

Synoptic Topic: Competition Policy and International Competitiveness

Q1

Match up the terms with their definitions.

Restrictive Practice	A policy to increase aggregate demand though encouraging greater exports.
State Aid	Unspoken collusion (illegal).
Windfall Tax	When a regulator is effectively hijacked by the regulated firm or industry.
Imported inflation	A one-off tax imposed on unexpected profits.
Price Cap	Any action by a firm that reduces competition.
Export drive	Cost-push inflation caused by a weak currency and price inelastic demand for foreign raw materials.
Tacit Collusion	Government financial assistance through subsidies and grants to a particular firm or industry.
Regulatory Capture	A maximum price imposed by the government for a particular firm or industry.

Q2

UK Trade and Investment (UKTI) is a government body aimed at overseeing and coordinating export performance. To increase the value of exports, UKTI will concentrate resources on those markets and sectors in which the UK is or can be a strong competitor. It will also bring together the best of public and private sector experience to develop targeted export campaigns connecting international demand to UK supply.

State and briefly explain two reasons why UKTI might wish to increase the value of UK's exports.

State and briefly explain two factors that may prevent the UK being a strong competitor in foreign markets.

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Q3

Two groups have signalled their interest in buying the British assets of Tata Steel after it was put up for sale in March 2016, offering hope that thousands of jobs could be saved after weeks of uncertainty. Sanjeev Gupta's metals group Liberty House and a management buyout team called Excalibur said they had submitted an initial expression of interest in buying the assets. The two groups had been racing to submit their interest after India's Tata had been hit by cheap Chinese imports, soaring costs and weak demand. Keen to avoid the loss of 10,000 jobs, the government has offered hundreds of millions of pounds in support to potential buyers and said it could take a 25 percent stake in the firm.

UK Reuters

Write two PEEEL paragraphs, one arguing FOR state aid to assist Tata Steel and one AGAINST.

Point	
Explain	
Evidence	
Evaluation	
Link Back to question	
Point	
Explain	
Evidence	
Evaluation	
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Q2

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State and briefly explain two reasons why UKTI might wish to increase the value of UK's exports.

- **An increase in the value of UK's exports will see a rise in aggregate demand which will create short term growth in the form of a rise in the real GDP. The inflow of money will have a multiplier effect as it is an injection into the circular flow, and thus the value of the extra imports will create a proportionately larger rise in national income.**
- **An increase in the value of UK's exports will create a positive flow of money into the UK's balance of trade, thus helping to reduce the current account deficit.**

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State and briefly explain two factors that may prevent the UK being a strong competitor in foreign markets.

- **The UK has relatively high labour costs and rent costs, meaning our costs of production may be such that it is difficult to compete on price in foreign markets**
- **A strong Sterling exchange rate will mean that UK exports appear expensive, even if the UK manufacturers are productively efficient and have a low price for their goods and services.**

Q3

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Write two PEEEL paragraphs, one arguing FOR state aid to assist Tata Steel and one AGAINST.

Argument for	
Point	State aid is financial assistance from the government, often in the form of grants or subsidies to reduce the costs of production and to enable a firm to continue trading.
Explain	The financial aid can allow the firm to charge a lower price but avoid making losses because of the lower costs of production. It is often used in key industries, or industries of national importance. This is necessary in this case not because the steel industry has become inefficient, but due to external shocks such as cheap Chinese imports and a weakening demand from the global slowdown. This is a 'sunset' industry, and thus the state aid will ease the long term demise of this industry.
Evidence	Steel manufacturing is a key industry in the UK, and one that employs many thousands of people. It has been supported in the past through nationalisation
Evaluation	The state aid is justified in this incidence as at a time of such uncertainty, the job losses will add to unemployment in a significant way.
Link Back to question	If the aid is to ease the loss of the industry, it will be seen by competitors as a necessary step.

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Argument against	
Point	State aid is not justified as this will just prolong the inevitable end of the UK's steel industry, and it distorts competition.
Explain	State aid is a form of protectionism, protecting the industry from the free market forces of demand and supply. This form of protectionism allows inefficiencies in the industry to continue, and distorts true competition in the form of cheaper Chinese imports.
Evidence	The state aid would allow Tata Steel to continue to trade, despite the fact that if left exposed to market forces, the industry would close down.
Evaluation	It depends on how important the UK steel industry is to the UK economy. If it is considered a key industry and it is vital that we retain steel making skills within the UK, then the state aid is justified.
Link Back to question	The state aid will distort competition and protect an inefficient industry, but may protect key skills that we wish to retain in the UK.