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Answers

Exam-style questions

Questions on nationalisation

Steve Stoddard

This resource provides answers to the questions posed in the Exam-Style Questions column, in the November 2025 issue of ECONOMIC REVIEW.

Question 1

Using Table 1, calculate the mean annual number of Category 1 (major) pollution incidents in England from 2014 to 2022. Give your answer to one decimal place. (2 marks)

Answer

$$(53 + 51 + 51 + 42 + 69 + 41 + 47 + 47 + 43) / 9 = 444/9 = 49.33$$

- Answer = 49.3 (1dp)
- 1 mark for correct answer not rounded to 1dp (e.g. 49 or 49.33)
- 1 mark for correct method but incorrect final answer

Question 2

Explain how the data in Table 1 and Table 2 may show that the water industry is negatively affecting living standards in the UK. (4 marks)

Answer

Relevant points include:

- Number of major pollution incidents remained above 40 per year for the whole period, peaking in 2018, while serious pollution incidents remained above 200 per year, peaking in 2014. These incidents could lead to reduced quality of water, reducing living standards.
- Water and sewerage bills rose at a rapid rate between 2025 and 2026, between 19% (Anglian) and 47% (Southern). This would reduce households' real disposable (discretionary) incomes, reducing living standards.

Question 3

With the help of a diagram, explain why a privatised water industry may not be statically efficient. (9 marks)

Answer

Relevant points include:

- Definitions, e.g. of static efficiency/inefficiency
- Reasons why a privatised, profit-maximising firm with monopoly power will produce where $MC = MR$, at a level of output lower than the productively efficient and allocatively efficient levels.
- Reference to data in Tables 1 and 2
- Use of relevant diagram(s), e.g. monopoly diagram

Question 4

Discuss the view that previously privatised industries such as water, gas and electricity in the UK should be re-nationalised. (25 marks)

Answer

Possible issues to include:

- Understanding of privatisation, nationalisation and other aspects of competition policy
- Reference to Tables 1 and 2

Relevant points for analysis:

- Explanation of how a privatised utility industry may fail to achieve static efficiency
- Explanation of how a nationalised industry may be more likely to achieve static efficiency
- Explanation of how a privatised industry may achieve dynamic efficiency
- Explanation of how a nationalised industry may be less dynamically efficient
- Explanation of other potential methods, e.g. regulation, price controls
- Use of relevant diagram(s)

Relevant points for evaluation:

- Nationalisation may lead to more desirable outcomes in terms of optimal provision of utilities such as water, gas and electricity
- Costs of re-nationalisation
- Natural monopoly arguments
- 'Commanding heights' argument, i.e. some industries such as the utilities may be strategically important and so should not be in private ownership
- Scope for government failure, e.g. regulatory capture, imperfect information, political bias