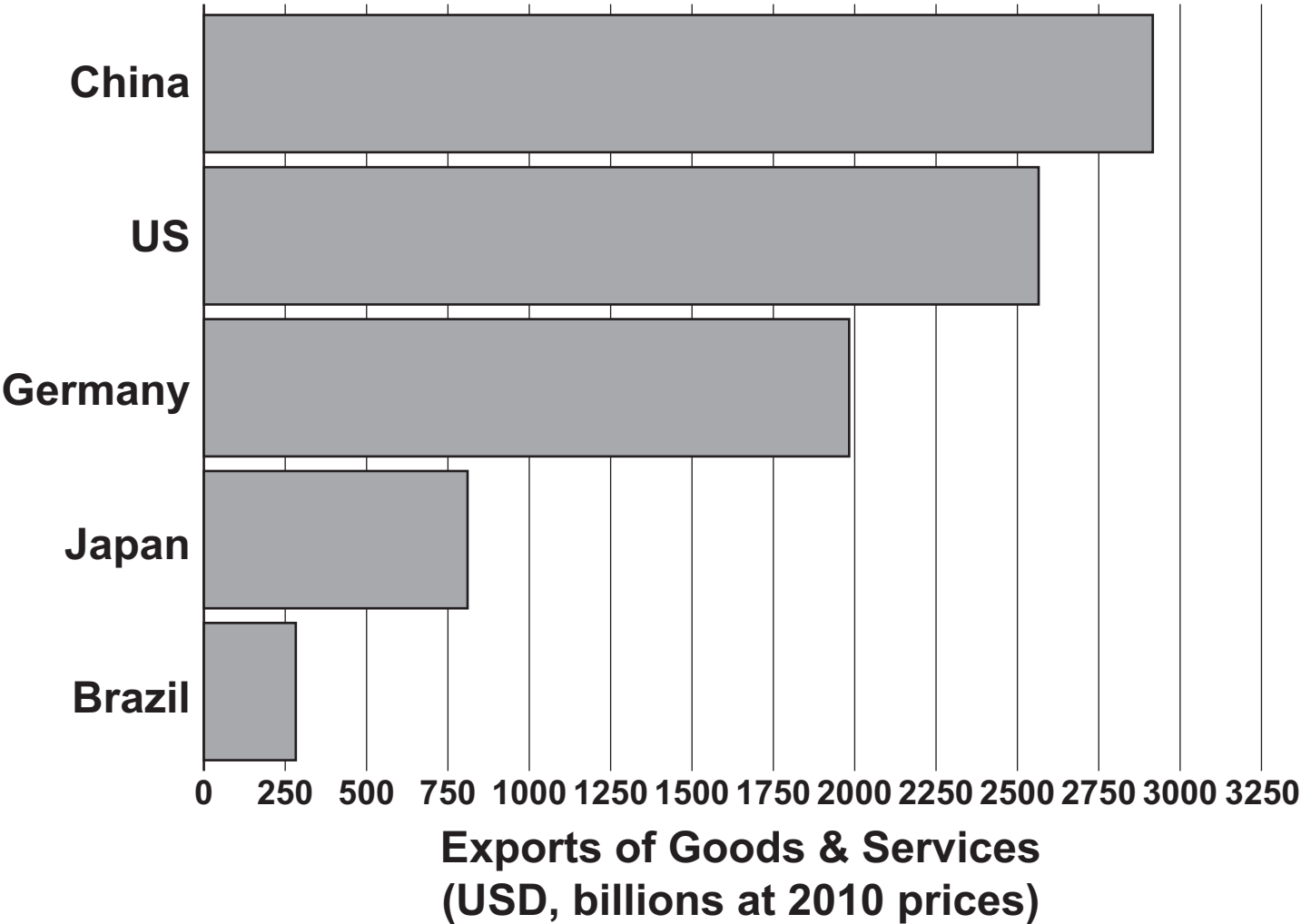
FIG. 3.1 – GDP and Population of selected countries 2000–19

Country	GDP (USD, billions at 2010 prices)		Population (millions)	
	2000	2019	2000	2019
Brazil	1538	2347	175	211
China	2232	11 537	1262	1398
Germany	3118	3959	82.2	83.1
Japan	5348	6210	127	126
US	12 620	18 318	282	328

Brazil’s high rate of economic growth is often credited to the way it has embraced export-led growth, having liberalised its trade policy in the early 1990s. It is one of the world’s largest producers of soybeans and exports soy across the globe. This expansion in exports has contributed to Brazilians enjoying higher

levels of income and a reduction in poverty. Indeed, it is often argued that it is emerging economies such as Brazil with plentiful natural resources and China with an abundant labour supply that have benefited most from international trade, whilst a number of developed nations, such as the UK, suffer from persistent current account deficits. Fig. 3.2 details the value of exports in the same countries listed in Fig. 3.1.

FIG. 3.2 – Exports of Goods & Services of selected countries in 2019



However, it is not universally accepted that Brazil has benefited from international trade. The price volatility on world markets of the commodities it exports can be very damaging to the economy, whilst the rate of

deforestation in the Amazon rainforest is often cited as an example of how emerging economies suffer from the intensive use of their natural resources. 40

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