



GCE AS/A level

372/01

ECONOMICS – EC2

P.M. WEDNESDAY, 4 June 2008

1 hour

ADDITIONAL MATERIALS

In addition to this examination paper, you will need an 8 page answer book.

INSTRUCTIONS TO CANDIDATES

This paper contains **one** compulsory question.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded of the necessity for good written communication and orderly presentation in your answers.

Study the information below and then answer the questions that follow.

TRAFFIC PAIN CONTINUES BUT WE LOVE OUR CARS

Milton Friedman, the famous economist who died in 2006, had advocated road pricing in the 1950s. Such a scheme ensures that road users pay for a scarce resource, namely road space. Road pricing recognises that congestion and pollution are a burden on society. By transferring some of the costs on to motorists, road pricing aims to change our behaviour for the common good – encouraging driving at less busy times or more use of public transport. To date the only major road toll in the UK is the M6 Toll road around Birmingham.

The UK now has the most congested roads in Europe. Since 1964 road capacity has increased by only a fifth, while vehicle numbers have tripled and miles driven annually have risen more than five-fold. Traffic levels are already set to rise by another 20% by 2010 and continued economic growth can only make matters worse. Indeed rising incomes since the UK's last recession in 1991 have contributed to the rising demand for cars, both old and new.

The Government is considering tolls of up to £1.34 per mile on congested roads but has said that the system could not be introduced nationwide until 2015 at the earliest. However, a recent transport review put the benefits of a national road pricing scheme at £28 billion and explains why UK business now backs tolls with congestion costs spiralling and damaging the country's competitiveness. Only a few years ago such support from the business community would have been unthinkable.

Whatever you think of him, the only national politician who has taken on road use is Ken Livingstone, the London Mayor, who introduced the capital's congestion charge in 2003. The scheme is unpopular, partly because the charge has gone up, but mainly because it has had mixed results. The charge rose from £5 to £8 in 2005 and if Ken is re-elected Mayor in 2008 could rise to £10. His officials have admitted that any further increase in the charge would increase revenue and have little effect on road congestion in the charging area. Manchester is proposing to adopt a similar scheme in 2012 but the Manchester Against Tolls Group described the proposal as "bad for drivers across the UK". The same thing could be said about the problem it is trying to solve.

Adapted from The Times, February 16, 2007

Figure 1

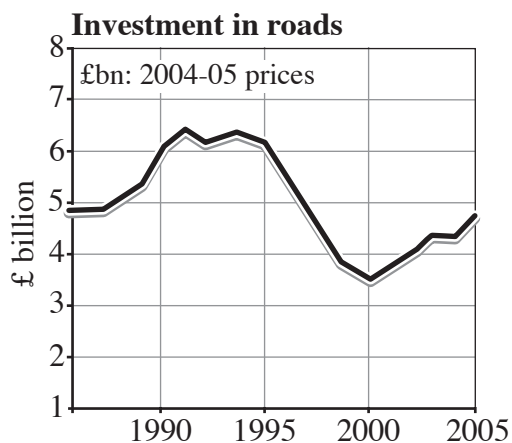


Figure 2

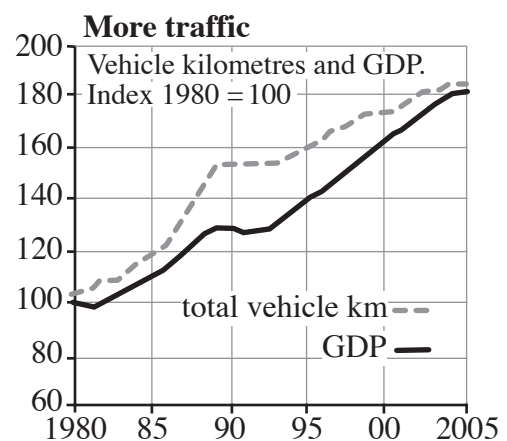


Figure 3

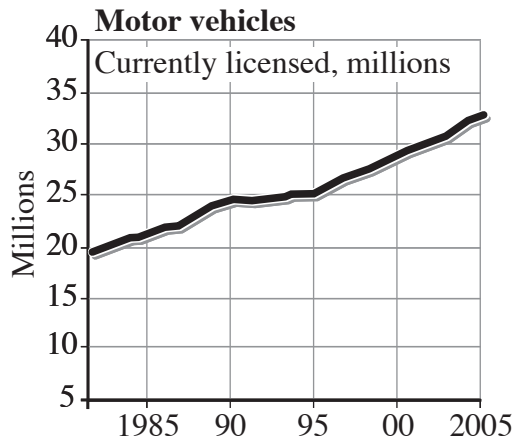


Figure 4

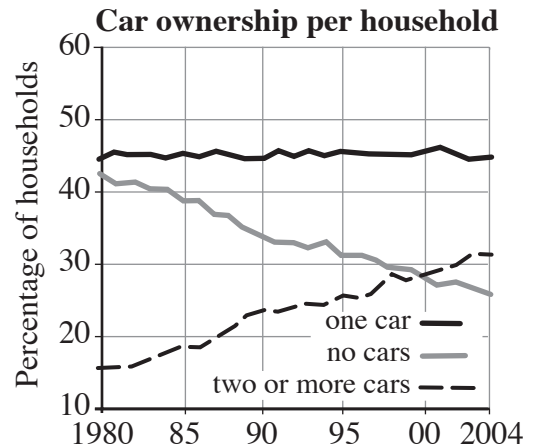
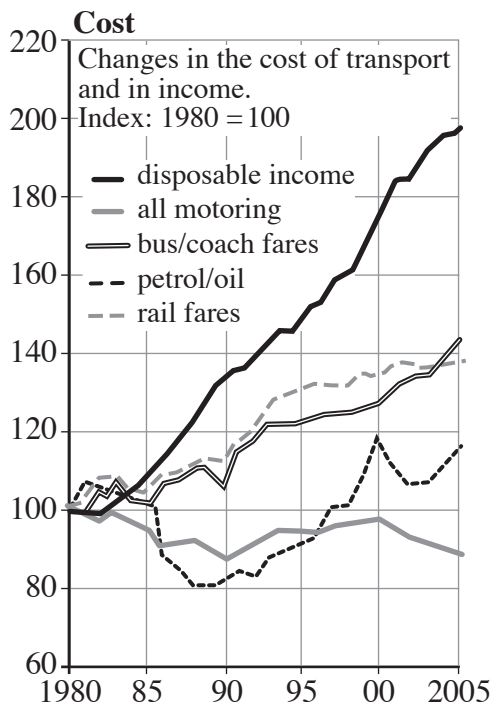


Figure 5



Source: Office for National Statistics

- (a) (i) Explain, using examples, the difference between the private costs and social costs of road travel. [4]
- (ii) Using the data, explain why traffic congestion might be regarded as a form of market failure. [4]
- (b) Using the information in the data, comment on the price elasticity of demand for car travel in the London congestion charging area. (Lines 22-23). [4]
- (c) Using the data and economic analysis explain why car ownership in the UK has risen. [6]
- (d) Evaluate, with the aid of a diagram, the effect on the price of petrol of a rise in VAT on petrol. [6]
- (e) Discuss the effect on the UK economy of a **substantial** increase in road building. [8]
- (f) To what extent do you agree with the view that road tolls are the best way to reduce road congestion in the UK? [8]