



ECO.MAC25 International Competitiveness: Measures and Determinants

AQA 7136 · Calculators not allowed · about 120 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 120 minutes for the whole pack.

- 1** Define the term 'international competitiveness' in the context of a national economy such as the UK. Name the topic and the country in your answer.
Define international competitiveness for a national economy such as the UK.

(Total for Question 1 is 1 mark)

- 2** State one non-price factor that can improve the international competitiveness of UK exports, naming the factor and the UK context.
State one non-price determinant of competitiveness for UK exporters.

(Total for Question 2 is 1 mark)

- 3** Explain briefly why productivity growth in the UK matters for international competitiveness, stating the mechanism connecting productivity to competitiveness.
Explain why UK productivity growth affects competitiveness.

(Total for Question 3 is 2 marks)

- 4** Relative unit labour costs, UK versus Germany. Table: UK average annual wage per worker GBP 32,000 and output per worker GBP 80,000. Germany average annual wage per worker GBP 36,000 and output per worker GBP 100,000. Calculate (a) UK unit labour cost and Germany unit labour cost (wage divided by output per worker), to three decimal places; (b) calculate the UK relative unit labour cost index with Germany as the base (Germany = 100). Show all working. Explain briefly what a value above 100 would imply for UK competitiveness.

(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 interpret a value above 100 briefly for competitiveness. (2)

(Total for Question 4 is 6 marks)

- 5 Define 'unit labour cost' as used in international competitiveness analysis, stating the formula and what each term means.

Give a definition of unit labour cost.

(Total for Question 5 is 2 marks)

- 6 Explain how the real exchange rate influences international competitiveness of UK goods and services, describing the economic mechanism but not analysing exchange-rate policy. Mention the real exchange rate and its effect on relative export prices and import prices.

Explain the link between the real exchange rate and international competitiveness for the UK.

(Total for Question 6 is 4 marks)

- 7 Relative export prices. A simple dataset: UK average export price index = 105 (base 2015 = 100). Competitor country A export price index = 98 (base 2015 = 100). Calculate the UK relative export price index using Country A as the base (Country A = 100). Show working and state briefly what a value above 100 implies for UK international price competitiveness.

Calculate and interpret a relative export price index for the UK versus a competitor.

(Total for Question 7 is 4 marks)

- 8 State two supply-side government measures a UK government could use to improve the country's international competitiveness. Name each measure and give one brief reason why it would help competitiveness.

State two government supply-side measures to improve competitiveness.

(Total for Question 8 is 2 marks)

- 9 Extract: UK competitiveness ranking and indicators. The table below summarises a fictional recent competitiveness report for the UK and two peers. Indicators are indexed to 2018 = 100. Table: Indicator index values (2018 = 100):

Year 2024: UK overall competitiveness index 96; UK unit labour cost index 110; UK non-price competitiveness index 95. Competitor B overall index 102; unit labour cost index 100; non-price competitiveness index 104. Competitor C overall index 100; unit labour cost index 105; non-price competitiveness index 101.

Using the table above, analyse what the pattern of indices suggests about the UK's strengths and weaknesses in international competitiveness compared with Competitors B and C. In your answer, use the data to support your analysis. (9 marks)

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

(Total for Question 9 is 9 marks)

- 10** Explain two reasons why international competitiveness matters for the UK economy in terms of economic growth and employment. Give one paragraph per reason and link to outcomes.
Explain why competitiveness matters for growth and employment in the UK.

(Total for Question 10 is 6 marks)

- 11** Assess how investment in vocational training aimed at boosting labour productivity could affect the UK's non-price and price competitiveness. Give a short analysis weighing benefits and limitations. (4 marks)
Analyse the effects of vocational training investment on UK competitiveness.

(Total for Question 11 is 4 marks)

- 12** Essay: Evaluate the policies a UK government could use to improve the international competitiveness of the UK economy. In your answer, consider both price and non-price measures, give examples of supply-side policies, discuss timing and trade-offs, and reach a supported judgement about which policies are likely to be most effective for sustained improvement in UK competitiveness.
Evaluate the policies a government could use to improve the international competitiveness of the UK economy.

(Total for Question 12 is 25 marks)

Mark scheme · ECO.MAC25 International Competitiveness: Measures and Determinants

Question 1

- **B1** a concise definition that the ability of a country to sell goods and services successfully in world markets, judged by relative price and non-price factors compared to other countries
- **Answer: The ability of a country such as the UK to sell goods and services successfully in international markets, judged by relative price and non-price strengths compared with other countries.**

Question 2

- **B1** one valid non-price factor named, e.g. product quality, design, branding, after-sales service, reliability, or skilled labour
- **Answer: E.g. high product quality for UK exporters.**

Question 3

- **M1** identifies that higher productivity lowers unit labour costs per unit of output
- **A1** explains that lower unit labour costs allow firms to reduce prices or increase profit margins and reinvest in quality or branding, improving competitiveness
- **Answer: Higher productivity reduces unit labour costs per unit of output, enabling UK firms to lower export prices or increase margins to invest in non-price strengths like quality and design, improving competitiveness.**

Question 4

- (a) **M1** method: unit labour cost = wage per worker / output per worker for each country
- (a) **A1** UK ULC = $32000 / 80000 = 0.400$ (to three decimals 0.400)
- (a) **A1** Germany ULC = $36000 / 100000 = 0.360$ (to three decimals 0.360)
- (a) **B1** both correct values to three decimal places
- (a) **Answer: UK ULC = 0.400; Germany ULC = 0.360.**
- (b) **M1** method: relative index = $(\text{UK ULC} / \text{Germany ULC}) \times 100$
- (b) **A1** calculation: $(0.400 / 0.360) \times 100 = 111.111\dots$, awrt 111.1, meaning UK unit labour costs are about 11.1% higher than Germany's, reducing price competitiveness other things equal
- (b) **Answer: Relative ULC index = $(0.400/0.360) \times 100 = 111.1$, 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

- **B1** 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
- **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 6

- **M1** defines the real exchange rate as the nominal exchange rate adjusted for relative price levels between countries
- **A1** explains that a real depreciation makes UK goods cheaper for foreign buyers and imports more expensive for UK buyers, improving price competitiveness and encouraging substitution towards domestically produced goods
- **M1** explains that a real appreciation has the opposite effect, making exports relatively more expensive and reducing price competitiveness
- **A1** notes that the impact depends on price elasticities and non-price factors, so the real exchange rate is one important determinant but not the sole factor
- **Answer: The real exchange rate, the nominal rate adjusted for relative prices, affects competitiveness because a real depreciation makes UK exports cheaper and imports more expensive, improving price competitiveness; a real appreciation makes the opposite change, but the overall effect depends on elasticities and non-price factors.**

Question 7

- **M1** method: relative index = (UK export price index / competitor index) x 100
- **A1** calculation: $(105 / 98) \times 100 = 107.142857...$, awrt 107.1
- **M1** interpretation: value above 100 means UK export prices are higher than the competitor's, reducing UK price competitiveness other things equal
- **A1** clear statement of magnitude: UK export prices are about 7.1% higher than Country A's
- **Answer: Relative export price index = $(105/98) \times 100 =$ awrt 107.1, implying UK export prices are about 7.1% higher than Country A's and so UK price competitiveness is weaker other things equal.**

Question 8

- **B1** 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
- **Answer: E.g. more vocational training to raise skills and productivity; investment in transport and digital infrastructure to lower costs and improve reliability.**

Question 9

- **Level 1** (1-3): 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.
- **Level 2** (4-6): 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.
- **Level 3** (7-9): 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.
- **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.

Question 10

- **M1** identifies a reason, e.g. higher competitiveness boosts exports and demand for UK-produced goods
- **A1** develops how higher export demand raises firms output and income, leading to higher real GDP
- **M1** identifies a second reason, e.g. rising competitiveness encourages investment by firms and attracts foreign direct investment
- **A1** develops how higher investment increases productive capacity and creates jobs, lowering unemployment
- **M1** additional development linking competitiveness to sustainable long-run growth via productivity and innovation
- **A1** explains that sustained competitiveness improvements can raise living standards through higher employment and wages
- **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**

Question 11

- **M1** identifies that vocational training raises workers skills and productivity, lowering unit labour costs and improving price competitiveness
- **A1** explains that higher skills can also improve product quality, reliability and innovation, strengthening non-price competitiveness
- **M1** identifies a limitation, e.g. time lags, cost of training, possible mismatch between training and employer needs
- **A1** evaluates by noting that benefits may take years to materialise and require complementary measures such as employer engagement to be effective
- **Answer: Vocational training can lower unit labour costs and improve quality, helping both price and non-price competitiveness, but effects take time, require adequate funding and alignment with employer needs, and may be limited if other constraints such as poor infrastructure remain.**

Question 12

- **Level 1** (1-5): Basic knowledge of a few policies. Little or no analysis or evaluation. Answer is generic with no contextual detail.
- **Level 2** (6-10): Some accurate knowledge and some application to the UK context. Limited analysis of how policies affect competitiveness. Evaluation is brief or one-sided.
- **Level 3** (11-15): 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.
- **Level 4** (16-20): 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.
- **Level 5** (21-25): 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.
- **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.