

Edexcel GCE

Economics and Business

Advanced

**Unit 4B: The Wider Economic Environment and
Business**

January 2012 and June 2012

Paper Reference

6EB04/01

Pre-release material

To be opened on receipt

Advice to Centre Staff and Candidates

- Candidates are expected to be familiar with the evidence provided here for the Unit 4B question paper before entering the examination room.
- A copy of this pre-release material will be included in the question paper, together with some new evidence, which you should study carefully before answering the questions.
- Candidates will not be allowed to take copies of this pre-release material into the examination.

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Evidence A

Fuel taxation – international experience

Fuel duty is an excise tax imposed on the sale of fuel and applied in different ways at different levels in countries around the world to meet governments' varying objectives. These include revenue collection, reducing dependence on imported fossil fuels, reducing traffic and reducing pollution.



Diesel fuel used to power agricultural and construction site vehicles and home heating oil is usually taxed at a lower rate. By international treaty, most jet fuel used for international aviation attracts no duty, and no VAT. The Government has been urged to abolish this 'hidden subsidy' to the airline industry. This subsidy is worth £9.92bn at current levels of fuel tax, equivalent to 2p in the £ income tax.

Prior to crude oil price increases in 1973 and 1979, it was assumed that the price elasticity of demand for fuel was low. Taxation of fuel was regarded as a stable source of revenue given this level of price elasticity. However, the price elasticity of demand may change over time as new technologies and substitutes and/or complements become available. People may adjust their demand for fuel over a period of years as price increases, e.g. switching to more fuel-efficient cars, public transport, cycling, walking, carpooling, or travelling less. Oil price shocks in the 1970s induced a long-term reduction in energy consumption.

Differences in fuel tax across countries in Europe, coupled with minimal or no border controls, encourage drivers to cross borders to fill up their tanks with fuel.

(Source: adapted from <http://fueltaxinquiry.treasury.gov.au> and *The Independent*, 9 June 2008)

Evidence B

Transport costs push UK inflation above 3%

The Consumer Prices Index rose from 3% in February to 3.4% last month, according to the Office for National Statistics (ONS). It is the 17th time in the last 24 months that inflation has been higher than economists expected. The Retail Prices Index rose to 4.4% – its highest level since September 2008. The surge was largely due to petrol and diesel prices which increased 2.7% during the month. Diesel prices also have a knock-on effect on food and other goods delivered by road.

Britain has suffered a deep recession without seeing sustained deflation, thanks largely to the pound's 25% depreciation during the crisis. However, with inflation now stubbornly above the Bank's 2% CPI target, calls are growing for the Monetary Policy Committee (MPC) to start tightening policy.



Transport costs have risen 11.3% since 2009 – the biggest increase since records began in 1997. This year, motorists faced record costs after oil prices reached an 18-month high. The average price of a litre of petrol is now 120.9p compared to 95.2p a year earlier, according to the AA. The Government raised fuel duty by 1p in April and will implement a 1p increase in October with a further 0.76p in the New Year. Families spent 11% of income on food and 13% on transport in 2008 according to the ONS.

Unless inflation slows to 3% this month, Mr King will have to write another letter to the Chancellor for having missed the target in another quarter. The MPC voted to leave interest rates unchanged at 0.5% and to retain its £200bn quantitative easing programme at its latest meeting.

Britain still faces severe deflationary forces in the coming months, as the effects of the financial crisis feed their way through the economy. Jamie Dannhauser of Lombard Street Research said: "On balance, the evidence is consistent with minimal price pressures going forward. As the MPC has forecast, CPI inflation should fall rapidly later in the year and stay low through 2011. Given how deep this recession has been, the Committee will want to keep monetary conditions extremely easy to encourage a rapid recovery. A token hike in the Official Bank Rate could be on its way, but it will be many years before policy is normalised."

Changes in Bank Rate normally signify a marked change in the broad level of market rates.

(Source: adapted from *The Times*, 20 April 2010, *The Daily Telegraph*, 21 April 2010 and the ONS Family Expenditure Survey 2008)

Evidence C

Bus Service Operators Grant



(Photo source: Robert Togni, www.flickr.com/photos/43751625@N05)

Bus Service Operators Grant (BSOG) is paid by the Department for Transport (DfT) to reimburse bus operators for some of the excise duty paid on the fuel consumed in operating local bus services. Excluding concessionary travel, BSOG is the main source of bus support funded by the DfT; the rationale is the positive external benefits of lower congestion and an improved environment.

The current system has been reviewed given the need to address climate change. In reforming BSOG, the Department will create better incentives for operators, services for bus passengers and improved value for money.

(Source: adapted from Department for Transport, www.DfT.gov)

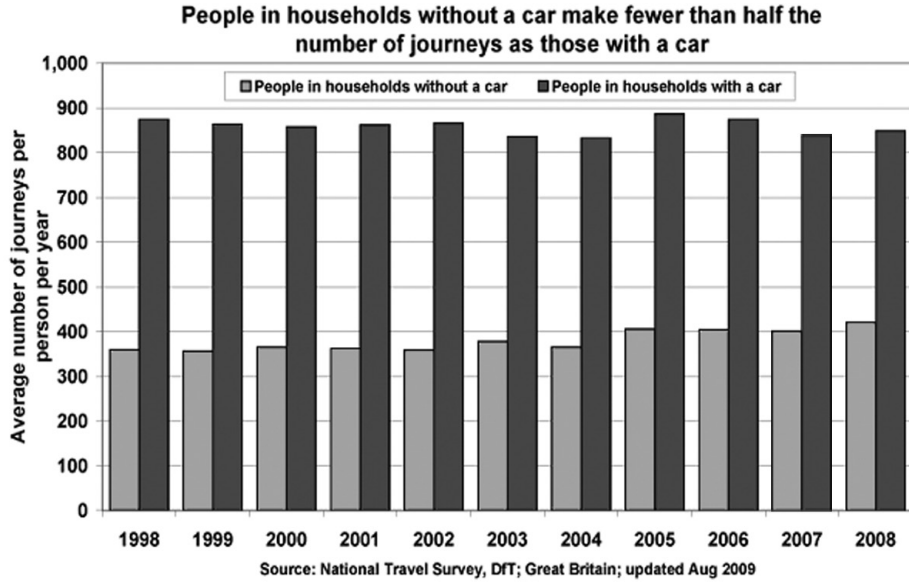
Evidence D

Selected road fuel price per litre comparisons			
Country	Price (sterling equivalent)		
	Unleaded	Diesel	LPG*
Belgium	123.86	101.06	48.00
Bulgaria	98.18	96.39	44.00
France	121.93	111.58	60.00
Germany	125.88	107.64	52.00
Netherlands	137.99	107.28	59.00
Hungary	111.62	103.34	54.00
Italy	121.85	113.78	55.00
Luxembourg	103.69	89.30	44.00
Poland	102.88	93.63	44.00
Spain	103.51	95.62	52.00
USA	49.50	52.89	unavailable
UK AVERAGE	120.50	121.60	63.00
Tax as a % of UK fuel prices	62.40	61.92	25.44

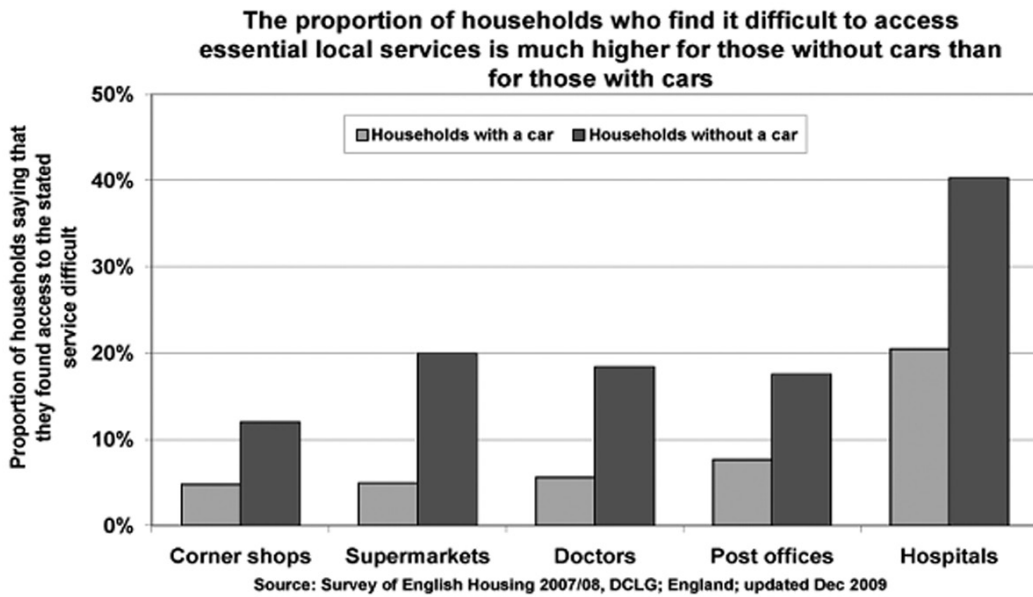
* Liquefied petroleum gas. A relatively cheap low carbon fuel which produces low emissions.

(Source: adapted from AA Fuel Price Report April 2010 and www.drivelpg.co.uk)

Evidence E



Evidence F



Evidence G

Number of cars declines for the first time since Second World War



(Photo source: Rhinocarhire.com)

The recession, the Government's scrappage scheme and stricter enforcement of laws against unroadworthy vehicles have led to a decline in the number of cars on British roads. There were 31 035 791 cars at the end of 2009, 0.7 % fewer than 2008.

The scrappage scheme gave drivers who traded in a 10-year-old car a £2 000 subsidy towards a new one. Industry experts believe that thousands of cars scrapped under the programme would otherwise have remained on the road.

Six million car owners also saw their road tax rise by more than double the rate of inflation because of new emission bands. Furthermore the price of motor insurance has risen. The car industry faced a tougher year, having lost both the support it enjoyed from the scrappage scheme and the introduction of a new showroom "green" tax, penalising less 'environmentally friendly' cars.

David Bailey of Coventry University, commented "We are seeing a shift in consumer habits with people thinking about the kind of car they have and how many vehicles they need". RAC Foundation director, Stephen Glaister said "This is likely to be a blip rather than the start of a trend. The population is forecast to rocket by ten million in the next twenty years. Individuals are driving less and lifestyle changes might mean more people working from home in the future, but with nine out of ten passenger journeys already being made on the roads, population growth – and economic recovery – will inevitably mean more cars. The challenge is to make vehicles greener."

(Source: adapted from *The Daily Telegraph*, 7 April 2010)

Evidence H

Uptown Oil

Uptown Oil is a licensed biodiesel manufacturer. It recycles cooking oil to make biodiesel, the most sustainable form of diesel fuel. A rise in duty of 20 pence per litre (ppl) in Spring 2011 means that Uptown Oil will have to pay 53 ppl in duty – double the duty on normal diesel oil. Uptown Oil argues that the new duty will be the death of the UK recycled biodiesel industry.

As Uptown Oil sells cooking oil and pays tax, the fuel is effectively taxed twice.

Note: Uptown Oil estimates that London's restaurants produce enough waste oil to fuel all London's black cabs and buses, simultaneously cutting carbon dioxide production and air pollution. Uptown Oil produces between 6 000 and 10 000 litres per week, mainly sold to taxi drivers, and employs ten people.

(Source: adapted from www.uptownoil.co.uk, 26 April 2010)

Evidence I

Uptown Oil

Co₂ produced per unit of energy

