

2 Using Extract E, evaluate the likely impact of falling crude oil prices on the UK economy.

(20)

I will evaluate two possible benefits to the UK economy and two possible negatives to the UK economy.

The first possible benefit to the UK economy is a reduction in transport costs for ~~the~~ both businesses and consumers. As can be seen from figures 1 + 2 when oil prices rise or fall the price of diesel rises and falls with it. A fall in oil prices will likely bring a reduction in diesel prices then. This reduces the cost for businesses that offer transport services thereby increasing their profit margins. It also reduces the costs of individual consumers with diesel cars. This benefits the UK economy because consumer spending may increase due to increased disposable income. Also the transport industry could re-invest its increased profits on improving its service which benefits everyone using it.

A possible negative impact to the UK economy of falling oil prices is that the UK fuel industry could suffer, BP and Shell could see reduced profit margins. These are very large companies and a cut to their profits could see investment fall. This would be bad for



the UK economy as it could reduce innovation from other UK firms and reduce the UK's global competitiveness.

The second possible benefit could be that because crude oil gets made into so many products such as plastics, fertilizer and man-made fabrics (line 5). Companies across the economy could see the cost of their materials fall. This could benefit the economy as businesses now have the choice of ~~to~~ keeping increased profit for reinvestment and improvement, or to pass the savings onto the consumer as lower prices to increase competitiveness.

The second possible negative impact for the UK economy could be that the reduced prices make fracking for oil ~~not~~ in the UK unviable. If prices were higher then fracking might be considered reasonable. This could benefit the UK economy as exporting this oil to other countries would help to address the balance of trade in the UK which is currently weighted towards imports. Exporting oil could reduce the trade deficit and benefit us by helping to pay off the national debt. Unfortunately because prices are low and falling it is hard to justify the investment into fracking.

In conclusion I believe the falling prices



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to be overall good for the economy. <sup>A large part of</sup> ~~the economy~~  
economy can benefit from reduced ~~the~~ costs  
because crude oil goes ~~it~~ into so many things.  
~~and~~ Even though fracking may be possible  
to benefit us if prices were higher the global  
shift towards renewable energy sources would  
still likely be a more valuable investment. For example  
in the USA 2.5x more people are employed in  
renewable energy than the oil industry so it may  
be a bad investment even if prices were higher.

(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS

