2.27 International Competitiveness: Measures and Determinants: 30-minute Pack

AQA 7136 · Calculators not allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for extended answers (questions worth 4 marks and above). No calculator is allowed. Allow approximately 30 minutes for the whole pack.

1 Give a definition of unit labour cost.

(Total for Question 1 is 2 marks)

2 Relative unit labour costs, UK versus Germany. Table: UK average annual wage per worker £32,000 and output per worker £80,000. Germany average annual wage per worker £36,000 and output per worker £100,000.

(a) Calculate the unit labour cost for the UK and for Germany (wage/output per worker). Show working; give three decimal places. **(4)**

(b) Calculate the UK relative unit labour cost index using Germany as base (Germany = 100). Show working and explain briefly what a value above 100 would imply for UK competitiveness. **(2)**

(Total for Question 2 is 6 marks)

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3 Data-response: analyse the fictional 2024 competitiveness indices for the UK compared with two peers.

(Total for Question 3 is 9 marks)

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Mark scheme · 2.27 International Competitiveness: Measures and Determinants: 30-minute Pack

Question 1

definition: unit labour cost = average wage per worker divided by output per worker, measuring the labour cost of producing one unit of output	**B1**
explains that it shows the labour cost component of a firm's unit cost and is used to compare price competitiveness across countries	**B1**

Answer: Unit labour cost = average wage per worker divided by output per worker, showing the labour cost of producing one unit of output and used to compare labour-related price competitiveness across countries.

Question 2

(a) method: unit labour cost = wage per worker / output per worker for each country	**M1**
(a) UK ULC = 32000 / 80000 = 0.400 (to three decimals 0.400)	**A1**
(a) Germany ULC = 36000 / 100000 = 0.360 (to three decimals 0.360)	**A1**
(a) both correct values to three decimal places	**B1**

(a) Answer: UK ULC = 0.400; Germany ULC = 0.360.

(b) method: relative index = (UK ULC / Germany ULC) x 100	**M1**
(b) calculation: (0.400 / 0.360) x 100 = 111.111..., awrt 111.1, meaning UK unit labour costs are about 11.1% higher than Germany's, reducing price competitiveness other things equal	**A1**

(b) Answer: Relative ULC index = (0.400/0.360)*100 = 111.1, implying UK unit labour costs are about 11.1% higher than Germany's and therefore UK price competitiveness is weaker other things equal.

Question 3

Level 1 Basic analysis identifying one or two obvious points from the table with minimal use of the data, such as stating that the UK overall index is lower than Competitor B.	**1-3**
Level 2 Reasonable analysis using the data to identify strengths and weaknesses, with some explanation of implications for price and non-price competitiveness and at least one comparison between the UK and a competitor.	**4-6**
Level 3 Detailed, data-led analysis that interprets the indices clearly, links unit labour costs and non-price indices to the overall ranking, evaluates likely impacts on export performance and suggests plausible policy implications, with multiple comparisons to Competitors B and C.	**7-9**

Indicative content:

- Observe that the UK's overall competitiveness index is 96, below Competitor B (102) and Competitor C (100), indicating relatively weaker overall competitiveness in 2024.
- Note the UK unit labour cost index is 110, higher than both peers, suggesting UK labour cost per unit of output is about 10% higher than in 2018 and higher than competitors, which weakens price competitiveness.
- Note the UK non-price competitiveness index is 95, below Competitor B (104) and Competitor C (101), suggesting UK relative weaknesses in quality, design, branding, reliability or after-sales service.
- Linkage: since both unit labour cost and non-price indices are weaker, they help explain the lower overall index; high unit labour costs raise relative export prices while weak non-price factors reduce attractiveness even if prices were similar.
- Compare with Competitor B which has strong non-price competitiveness (104) and lower unit labour costs (100), explaining its top overall index 102; Competitor C is intermediate with unit labour costs 105 and non-price 101, giving overall parity with the base.
- Evaluate likely impacts: UK exporters may lose market share to Competitor B on both price and quality grounds; the UK may need policies to raise productivity and improve non-price aspects such as R&D and branding.
- Consider limitations: indices are synthetic and may mask sectoral variation; exchange rates and demand conditions also matter but are outside this table.

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