

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**ECONOMICS**

**2882**

**MARKET FAILURE AND GOVERNMENT INTERVENTION**

**Revised Specimen Paper**

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** questions.

Write all your answers in 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(\*).

The total mark for this paper is 45.

7812/3812/SP/EN/02

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**This question paper consists of 4 printed pages.**

Answer **all** parts of this question in the designated answer booklet.

### **Government and the environment**

There are several serious concerns about our environment. These include pollution of various sorts, the effects of global warming and fears over the future of the countryside.

All environmental problems can be seen as examples of market failure. They are problems created by some individuals and groups that impact upon others who are not involved in the decision-making. As such, these problems may require government action if they are to be tackled. The following article considers the Government's recent record in tackling some of these issues.

#### **Promises, promises: has Blair really been a friend of the environment?**

*When Tony Blair made his final speech to voters before the 1997 general election, the Labour leader promised to put the environment at the 'heart of government'. How has the Government matched up to its early promises?*

##### *Fuel prices*

*The Environment Minister, Michael Meacher, had said the automatic fuel escalator (which significantly raised taxes on petrol each year) was valuable both in persuading people to use public transport and in helping to reduce pollution. Unfortunately, the huge rise in the price of crude oil in 2000 left the Government vulnerable to fuel protests by lorry drivers and farmers. Ministers panicked and opted for cuts in duty on diesel for hauliers without any additional environmental safeguards.* 5

##### *Climate change*

*Deputy Prime Minister, John Prescott, took a leading role in the agreement at the Kyoto climate summit in 1997 to reduce greenhouse gas emissions that cause global warming. However, by abandoning the fuel duty escalator and pandering to the haulage industry, greenhouse gas emissions are likely to increase.* 10

##### *Wildlife and the countryside*

*The Countryside and Rights of Way Act introduced the so-called 'right to roam'. This allows visitors to the countryside to walk freely on all footpaths.* 15

##### *Nuclear power*

*Tony Blair has given the nuclear industry strong support since taking office. He believes that the industry offers crucial jobs and skills in the depressed west Cumbrian region.*

##### *Renewable energy*

*It is believed that renewable energy creates less pollution as well as providing a sustainable energy source. A subsidy of £100 million for solar, wind, wave and biomass forms of power generation has recently been announced but many experts claim wind power should be boosted with bigger capital grants.* 20

Source: The Independent, 7th March 2001 [adapted]

- 1.(a)(i)** Define the term 'externality'. [2]
- (ii)** From the article, identify **two** examples of a negative externality. [2]
- (iii)** From the article, identify **two** examples of a positive externality. [2]
- (b)** The newspaper article talks about a large increase in fuel prices (lines 4–9).
- (i)** Give **one** group who might suffer financial hardship due to a large rise in fuel prices. Explain the reasons for your answer. [4]
- (ii)** Give **one** type of transport business that might benefit through a large increase in fuel prices. Explain the reasons for your answer. [4]
- (c) (i)** State **two** characteristics of 'public goods'. [2]
- (ii)** How far does the 'right to roam' (line 14) make the countryside more like a public good? [5]
- (d) (i)** Define the term 'subsidy'. [2]
- (ii)** Using a diagram, explain how a government subsidy paid to the renewable energy industry might increase the consumption of renewable energy. [10]
- (e)\*** Discuss the advantages and disadvantages to the government in using taxes to improve the quality of the environment. [12]

Copyright Acknowledgements:  
Adapted extracts from an article by Paul Waugh, first published in The Independent, 7 March 2001.

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