



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2011

Economics

Assessment Unit AS 1

Markets and Prices

[AE111]

TUESDAY 31 MAY, AFTERNOON



TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in all questions **except 1(e)**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

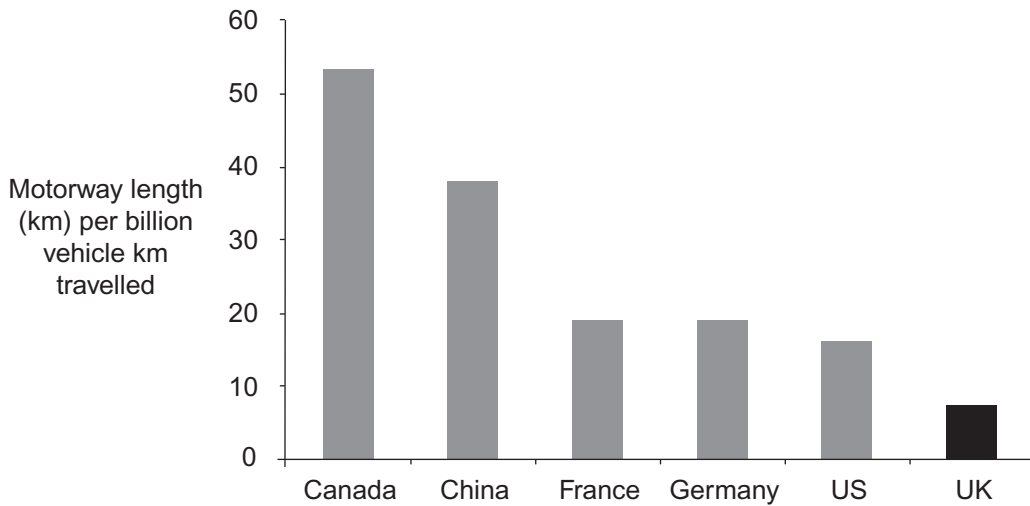
Question 1: Data response

The following passage was written in February 2010.

Study it carefully and answer the questions which follow.

“UK roads heavily congested”

Length of motorway as a proportion of the total number of km travelled by road



Adapted from: © Towards better transport by Richard Wellings and Briar Lipson edited by Oliver Marc Harwich published by Policy Exchange, 2008

Fig. 1

A report published recently claimed that, on international comparisons of motorway availability, the UK comes close to the bottom of the league tables. The report claims that, as a proportion of the total distance travelled, the UK has a shorter motorway network than any of its major competitors. This is shown in **Fig. 1**. The report concludes that this lack of motorway capacity has become one of the key constraints on Britain’s economic growth and quality of life.

1

The last 20 years has seen enormous growth in road traffic in the UK, with the majority of this extra travel undertaken in the private car. This increase in car use has been driven by a number of factors, not least the increased affordability of cars brought about by higher earnings, generous credit facilities and greater competition in the car market. At the same time people are living further from their workplace.

2

While the demand for travel has increased, investment in transport infrastructure has not kept pace, and so the existing transport network has become increasingly congested. However, the deficiencies in UK transport infrastructure do not reflect a shortage in tax revenue from transport. Each year road users pay around £32bn in transport-related taxation. Of this £32bn only £8bn is spent on the road network despite the fact that 84% of passenger travel is undertaken by car. Railways on the other hand receive £6.5bn of taxpayers’ money, annually despite the fact that only 6% of passenger travel is by train.

3

This imbalance in the allocation of resources reflects the fact that transport investment decisions have become detached from consumer demand. The report states that the “absence of price signals means it is difficult for government planners to allocate transport expenditure efficiently”.

The report calls for a huge expansion of the motorway network financed through the introduction of road user charges. “Traffic congestion is costing the UK economy in the region of £21 bn per year with the average commuter now spending 5.4 days stuck in traffic jams,” the report said. “As a method of allocating a scarce resource, to ration roads without employing road user charges, is comparable only to the soviet system of queuing. This system is so discredited as to be considered ridiculous in almost every sphere of life except motoring.”

5

However, the proposal to expand the motorway network has been condemned by environmental campaigners. One spokesman stated, “Congestion is only one of the external costs associated with car use; a far more serious problem is the pollution cars create. If we build more roads we will simply encourage more people to drive and we will have more congestion and more pollution”.

6

Adapted from: © Towards better transport by Richard Wellings and Briar Lipson edited by Oliver Marc Harwich published by Policy Exchange, 2008

- (a) Using the information in **Fig. 1**, compare the UK’s motorway availability with those of Germany and Canada. [6]
- (b) The source states that road traffic has increased dramatically in the last 20 years. Explain some of the possible reasons for this increase. [6]
- (c) Examine two of the methods a government could use to raise more revenue from motorists. [6]
- (d) Explain why the absence of price signals makes it difficult for government planners to allocate transport expenditure efficiently. (Paragraph 4) [6]
- (e) Explain with the aid of an appropriate example what economists mean by an external cost. (Paragraph 6) [4]
- (f) Critically examine the proposal for a huge expansion of the UK motorway network. (Paragraph 5) [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4**.

2 “MPs call for minimum price on alcohol in an attempt to reduce binge drinking”

- (a) Explain what is meant by the term consumer surplus. [10]
- (b) Analyse the likely impact on consumer and producer surplus of the introduction of a minimum price for a unit of alcohol. [15]
- (c) Evaluate some of the other policies that government could use to reduce the over-consumption of alcohol. [15]

3 “Government demands greater value for money from its spending”

- (a) With the aid of an appropriate example, explain what economists mean by the term **public good**. [10]
- (b) Explain, with the aid of an appropriate diagram, why **merit goods** such as education might be undervalued and under-consumed in a free market economy. [15]
- (c) Evaluate some of the policies the government could use to improve the quality of education. [15]

4 “Estimates of elasticity are largely ignored”

- (a) Explain what is meant by the term income elasticity of demand. [10]
- (b) Analyse how firms and government might make use of estimates of income elasticity of demand. [15]
- (c) Evaluate the view that all estimates of elasticity of demand are so inaccurate as to make them of little use in the real world. [15]