Oxford Cambridge and RSA

Monday 12 May 2025 – Morning

A Level Economics

H460/01 Microeconomics

Time allowed: 2 hours

You can use:
- a scientific or graphical calculator

Please write clearly in black ink. **Do not write in the barcodes.**

Centre number | | | | | | Candidate number | | | | |

First name(s) _____

Last name _____

INSTRUCTIONS
- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions in Section A, **one** question in Section B and **one** question in Section C.

INFORMATION
- The total mark for this paper is **80**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **20** pages.

ADVICE
- Read each question carefully before you start your answer.

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Section A

Read the stimulus material and answer **all** the parts of Question 1.

Bottled water in the UK

Opinions often differ as to which is better, bottled or tap water? Bottled water has seen a huge increase in its popularity in the last 50 years. Bottled water consumption in the UK has increased from just one 300ml bottle per head in the mid-1970s to 37 litres a head in 2021, according to Retail Economics' chief executive.

It was often assumed that the biggest reason for the rise in sales of bottled water was its convenience but studies have shown that over half of the plastic bottles were consumed in the home. The consumption of plastic bottles creates external costs. Their production creates CO_2 emissions and this environmental impact continues from their transportation right through to when they are discarded. Some plastic bottles take over 500 years to decompose in landfill sites. They are one of the most common items found in the stomachs of sea life such as dolphins and whales.

With the UK having some of the cleanest tap water in the world, it is understandable why environmental groups campaign against the use of plastic bottles for water. This would appear to be an example of information failure in the consumption of water.

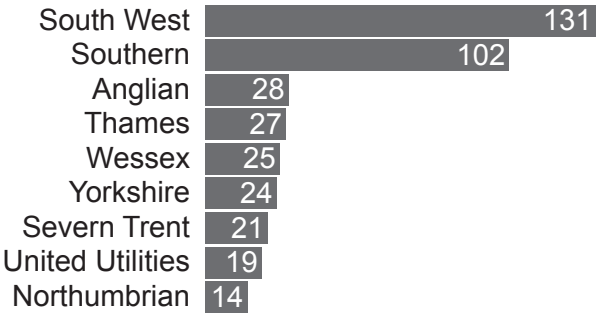
Branded water has been the driving force behind the growth in sales with Britons spending £1bn out of a total market spend of £1.6bn on brands such as Evian and Volvic. 3.5 billion plastic water bottles are consumed each year and 2.5 billion of these are from branded water bottles. Some economists predict that with the trend in increased advertising by these water brands, this could rise to 2.8bn bottles in 2028.

The UK Water industry

Both the market power and the environmental impact of the water industry have been a topic of much debate in the UK recently. Water companies are permitted by the regulator to release untreated sewage into the UK's network of rivers and the sea when there are high levels of rainfall. United Utilities recently paid out over £300m in dividends to its shareholders, yet, according to data from the Environment agency it is one of England's most polluting water companies.

Fig. 1
Pollution incidents by water companies 2020

Incidents per 10,000 km (6,214 miles) of sewers in 2020



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Over 200 000 people work in the industry itself, or in related employment. The industry has been striving to achieve a net zero carbon emission target by 2030 with initiatives such as increased renewable energy generation, planting trees to restore original woodland habitats and encouraging consumers to reduce water consumption.

The English and Welsh water industry was privatised in 1989. Most water and sewage companies act as regional monopolies. Each has their own dedicated set of pipes providing water into their area.

Fig. 2
Overflowing with cash

Company	Revenue (£)	Operating profit (£)
Anglian Water	1.4bn	392m
Northumbrian Water	758m	195m
Severn Trent Water	1.7bn	458m
Southern Water	820m	139m
South West Water	544m	198m
Thames Water	2.1bn	489m
United Utilities	1.8bn	602m
Wessex Water	517m	160m
Yorkshire Water	1.1bn	241m
Total	**10.7bn**	**2.8bn**

Regulation of the water industry

The industry is regulated by the office of the water regulator (OFWAT) which is responsible for ensuring that the industry delivers good value for consumers and the environment. Where appropriate they will also promote competition in the market. Critics of privatisation have long argued that an industry such as water, where the need for infrastructure makes competition almost impossible, should have remained under government control.

Recently OFWAT has been accused of having too close a relationship with the biggest water companies. Two thirds of water companies employ former OFWAT employees in senior executive roles within their companies. One of the biggest water companies, Thames Water, is on the brink of collapse with around £14bn of debts.

The regulator has allowed the water companies to raise prices since privatisation. The average water bill has risen in real terms since 1989 but has remained stable since 2010. Water companies argue that price rises are needed to fund investment into infrastructure and to improve the quality of drinking water.

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(a) Refer to **lines 7–11**.

(i) Using information from the stimulus material, explain the term **external costs**.

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..... **[2]**

(ii) Using information from the stimulus material, explain the term **information failure**.

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(b) Refer to **lines 15–19**.

Calculate the percentage change in branded water bottle consumption predicted by 2028.

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(c) ‘Bottled water has seen a huge increase in its popularity in the last 50 years.’ **Lines 1–2.**

Explain, using an appropriate diagram, the impact on the level of producer surplus of an increase in demand for bottled water.

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..... **[4]**

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(d) 'Both the market power and the environmental impact of the water industry have been a topic of much debate in the UK recently.' **Lines 20–21.**

Evaluate, using evidence from the stimulus material, whether there is market failure in the water industry.

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(e)* Two-thirds of England's biggest water companies employ key executives who previously worked at the water regulator OFWAT. **Lines 38–39**.

Evaluate, using evidence from the stimulus material, whether regulation of the water industry is beneficial to consumers. **[12]**

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Section B

Answer Question **2 or** Question **3**.

2* The term 'Pepsi price power' has been used to describe how the soft drink giant has been able to increase their revenue by raising price even against the backdrop of cost pressures caused by recent economic shocks worldwide.

Evaluate, using an appropriate diagram(s), the extent to which the principal agent problem is the main factor influencing the choice of objective for a firm. **[25]**

OR

3* The price of oil rose to $79.90 per barrel in July 2023. Over the same period, food price inflation reached 13.4% in the UK.

Evaluate, using an appropriate diagram(s), the extent to which a rise in the price of oil will always lead to a rise in the price of goods and services sold in UK supermarkets. **[25]**

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Section C

Answer Question **4 or** Question **5**.

4* Supporters of the free market have long argued that supply and demand lead to the most effective allocation of society's scarce resources. However, those in favour of a more interventionist approach have cited the recent high prices of essentials such as gas, electricity and basic foodstuffs as a reason for greater government control in markets.

Evaluate the extent to which the free market is the most effective way to ensure an efficient allocation of resources. **[25]**

OR

5* During the COVID pandemic the UK government used information provision in various ways. These included advice on washing hands, the importance of vaccinations and lockdown rules for households and workspaces.

Evaluate the extent to which information provision is effective at incentivising consumers to change their behaviour. **[25]**

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END OF QUESTION PAPER

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EXTRA ANSWER SPACE

If you need extra space use these lined pages. You must write the question numbers clearly in the margin.

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