

# Essential Services - State Control or PPP?

Government ownership, social objectives, and mixed financing in utilities and transport

**HL**

Worksheet

<b>Suggested time</b> 65 minutes	<b>Total marks</b> 50	<b>Focus</b> public sector firms, merit goods, privatization, PPPs, stakeholder trade-offs
<b>Assessment</b> Trimester worksheet	<b>Student</b> Name: _____ Class: _____	<b>Calculator</b> Not required

Teacher-created IB-style worksheet. Use relevant business terminology and support longer answers with balanced reasoning. Credit well-justified alternatives that fit the context.

## Section A - Multiple choice (5 marks)

Choose one correct answer for each question.

- A merit good is most likely to be one that **[1]**
  - produces only private benefits
  - creates wider social benefits and may be under-consumed without intervention
  - must always be free
  - can be provided only by NGOs
- A public sector organization is most likely to reinvest surpluses in order to **[1]**
  - maximize private dividends
  - improve service delivery and access
  - avoid all accountability
  - sell more shares
- Privatization means **[1]**
  - government taking over a private business
  - a transfer from government ownership to private ownership
  - employees electing a manager
  - a company becoming a cooperative
- A PPP is attractive to governments mainly because it can **[1]**
  - eliminate all risk
  - combine private finance or expertise with public objectives
  - remove the need for regulation
  - guarantee equal outcomes for all stakeholders
- One key challenge in essential services is balancing **[1]**
  - fashion trends and advertising
  - universal access and financial efficiency
  - share prices and employee uniforms
  - tourism and entertainment

## Section B - Short answer (15 marks)

- Define a merit good. **[3]**

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- Explain why public sector organizations may reinvest surpluses rather than maximize profits. **[4]**

8. Explain one benefit and one drawback of government ownership for essential services. [4]

9. Distinguish between nationalization and privatization. [4]

### Section C - Data response / case study (18 marks)

#### AquaMetro

AquaMetro manages a metropolitan water utility and a light rail network. The government owns all of the water utility and 70% of the rail operator. The finance ministry is considering a PPP for a costly rail extension and is also debating whether to privatize a water-technology division that develops leak-monitoring software.

Supporters of reform argue that private expertise could speed innovation and reduce pressure on public budgets. Critics argue that majority public control is necessary because low-income households and remote communities depend on reliable, affordable services.

Selected service and project data	Value
Households served by water utility	900,000
Low-income households	32%
Annual water surplus reinvested into the system	\$18 million
Estimated cost of rural rail extension	\$480 million
Private consortium offer	Build and operate extension in 4 years with minimum revenue
Customer complaints per 1,000 accounts - water	4
Customer complaints per 1,000 journeys - rail	19

10. Analyse whether a PPP is likely to improve delivery of the rail extension. [6]

11. Analyse why partial privatization of the water-technology division could create both opportunities and stakeholder conflict. [6]

12. Recommend a governance model for AquaMetro's next stage of development. [6]



## Teacher answer key and marking guidance

Indicative answers are provided below. Equivalent valid points and alternative recommendations should receive credit when they are accurate and appropriately applied.

### Section A answers

Q	Answer	Guidance
1	B	Merit goods often justify public support because the market may underprovide them.
2	B	State-owned organizations often focus on service outcomes rather than shareholder payouts.
3	B	Privatization reduces direct state ownership.
4	B	PPPs can mobilize resources without full direct public funding.
5	B	Essential services often involve both social and financial objectives.

### Section B marking guidance

**Q6** A merit good is a product or service that generates wider social benefits and may be under-consumed if left entirely to market forces. Award up to 3 marks for a clear definition.

**Q7** Their purpose is often to improve access, reliability, equity, or long-term infrastructure rather than distribute returns to owners. Award up to 4 marks for a developed explanation.

**Q8** Benefit may include universal coverage, affordability, or accountability. Drawback may include bureaucracy, weaker efficiency incentives, or political interference. Award up to 4 marks for two developed points.

**Q9** Nationalization transfers ownership from private owners to government, while privatization transfers ownership from government to private investors. Award up to 4 marks for a precise contrast.

### Section C marking guidance

**Q10** A PPP may bring funding, project-management capability, and speed, especially for a \$480 million project. However, a minimum revenue guarantee could shift risk back to taxpayers and create future cost pressures. Award up to 6 marks for balanced analysis using case data.

**Q11** Opportunities include fresh investment, faster innovation, and possible commercialization of software. Conflicts may arise if private investors prioritize profit over affordability or if employees and households fear reduced public control. Award up to 6 marks for developed analysis.

**Q12** Accept full public ownership, a targeted PPP, selective privatization, or a mixed model if justified. Strong answers consider access, public trust, finance, service quality, and risk allocation. Award up to 6 marks for a well-supported recommendation.

### Section D marking guidance - Q13

#### Indicative content:

- Majority public ownership can protect affordability, universal access, and long-term infrastructure planning.
- Essential services often involve vulnerable users and merit-good or equity considerations.
- Private capital and expertise can still help with innovation, project delivery, and cost control.
- The effectiveness of mixed models depends on regulation, contract quality, and how risks are shared.
- State ownership alone does not guarantee efficiency, while privatization alone does not guarantee fair access.
- Evaluation should judge where majority ownership is necessary and where carefully regulated private participation can add value.

**Overall judgement:** High-level responses show that ownership design should fit the service and the risks involved, not ideology alone.

Marks	Descriptor
0	No relevant business knowledge or unsupported assertions only.
1-3	Limited understanding. Few relevant points with weak application to the context.
4-6	Some accurate knowledge and partial analysis. Application may be present but not consistently developed.
7-9	Good analysis with relevant application, business terminology, and some consideration of stakeholder trade-offs.
10-12	Strong, balanced and well-supported evaluation. Clear synthesis of evidence, stakeholder implications and a convincing final judgement.