

## AS Economics Units 2 Markets - Why they fail 02 Jan mark scheme

Q1 (a) (i) With reference to Figure 1, describe the changing patterns in modes of transport in Great Britain over the period shown.

The proportion of travel by cars, vans and taxis has increased (1) and that of travel by buses and coaches, and by rail has decreased (1) (alternatively: private transport has increased proportionately (1) while public transport has decreased proportionately (1)).

2

(a) (ii) How would you account for the changing patterns you have described? 6 marks

Relevant textual factors include:

increased incomes

increased car ownership

inadequate public transport. (2x3 or 3x2)

(b) With reference to Extract 1, identify two examples of an external cost, justifying your choice. 4 marks

Examples include:

congestion .

damaged economic prospects .

quality of life .

public safety .

the environment.

The justification should link the examples to production or consumption side effects, ignored by the price mechanism and experienced by third parties. (2x2)

(c) (i) Explain why road space is considered to be a 'scarce resource'. 2 marks

Answers should demonstrate knowledge of competing demand for limited supply (1) and application to road space 2 marks.

(c)(ii) Examine the view that in inner cities motorists should pay 'urban road charges in peak hours'. 8 marks

The broad argument is that motorists do not pay directly for their use of the road and nor do they pay for the costs they impose on others; they are concerned only with their own (private) costs of fuel and time.

The demand for urban road space varies over time, with morning and late afternoon peaks creating a variable pattern of road space shortage and congestion. Charges for the use of road space raise the cost of that use and 'reduce total congestion by a quarter'.

Candidates may go on to discuss likely difficulties and disadvantages; difficulties include the valuation of external costs, costs of implementation and operation; disadvantages include the income upon the poor and on residents and on essential services etc., the impact on city centre retailers and other businesses, inadequate public transport alternatives.

(4+4 or 6+2)

(d) Discuss why, despite being 'the highest in Europe', fuel taxes have not prevented road congestion in Britain. (6 marks)

Answers may refer to the text and draw upon other material. At least two relevant factors should be discussed. Possible factors include:

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fuel taxes are relatively low in relation to GDP and incomes  
fuel taxes are indiscriminate, they are paid by all motorists regardless of where and when they drive  
public transport alternatives are inadequate  
congestion may also be linked to under-investment in roads.  
(2x3) or (3x2) depending on the quality of discussion.

(e) 'Mr Brown now believes that motorway tolls will be far more effective than fuel prices in combating congestion on Britain's busiest motorways. '

(i) Illustrating your answer with an appropriate diagram, explain how motorway tolls might reduce road congestion.

Traffic flow per time period Unlabelled diagram (1)

In theory motorway tolls should equal the external costs of motoring, so that motorists pay the total costs of road journeys (ie  $MSC = MPC + MEC$ ) (2).

Motorists would therefore have a financial incentive to consider the necessity of their journey

the timing of their journey

alternative non-toll road routes

alternative transport modes (eg rail).

2 marks for evaluation of anyone consideration.

(ii) Examine two disadvantages of using motorway tolls to control road congestion.

Disadvantages include:

High costs of implementation and maintenance, but enough income is expected to be generated to cover costs and, if the French example is to be relied upon, to pay for much needed road investment.

Diversion to traffic to non-toll roads causing environmental costs through effects upon small towns, villages and the countryside and through increased non-peak travel.

Discussion might consider possible trade-offs.

Motorway tolls do little to reduce urban congestion, and if applied to urban motorways might divert traffic into busy urban streets.

Increased transportation costs to commercial road users might spill over into higher prices for consumers, unless offset by cost savings from reduced congestion.

.(2x3)

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2. (a) (i) Explain what is meant by 'a completely free market' in health care. 2 marks

Care is allocated to those willing and able to pay for it (1). There is no state intervention or state provision (1).

(a) (ii) With reference to Extract 1, identify and examine three reasons why a completely free market in health care 'can never work properly'.

Reasons hinge on the concept of market failure and include:

Competitive principles cannot be applied to health care - but such principles do apply, at least, in part, in the UK, and to a greater extent in other countries.

The view that medical care is a basic human right - but there are questions about who pays and who gets treatment when resources are scarce.

The poor are disadvantaged. Inequality of knowledge between consumers and suppliers but would this be better under a more competitive health system?

Value placed on individual life and lives of families encourages expenditure beyond rational limits - but *either* health spending is limited by the ability to pay *or* in a free market people may choose to spend in accordance with their own preferences.

income equalities.

Up to 7 marks for 3 reasons plus 2 marks for evaluation. Up to 5 marks for only 2 reasons plus 2 marks for evaluation. Up to 3 marks for only 1 reason plus 1 mark for evaluation.

(b) Examine two reasons why the public share of health care differs between countries.

Differences include:

Some countries (eg USA) are committed ideologically to a free market, while others attach importance to public provision (eg Belgium, Britain, Sweden).

There is widespread use of private health insurance in some countries (eg France), whereas in others such as Britain the number of people covered by private medical insurance has been fairly static since the late 1980s. Health costs and the willingness and ability to meet costs through taxation varies; some countries may be too poor to afford public provision, others rich enough to support private or insurance based systems, demographic factors.

(2 x 3 depending on the quality of the discussion.)

(c) Comment briefly on the use of 'queuing' as a means of rationing health care. 3 marks

Health care is provided to meet needs regardless of the ability to pay (equity), priority may be given to the most urgent needs.

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There is less choice for consumers and less incentive for suppliers. .  
Over-consumption is encouraged when no direct charges are made for health care.

3 marks for any one point.

(d) (i) Discuss the reasons why 'future state provision (of health care) will be subject to growing pressures '. 8 marks

Rising incomes will encourage rising expectations and the demand for health care will grow quantitatively and qualitatively.

An ageing population alters the dependency ratio unfavourably and increases the demand for health care.

The development of more expensive treatments (due, to medical R&D and new medical technology).

Wage costs rising faster than prices in the long run, so that the costs of providing health care increase faster than prices: they increase 'in real terms'.

(2 x 4 depending on the quality of the discussion.)

(ii) Outline the economic implications of the ' pressures you have discussed. 4 marks

In. Britain the increase in demand. must be seen in the context of forecast increases in health spending in 'both money and percentage

terms and the other implications for public finance (i.e. tax rates and NI contributions and other public demands on government funds).

In France there are currently high levels of both provision and satisfaction but there is an implication in extract 2 that rising costs may hinder attempts to meet rising demand. .

Either absorbing higher costs through higher taxes and /or cuts in other areas of public expenditure, or reducing the provision of publicly funded health care (but unlikely unless there is some compensating increase insurance-based private health care).

Increased dependence on private health insurance to supplement (or, but unlikely, replace) public provision. In France this approach is already established; in Britain it might be resisted for all sorts of reasons (unless there are tax breaks. (2x2)

(e) Examine two arguments for and two arguments against private health insurance making a greater contribution to covering the costs of health care.

Arguments for include:

offers greater freedom of choice .  
encourages individual responsibility .  
encourages a higher standard of provision and satisfaction .

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reduces the need to raise taxes or NI contributions .  
encourages competition in the provision of health care .  
frees-up government revenues for other types of public expenditure . .  
French experience suggests that additional private funding leads to a  
better health system.  
(2x2 depending on the quality of the discussion.)

Arguments against include:

disadvantages the young, the poor and the old  
encourages the development of a two tier health service and a climate  
of inequality  
seems to be at variance with the orthodox view of the health service as  
a merit good, available to all regardless of the ability to pay  
might lead to a less healthy population and reduced labour  
productivity  
might lead to the duplication of health care facilities and a  
misallocation of resources  
(2\*2 depending on the quality of the discussion)