GCE A LEVEL

A520U20-1

O20-A520U20-1

FRIDAY, 9 OCTOBER 2020 – AFTERNOON

ECONOMICS – A level component 2
Exploring Economic Behaviour

2 hours 30 minutes

A520U201
01

ADDITIONAL MATERIALS

A calculator.
A WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
Answer **all** questions.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.
You are reminded of the necessity for good English and orderly presentation in your answers.

Answer **all** *the questions.*

1. The Codfathers – a fishy business

The oceans have been in the news quite often lately, as the impact of plastics on sea-life has been publicised through programmes such as the BBC's *Blue Planet*. More than 8 million tonnes of plastic enter the world's seas every year, and experts think that by 2050, the amount of plastic in the ocean will weigh more than the amount of fish. The costs are significant as birds and fish can be killed as they mistake plastic for food, contributing to a steady fall in the world's fish stocks.

Around the UK's shores however, North Sea cod stocks have recovered to sustainable levels. Cod was close to extinction in the North Sea in 2006 (**Figure 1**), which led to a plan by the Scottish Government and the EU to dramatically cut fishing quotas to help fish stocks to recover. This goes against a global trend of over-exploitation of fish stocks, as seen in the unregulated market for Pacific sardines (**Figure 2**).

Figure 1

North Sea cod stock in tonnes

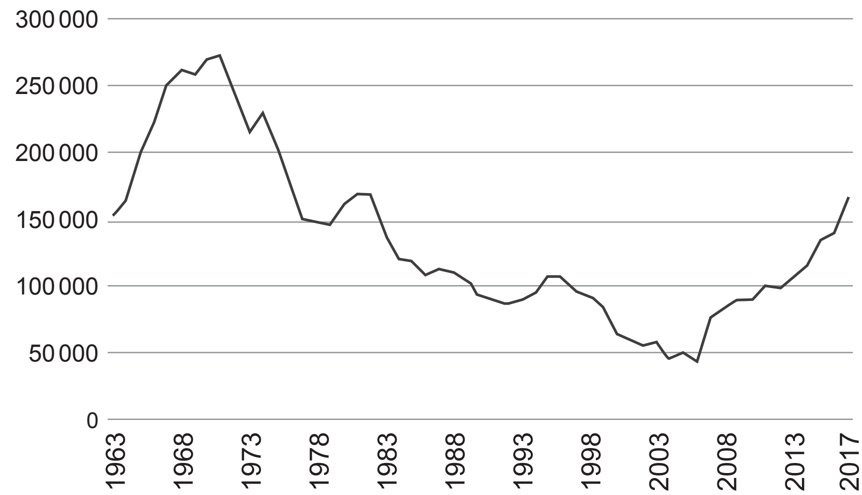
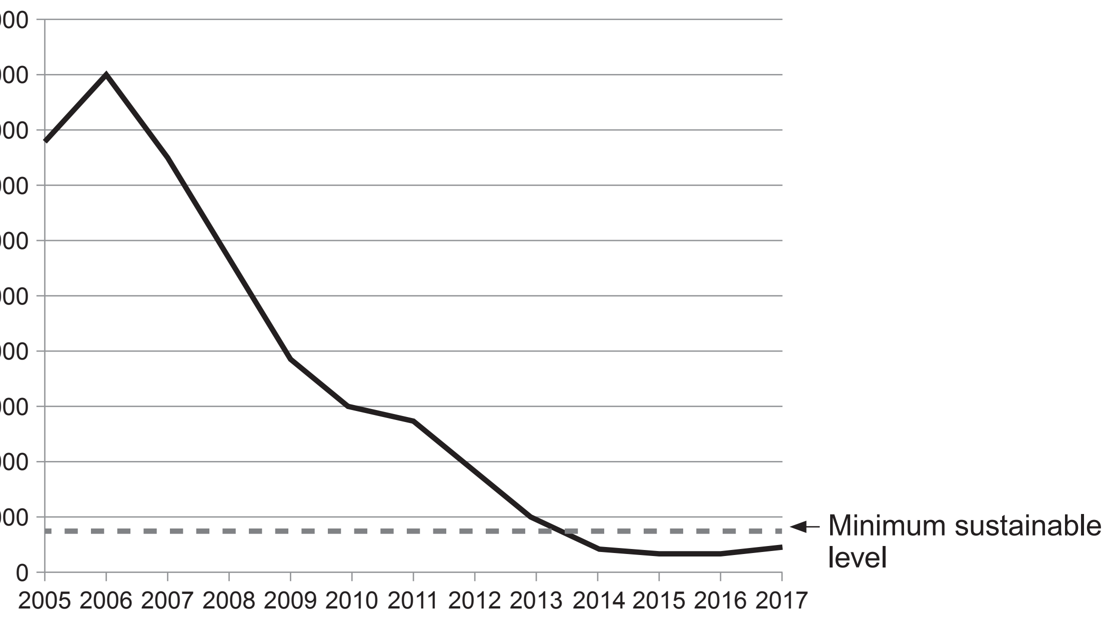


Figure 2

Pacific sardine stock in tonnes (2005-2017)



Policies to prevent over-fishing, together with growing global demand for fish, have driven up prices. But even so all is not well for the UK fishing sector. According to newspaper reports, powerful trawlers (fishing boats) and large fishing firms have forced smaller, more environmentally friendly boats on which local communities depend, out of business.

Because of current fishing quotas, small boats under 10 metres, which make up 77% of the English fleet, currently have the right to catch only 3% of English cod, haddock, plaice, sole, herring and mackerel. According to Greenpeace, across the UK as a whole, 5 families that Greenpeace have nicknamed ‘the Codfathers’ have 29% of all the UK’s fishing quotas. One giant super-trawler, has the right to catch 94% of the English herring quota in the Atlantic and North Sea.

The situation is no better in Scotland where 65% of the entire Scottish catch, was caught by 19 powerful super-trawlers in 2016. Small-scale fishermen, who operate 80% of Scottish boats, have only 1% of the quotas.

Figure 3.1

UK fishing fleet: number of boats, 2016

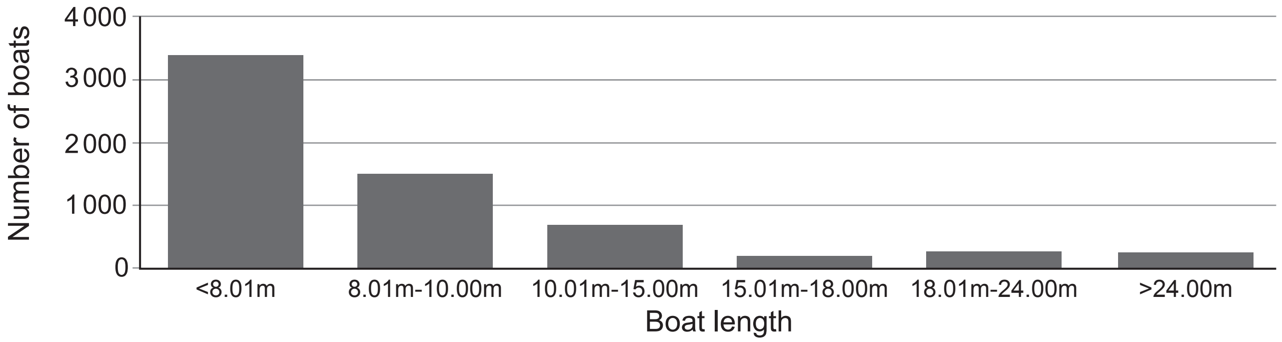
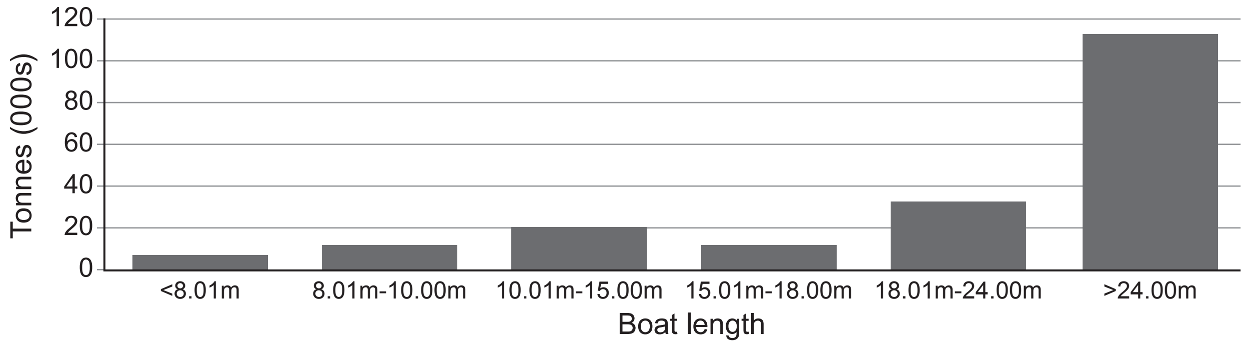


Figure 3.2

Total capacity (in tonnes of fish), 2016



Small-scale fishing businesses and coastal communities are struggling, with operating profits close to zero. This is not because of competition from European boats but is because of the failure of UK governments to challenge the “eating up” of quotas by big businesses. This reduces the total demand for smaller fishing businesses and also stops them from getting the economies of scale that the super-trawlers can generate. Therefore, jobs are at risk and many small-scale fishermen are going out of business. In many coastal tourist resorts, the fish sold in local restaurants has actually been driven a substantial distance by road, rather than supplied by local fishing boats, because all the local fishermen have gone out of business. This is bad both for the local economy and for the environment.

On the other hand, some concentration of the fishing industry is inevitable and desirable. Small-scale fishermen have a limited range for their boats, and fish processing factories cannot be built all around the coastline. But too much market concentration is a bad thing, it destroys small coastal communities and hands over entire fish stocks to large-scale more destructive types of fishing which are bad for the environment.

Turn over.

Meanwhile, the UK Government is also attempting to tackle the other major issue challenging the oceans – plastic. The Government has an ambitious plan to abolish all plastic waste by 2042. Since 2005, firms creating plastic packaging waste have been obliged to buy a “packaging recovery note”, to pay for the cost of dealing with it, with the charge acting as a small incentive to use greener packaging.

The Government now plans to increase this charge significantly on firms that use non-recyclable plastics and to use the money to invest in more recycling factories for plastic that can be recycled. This should increase the demand for recyclable plastic. Until recently most plastic waste was simply exported to China, but the Chinese government have now stopped this practice, leaving the UK with a shortfall of 350 000 tonnes of recycling capacity. This means that plastic that could be recycled will simply go to landfill, where it will take 450 years to decompose.

Of course, for plastic to be recycled, it still has to make it to a recycling factory, which will require a major change in attitudes from consumers. In 2017 only 59% of plastic bottles were recycled. This has created calls for a deposit scheme on plastic bottles to be introduced (where consumers get money back if they return bottles to shops or recycling points).

Major challenges still remain ahead for the oceans and the creatures that live in them.

(a) (i) Define market failure. [2]

(ii) With reference to **Figures 1** and **2** and appropriate economic theory, explain why regulation is likely to be necessary in the fishing industry to prevent market failure. [4]

(b) With reference to the data (including **Figures 3.1** and **3.2**), discuss which market structure best describes the UK fishing industry. [9]

(c) Using diagrams and with reference to the data, explain why small-scale fishing operators have profits close to zero, but large scale operators are highly profitable. [7]

(d) With reference to the data, discuss whether it would be beneficial to give more fishing quotas to small-scale fishing operators instead of large-scale fishing operators. [9]

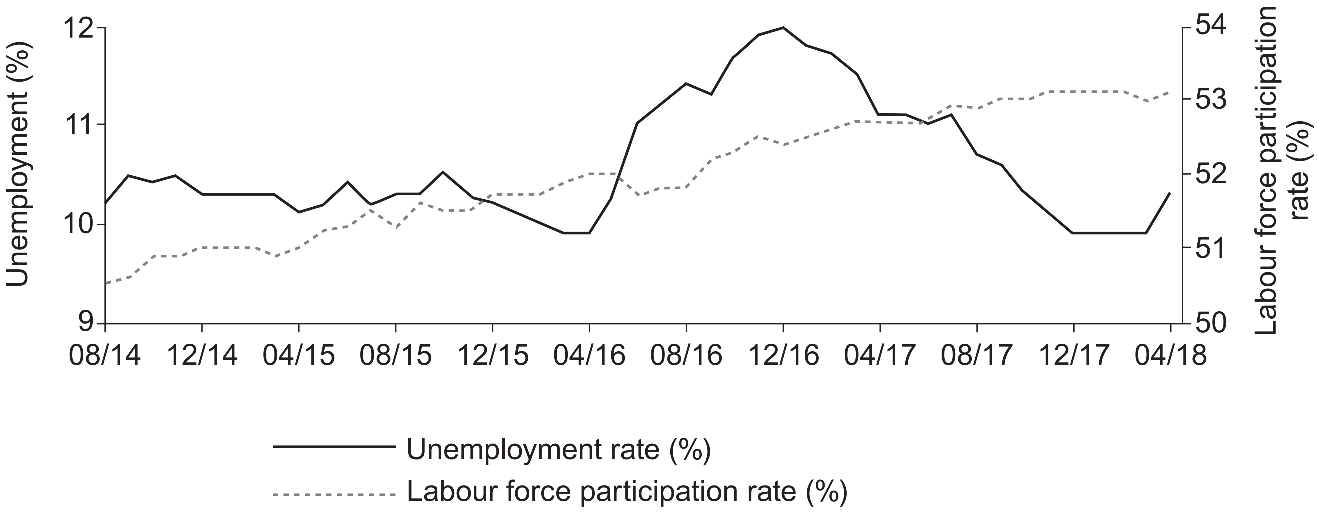
(e) Using diagrams, discuss whether the policies that the UK is considering (lines 44 to 46) will be effective in preventing market failure in the plastics industry. [9]

2. Turkey in economic turmoil

Turkey has the world's 17th largest nominal GDP and the 13th largest by purchasing power parity. It is often classified as an emerging economy and has a population of 82 million with a young age structure – half of the population is aged under 30. However, the country's labour force participation rate of just over 53% is by far the lowest in the OECD (The Organisation for Economic Cooperation and Development) which has a median rate of 74%. Turkey's female participation rate is only 32%. The labour force participation rate is the proportion of those aged 16-64 in employment or actively seeking employment.

Figure 1

Unemployment and labour force participation rates in Turkey



In 2017 the OECD expected Turkey to be one of the fastest growing economies among OECD members up to 2025 with an average growth rate of 4.9%. However, by 2018 the growth estimates for the Turkish economy had been cut in half.

Something had clearly gone wrong, as currency and debt crises ended a period of strong growth under President Erdogan dating back to 2003 which had been built on a construction boom fuelled by easy credit and government spending.

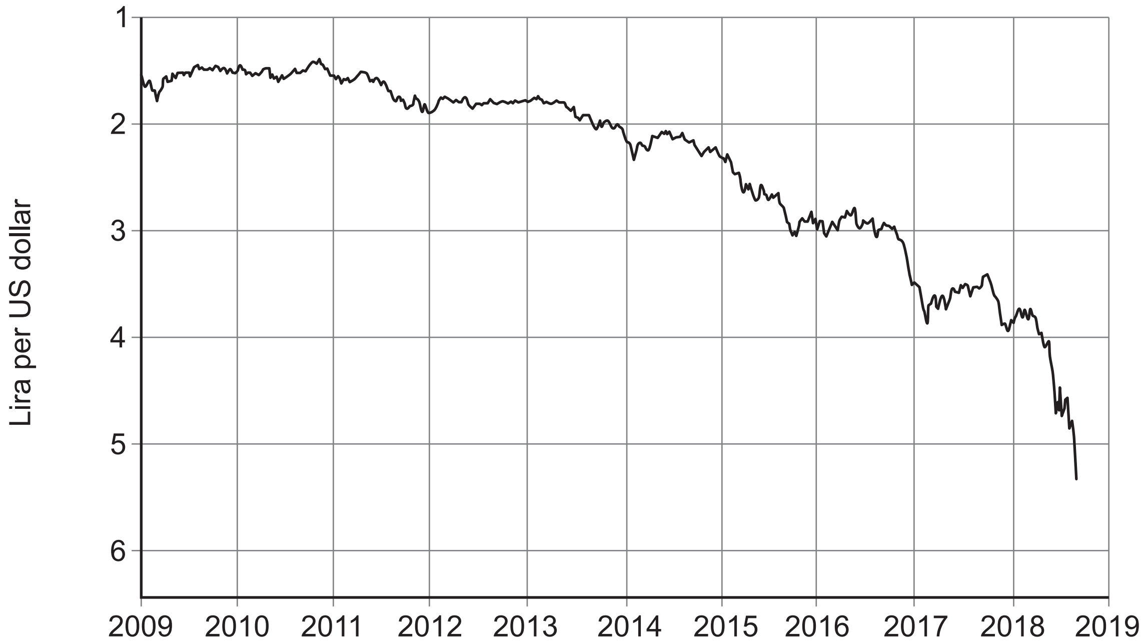
By 2018, the construction boom had ended as 2 million new houses remained unsold, three times the average annual number of new houses sold. In August 2018 the Turkish currency, the lira, collapsed following President Trump's tweet about doubling US tariffs on Turkish steel and aluminium, losing 17% of its value on the day of the tweet alone. The lira crisis highlighted deeper concerns about the Turkish economy that have been around for years, such as the low average savings rate, the huge current account deficit on the balance of payments, increased corporate debt and decreased inward investment.

Turkey has also experienced substantially higher inflation than other emerging economies in recent years, reaching almost 12% in late 2017.

The rise in inflation and the depreciation of the lira have generally been attributed to President Erdogan preventing the Central Bank of Turkey making necessary interest rate adjustments. Erdogan argued that high interest rates were a 'tool of exploitation'. He has repeated his unconventional view that high interest rates cause inflation rather than reduce it.

Figure 2

Turkey's exchange rate



However, in 2018, inflation reached 17.9% and in the autumn the Turkish Central Bank raised the main interest rate from 17.75% to 24%, higher than the 22% that markets had been expecting. The lira appreciated by as much as 5% following this decision. The Central Bank said it would maintain a tight stance with its monetary policy until the inflation outlook improved significantly.

Timothy Ash, a leading emerging markets financial analyst, has said that "Turkey has strong banks, healthy public finances, good demographics, and a pro-business culture but has been spoiled over the last few years by unconventional and loose macroeconomic management. The consequences of a monetary policy involving low interest rates and easy credit are the currency and debt crises in Turkey, which have previously occurred many times in other emerging economies".

At least low-paid workers in Turkey have been protected by increases in the national minimum wage. Between 2014 and 2018 the monthly minimum wage rose from 1134 liras to 2030 liras, although the $ value remained the same at around $530.

Over a longer period, between 2003 and 2018 the index of Turkey's minimum wage rose to 709 from a base of 100. That compares very favourably with the index of CPI inflation of 357 over the same period. These figures prove that the government did what it could to support Turkey's lower income groups. Such a policy stance has helped stimulate economic growth, but it remains to be seen what effect the increase in the minimum wage will have on the labour market and the wider economy.

Looking to the long term, Turkey aims to become a member of the European Union (EU). In 1995 Turkey entered a customs union agreement with the EU which covers manufactured goods and processed agricultural goods, although Turkey is not in the full EU customs union. Turkey has some freedom to develop trade policy with other countries across the world, but has to open its markets to any country the EU makes a trade agreement with and doesn't get the same immediate tariff-free access to that country's market that EU members do.

The EU accounts for about half of Turkey's total trade, while Turkey is the EU's fourth-largest trading partner, after China, the US and Russia. In 2003-2017, the EU accounted for 72% of Turkey's FDI inflows ($98bn). And, despite a drop over the past two years, the EU still accounts for about 40% of tourism flows to Turkey.

(a) Outline why Turkey's GDP ranking is higher when measured in terms of purchasing power parity. [2]

(b) Using a labour market diagram and the data, assess the likely effects of the increases in the Turkish national minimum wage between 2014 and 2018. [9]

(c) Using the data, discuss the extent to which the Turkish economy might have benefitted from the change in the lira exchange rate over the period shown in **Figure 2**. [11]

(d) President Erdogan's view was that high interest rates cause inflation rather than reduce it. Using diagrams, discuss whether high interest rates are more likely to reduce inflation than to increase it. [9]

(e) Using the data, evaluate the possible economic effects on the Turkish economy of Turkey becoming a full member of the European Union. [9]

END OF PAPER