

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS

2882

MARKET FAILURE AND GOVERNMENT INTERVENTION

Friday

9 JUNE 2006

Afternoon

1 hour

Additional materials:

Designated Answer Booklet [2882/AB]

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Answer **all** the questions.

Write all your answers on the separate answer booklet provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

This question paper consists of 4 printed pages.

Answer all parts of this question in the accompanying answer booklet.

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Details: The article 'Darling at crossroads over A303' from The Times on 2nd July 2004 about Alistair Darling facing a dilemma

- (a) (i) What is meant by the term 'private costs'? [1]
- (ii) Using the extract, identify one possible **private cost** that may result from upgrading the A303 road to a dual carriageway. Explain your answer. [3]
- (iii) What is meant by the term 'external costs'? [1]
- (iv) Using the extract, identify one possible **external cost** that may result from upgrading the A303 road to a dual carriageway. Explain your answer. [3]
- (b) The government may make use of cost-benefit analysis to choose between the two proposed solutions.
- (i) Describe what is meant by cost-benefit analysis. [2]
- (ii) How might the Government use cost-benefit analysis to decide which is the better solution? [2]
- (iii) Using the extract, identify and explain the measurement problem involved in using cost-benefit analysis in this context. [4]
- (c) One alternative to building new roads would be to encourage greater provision of bus and rail services.
- (i) Using a diagram, analyse the effect of giving subsidies to the providers of such services. [10]
- (ii) Comment upon the likely limitations of using subsidies in this case. [3]
- (d) The building of new roads in the UK may well give rise to the problem of negative externalities.
- (i) Explain why negative externalities are an example of market failure. [4]
- *(ii) Economists have proposed several different policies to solve the problems created by negative externalities. These include taxation, regulation and the use of pollution permits.
- Discuss how effective any **one** of these policies may be in correcting the market failure caused by negative externalities. [12]

