

Friday 17 May 2013 – Afternoon

AS GCE ECONOMICS

F581/01 Markets in Action

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:

- Calculators may be used

Duration: 1 hour 30 minutes



Candidate forename		Candidate surname	
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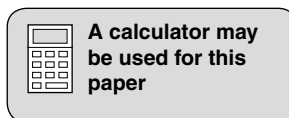
Centre number						Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.



Starved of sunshine

It has been estimated that 42 million foreign holidays are taken every year by United Kingdom (UK) citizens. More recently, airlines, faced with tighter regulation, a sharp rise in the cost of fuel and an increase in green taxes, have been forced to increase prices and decrease the supply of flights. This sharp rise in the price of flights has led to a fall in the demand for foreign holidays.

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The increase in the price of foreign holidays, a fall in disposable incomes and the promise of a hot summer in the UK has led many families to take a 'staycation' holiday within the UK (see Fig. 1). Traditional holiday areas such as Cornwall and Devon and major cities such as London and Edinburgh are all benefitting from an increase in the number of visitors. UK holiday destinations have responded to this increase in demand by raising the quality and quantity of their provision. This has included, for example, the development of more up-market campsites and a greater range of specialist leisure activities.

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Holiday type	Price elasticity of demand	Income elasticity of demand
Foreign holidays	-1.7	2.0
UK holidays (staycation)	-0.8	-1.6

Fig. 1 – Elasticity of demand estimates for holidays

The unreliability of the weather in the UK means, however, that holiday-makers may not return from their 'staycation' with a golden tan. Starved of sunshine, fashion-conscious UK citizens are turning to more reliable ways of gaining a tan. The use of sunbeds and sales of tan accelerating products have increased substantially in recent years.

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The market for tanning products shows evidence of information failure. Tan accelerators, swallowed as pills or applied directly to the skin as creams, are promoted as a safer way to tan. However, the unfortunate side effects of using chemicals which make skin more sensitive to sunlight include permanent skin discolouration, high blood pressure and a raised risk of skin cancer. The danger is considered so great that many such products are banned in the European Union (EU). Tan addicts have now turned to the Internet to purchase supplies.

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Sunbeds are not a safer alternative. Research has shown that there is a direct link between sunbed use and skin cancer. Experts have warned that 'using a sunbed before the age of 30 can increase the risk of skin cancer by 75%'.

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With a noticeable rise in the number of people requiring treatment for skin cancers in the UK, the government has responded by introducing legislation. The Sunbeds (Regulation) Act 2010 bans the use of sunbeds in gyms, sports centres and tanning salons by under 18s. Although experts believe that this is 'a step in the right direction', they think that the legislation has not been properly thought out and that far more could be done to reduce this problem.

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Answer **all** questions.

1 Using an example in each case, state **two** factors of production used in the provision of holidays.

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[4]

2 (a) Using information in the case study, identify and explain **two** reasons for the decrease in the supply of flights.

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[6]

3 (a) Define the term 'consumer surplus'.

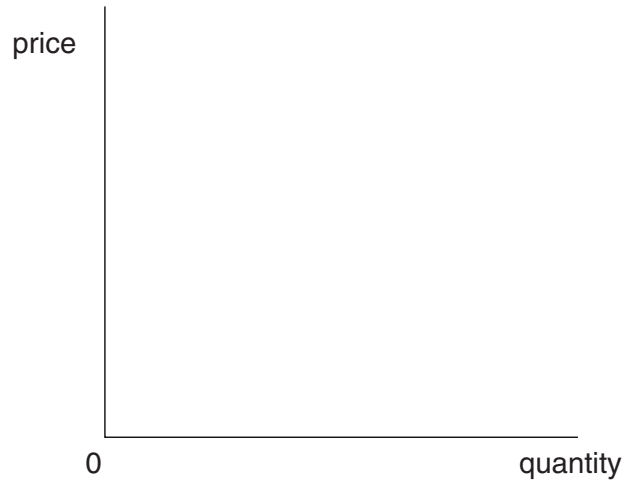
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(b) Using a diagram, show how consumer surplus changes with a rise in the price of flights.



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4 (a) Define the term 'income elasticity of demand'.

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(b) There is expected to be a 10% fall in UK consumers' income in the next two years.

Using the information in Fig. 1, comment on the likely impact of this fall in income on the holiday market.

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5 (a) Define what is meant by the term 'allocative efficiency'.

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(b) Using information in the case study, explain whether the UK holiday market has become more allocatively efficient.

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6 Comment on the likely impact on consumers of information failure in the market for sun beds and tan accelerator products.

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7* Discuss whether regulation is the most effective solution to the market failure arising from information failure. [18]

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

A large area of lined paper for writing answers. It features a vertical margin line on the left side and horizontal dotted lines for writing. The lines are evenly spaced and extend across the width of the page.

A vertical solid line is positioned on the left side of the page. From this line, 25 horizontal dotted lines extend across the page, creating a series of rows for writing.

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