2.27 International Competitiveness: Measures and Determinants

AQA 7136 · Calculators not allowed · about 75 minutes · Write-in edition

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 75 minutes for the whole pack.

1 Give a definition of unit labour cost.

(Total for Question 1 is 2 marks)

2 State two government supply-side measures to improve competitiveness.

(Total for Question 2 is 2 marks)

3 Explain why competitiveness matters for growth and employment in the UK.

(Total for Question 3 is 6 marks)

4 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 4 is 6 marks)

5 Evaluate the policies a government could use to improve the international competitiveness of the UK economy.

(Total for Question 5 is 25 marks)

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

(Total for Question 6 is 9 marks)

Mark scheme · 2.27 International Competitiveness: Measures and Determinants

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

one valid measure named with brief reason, e.g. increased spending on vocational training to raise labour skills and productivity — **B1**

second valid measure named with brief reason, e.g. investment in transport/internet infrastructure to reduce business costs and improve reliability — **B1**

Answer: E.g. more vocational training to raise skills and productivity; investment in transport and digital infrastructure to lower costs and improve reliability.

Question 3

identifies a reason, e.g. higher competitiveness boosts exports and demand for UK-produced goods — **M1**

develops how higher export demand raises firms output and income, leading to higher real GDP — **A1**

identifies a second reason, e.g. rising competitiveness encourages investment by firms and attracts foreign direct investment — **M1**

develops how higher investment increases productive capacity and creates jobs, lowering unemployment — **A1**

additional development linking competitiveness to sustainable long-run growth via productivity and innovation — **M1**

explains that sustained competitiveness improvements can raise living standards through higher employment and wages — **A1**

Answer: Higher competitiveness can boost exports and demand for UK output, raising real GDP and supporting higher employment; it can also attract investment and encourage firms to expand and innovate, increasing productive capacity and creating jobs, so sustained competitiveness gains contribute to long-run growth and improved living standards.

Question 4

(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 5

Level 1 Basic knowledge of a few policies. Little or no analysis or evaluation. Answer is generic with no contextual detail. — **1-5**

Level 2 Some accurate knowledge and some application to the UK context. Limited analysis of how policies affect competitiveness. Evaluation is brief or one-sided. — **6-10**

Level 3 Clear knowledge and application, with analysis of how a range of policies influence price and non-price competitiveness. Some evaluation of strengths and weaknesses and reference to timing or trade-offs. — **11-15**

Level 4 Detailed, well-developed analysis of multiple policies with good UK-specific application. Balanced evaluation, considering costs, time lags, distributional effects and interactions between policies. A tentative judgement is given. — **16-20**

Level 5 Comprehensive and sustained analysis with strong UK context, integrating evidence and examples. Evaluation weighs alternative policies, considers magnitude and feasibility, and reaches a supported, balanced judgement on which policies will most effectively deliver sustained improvements in competitiveness. — **21-25**

Indicative content:

- Define the distinction between price competitiveness (unit costs, export prices, real exchange rate) and non-price competitiveness (quality, design, branding, reliability, after-sales service, innovation).
- Policy options to improve price competitiveness: policies to raise productivity (investment tax credits, capital allowances, support for R&D to raise multifactor productivity), training and apprenticeships to raise labour productivity, infrastructure investment to reduce business costs, and targeted support for capital investment.
- Policy options to improve non-price competitiveness: support for R&D and innovation grants, tax incentives for product development, export promotion and trade missions to build brands, support for quality standards and certification, and grants for after-sales service development.
- Monetary and fiscal context: although monetary policy is outside direct government control, fiscal discipline matters; one-off tax cuts can boost competitiveness in the short run but risk crowding out investment or reducing funds for supply-side spending.
- Discuss time horizons: supply-side reforms like education and infrastructure take many years to shift LRAS and productivity, while some interventions such as grants or tax breaks for investment can have faster but possibly smaller effects.
- Trade-offs and constraints: funding these policies requires taxation or borrowing, potential crowding-out of private investment, and political economy issues; regional disparities may mean policies help some sectors/regions more than others.
- Interactions: combining policies is more effective, for example linking vocational training with employer-led apprenticeships and local infrastructure improvements, and coordinating R&D support with university-business links.
- Distributional and transitional effects: some policies may temporarily disadvantage low-skilled workers if technology increases capital intensity, so active labour market policies and retraining are important.
- Feasibility and magnitude: evaluate which policies are likely to deliver the biggest sustained gains for the UK, for example prioritising productivity-raising measures that target sectors with export potential, and improving non-price factors in high-value sectors such as advanced manufacturing and services.
- Judgement: a supported conclusion that a mix of targeted supply-side measures to raise productivity and non-price competitiveness, combined with strategic investment in infrastructure and skills, is the most likely route to sustained improvement, with a clear acknowledgement of time lags and budgetary constraints.

Question 6

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.