

Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box .

Question 1

Milk and Dairy Produce

Extract 1

Farming has traditionally attracted people because of the appeal of the rural, outdoor life. However, farmers believe that they also provide wider benefits to the community such as employment for the local population and protection for the countryside.

Extract 2

One of the objectives of the Common Agricultural Policy (CAP) is to support farm incomes. However, it has failed to achieve this, especially in the dairy sector. One reason that subsidies have failed to protect farm incomes is that they are directed to the dairy processing and exporting industry. The European Union (EU) dairy processing industry is becoming increasingly dominated by a few large firms. The biggest companies, for example Arla and Nestlé, are getting even bigger by merging with, or buying out, other medium-sized and large companies. Just 40 companies are now estimated to process 65 per cent of the milk produced in the EU.

Historically, high guaranteed prices have been strong incentives for increased milk production leading to surpluses. This forced policy-makers into ever more desperate (and largely ineffective) measures to control production. The EU introduced a system of production quotas in 1984 in an attempt to counter rising levels of output but this failed to balance supply and demand in EU dairy markets. One reason is that the quota is set at 120 million tonnes of milk each year, equivalent to 110 per cent of domestic consumption. In other words, a large export surplus is built into the quota system. In order to enable the export of EU dairy produce, subsidies are provided to bridge the gap between prices on the world market and the higher internal EU prices.

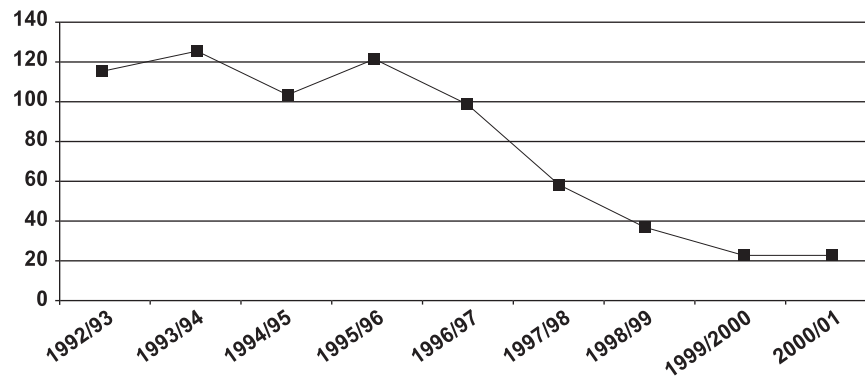
Arla Foods delivers milk to half a million people in Britain every morning and exports some £43 million worth of dairy produce to the Dominican Republic. The EU gives Arla £11 million in export subsidies which makes Arla's milk 25 per cent cheaper than local produce. As a consequence, 10,000 farmers have lost their jobs in the dairy industry in the Dominican Republic over the last twenty years.

(Source: adapted from www.maketradeair.org)



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**Figure 1: UK Index of net farm income per dairy farm
(in real terms: 1991 = 100)**



(Source: *UK Milk Task Force Report*, December 2001)

- (a) (i) Distinguish between private and external benefits.

(4)

- (ii) Give **one** example of a private benefit and **one** example of an external benefit of farming.

(2)



(iii) Apart from external benefits, explain **one** other economic reason why the EU intervenes in the market for milk and milk products.

(4)

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(ii) Examine the use of quotas to limit the production of milk.

(6)



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(d) Evaluate the possible effects of subsidised EU exports of dairy produce on consumers and producers in the Dominican Republic.

(10)

(Total 40 marks)

Q1

8



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If you answer Question 2 put a cross in this box .

Question 2**Road Congestion****Figure 1****Indices of UK travel costs before adjusting for inflation**

	1986	1991	1996	2003
Car	81	100	125	147
Rail	68	100	130	158
Bus	70	100	132	169
Retail Price Index	74	100	115	137

(Source: National Statistics website: www.statistics.gov.uk
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Extract 1**The Central London Congestion Charge**

The Central London Congestion Charge, covering 22 square kilometres at the heart of London, was introduced in February 2003. There is a £5 daily charge for driving or parking a vehicle on public roads within the congestion charging zone between 7.00am and 6.30pm. Certain categories of vehicle, notably taxis, motorcycles and buses, are exempt; and certain types of vehicle users can register for discounts – for example residents of the congestion zone and disabled drivers.

After it had been in operation for six months, a report identified various effects of the congestion charge, some of which are identified below:

- Congestion in the zone has dropped by around 30%
- Car journeys to and from the charging zone are quicker – car journey times have decreased by an average of 14%
- Bus services are benefiting from the reduced congestion
- Provisional data suggest a 20% reduction in the number of accidents within the zone
- Over £68 million in net revenues will be raised in 2003/04 and £80 million to £100 million in future years for reinvestment in public transport.

(Source: adapted from www.transportforlondon.gov.uk/press/releases/2003/october)

Extract 2**Muddle on the Roads**

Congestion is increasing sharply. The real costs of motoring are predicted to fall by more than 20% by the end of the decade, while bus and train fares are expected to increase by 20%. Road congestion is bound to get worse.

There are only two possible responses: build more roads or restrain the growth in traffic. The Government has opted for the former, announcing the biggest road-building programme since Labour came to power, although there will be a study into the possibility of further road pricing.

Hardly any transport experts think that building more roads will solve Britain's congestion problem. The Chairman of the Government's Commission for Integrated Transport called for the introduction of a nationwide satellite system of charging, with tolls ranging from 2p a mile on rural roads to 50p on the most congested urban roads. He warned that traffic would simply grind to a standstill on the most congested parts of the network by 2015 if there was not a road pricing system in place.

(Source: adapted from *The Economist*, 10 July 2003)



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(a) (i) Distinguish between private and external costs.

(4)

(ii) Give **one** example of a private cost and **one** example of an external cost of motoring.

(2)



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(b) (i) Between 1986 and 2003, car traffic levels increased by more than 15%. How might the information in Figure 1 explain this increase?

(4)





Leave blank

(ii) Examine the significance of **one** other factor which might explain the increase in car traffic levels over the period shown.

(6)



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(c) Critically assess the policy of building new roads as a method of reducing congestion.

(8)



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(d) Evaluate the likely effects of a system of nationwide road pricing as proposed by the Chairman of the Commission for Integrated Transport (Extract 2, lines 9–11).

Q2

(10)

(Total 40 marks)

TOTAL FOR PAPER: 40 MARKS

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