

Mark Scheme for June 2010

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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Section A**1 (a) With reference to Fig. 1:****(i) summarise the trend in the number of passengers at UK airports;**

1 mark for each relevant point to a maximum of two.

Possible observations include

Number of passengers increased (1)

At an increasing rate (1)

Occasional fall with reference to period (1).

[2]**(ii) explain whether passenger numbers or passenger kilometres is a more accurate measure of air transport demand.**

1 mark for understanding of composite measure in terms of passengers and distance with a further mark for further development.

Passenger kilometres takes into account both the number of passengers and the distance they travel (1), which is more accurate because it gives a greater weight to longer distances that is not accounted for in the number of passengers (1) or some example such as 1 journey could be 100 miles or a 1000 miles (1).

[2]**(b) With reference to Fig. 2:****(i) state and explain one possible reason for the recent growth in journeys on public transport;**

1 mark for identification of possible reason plus 1 mark for explanation of given reason.

Possible reasons include:

Relative fall in price of public transport

Increase in price of private car use

Subsidy for public transport

Public transport become more reliable, convenient etc.

[2]**(ii) explain the possible consequences of this growth for public transport companies and for their passengers.**

1 mark for each identification of a consequence of the growth of public transport with a maximum of two further marks for explanation.

Possible responses include:

Companies will face capacity concerns with present operations (1) and may need to undertake further investment in vehicles/rolling stock (1)

Passengers may be overcrowded and suffer increased costs/ reduced benefits (1) and return to private transport (1) if investment is not sufficient (1).

[4]

(c) (i) Comment on the problems of forecasting air passenger transport demand. [4]

Forecasts based on past trends of increasing demand or linked to projections about future income levels, increasing globalisation of trade etc.
 Explanations in terms of extrapolation of past trends with high and low estimates, use of YED values, appropriate numerical examples.
 Evaluation in terms of lack of precise data, possible unforeseen economic events as well as security issues influencing demand etc.

Level 1 Explanation/critical understanding of either how forecasts are made or problems of estimation **1-2**

Level 2 Commentary on problems of forecasting using economic concepts **3-4**

(ii) Discuss whether the UK Government should plan for future air transport infrastructure provision on the basis of forecast growth in demand. [6]

Problems with 'predict and provide'- continued growth of transport could result in road congestion around airports, particular reference to those already with problems and those where high growth is predicted. Increased noise and other negative externalities near airports, the need for greater sustainability, greater pressure on air traffic control and safety concerns and growth of domestic flights in preference to rail.

But growth will be a response to consumer demand. Economy as a whole – increasing employment and multiplier effects on local economy near airports.

Reward candidates who use additional information.

Level 1 For an explanation of some implications of air traffic growth or not planning for growth. **1-2**

Level 2 For a balanced argument of the implications of planning for air traffic growth. **3-4**

Level 3 For an informed discussion of the implications of planning for air traffic growth. Must be underpinned by relevant theory e.g. sustainability or efficiency arguments v. positive externality **5-6**

Section B

- 2 (a) **Explain how government policy can influence the supply of freight transport services.** [10]

Government policy through regulation/deregulation and taxes/subsidies. Government influence via use of CBA to help make decisions about infrastructure. Possibility of public sector provision. Otherwise private sector influenced by profitability (and, therefore, trends in demand) and costs of provision. Costs can be affected through taxes and subsidies (for various reasons) and regulation/deregulation. Reward diagrams where appropriate.

Level 3 For an analysis of how government policy can influence the supply of freight transport services. 7-10

Level 2 For an application of knowledge and critical understanding how government policy can influence the supply of freight transport services. 4-6

Level 1 For knowledge and understanding of government policy or freight transport services. 1-3

- (b) **Discuss the relative importance of the factors that determine whether a manufacturer should use road or rail freight transport for the distribution of its goods.** [15]

Many factors could be considered and compared between the modes. Price, convenience, distance, flexibility, capacity, nature of good transported, environmental factors etc.

E.g. Rail – bulk carrier, energy efficient, good for bulky non-perishable materials over longer distances but problems of interchange with road and time delays due to recent problems with infrastructure.

Road – door-to-door, good for ‘just-in-time’, flexible, high level of customer service but not good for environmental reasons could lead to poor public image. Good answers will take account of who is making the choice, how this could be influenced by the firm’s public image or desire for profits and attempts to influence choice via government policy.

Level 4 For a balanced discussion of the factors determining the choice between road and rail freight transport. Informed judgement on relative importance is required at top end 9-15

Level 3 For analysis of the factors determining the choice between road and rail freight transport. 6-8

Level 2 For an application of knowledge and critical understanding of some factors determining the choice of freight transport. 3-5

Level 1 For a list of factors determining the choice of freight transport. 1-2

3 (a) Explain why the level of profits differs between market structures. [10]

Assumptions of each model particularly including profit maximisation. Key role of barriers to entry. Abnormal profit surviving in long run in monopoly and oligopoly due to barriers. Explanation of normal/abnormal profit. Use of diagrams (not essential) to show how increase in supply competes abnormal profits away in perfect/monopolistic competition and contestable markets. Possibility of increasing profits in monopoly/oligopoly due to price discrimination.

Level 3 For an explanation of how profits differ between market structures **7-10**

Level 2 For an understanding of how profits differ between market structures **4-6**

Level 1 For some knowledge of market structures. **1-3**

(b) In a transport market of your choice, discuss the way in which its market structure affects the ability of firms to set prices and to make profits. [15]

Depends on choice of transport market. Explanation/ application required of nature of barriers to entry / level of competition in chosen transport market. This enables ability to make judgement about market structure / degree of contestability. Use of specific examples from chosen transport market should be rewarded where used as evidence. Could consider competition between modes to influence ability to set price and make profit. Also role of government in influencing market structure and ability to set price and make profits.

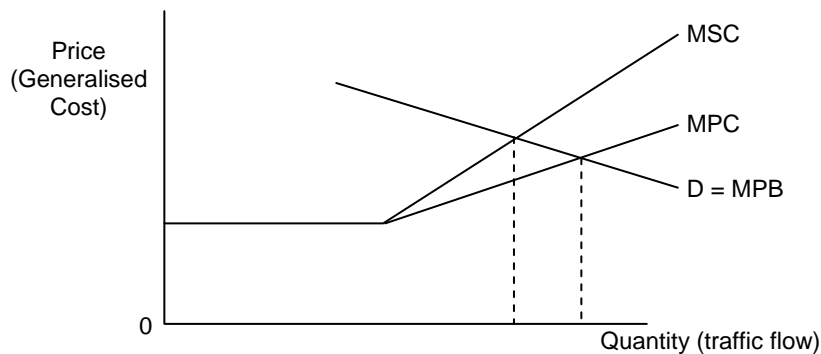
Level 4 For a discussion of how market structure affects the ability of a chosen transport market to set prices and make profits. **9-15**

Level 3 For an explanation of how market structure affects the ability of a chosen transport market to set prices and make profits. Generally one-sided or will not attempt a judgement. **6-8**

Level 2 For an application of knowledge and critical understanding of how market structure affects the ability of a chosen transport market to set prices and make profits. Will lack analysis. **3-5**

Level 1 For some knowledge of market structure/ prices and profits in a chosen transport market. **1-2**

- 4 (a) With the aid of a diagram, explain why road traffic congestion results in a misallocation of resources. [10]



Explanation of costs of congestion in terms of private and external cost. $MSC > MPC$. Explanation of costs on third parties; time costs (opportunity cost), cost of increased vehicle use, cost of increase in accidents, increased costs for vehicle operators. Requires appropriate diagram showing $MSC > MSB$. Also increased private costs. Environmental costs should not be rewarded unless specifically referred to as increasing due to congestion. Outcome in terms of overconsumption; welfare loss.

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|----------------|--|-------------|
| Level 3 | For an explanation of how costs associated with traffic congestion lead to a misallocation of resources – emphasis on both effects on third parties and overconsumption at top end. | 7-10 |
| Level 2 | For application of knowledge and critical understanding of how costs associated with traffic congestion lead to a misallocation of resources i.e. shows idea of overconsumption without explicit explanation | 4-6 |
| Level 1 | For knowledge and understanding of costs associated with traffic congestion and/or market failure but not linked. | 1-3 |

- (b) Discuss the effectiveness of supply side measures such as improvements to the road network and better traffic management as a means of reducing road traffic congestion.** **[15]**

Analysis of how improving road network and traffic management can reduce congestion and hence costs of traffic congestion (both private and external). Reward use of diagram if it includes an appropriate explanation. Effectiveness in terms of short run benefits but possible long run increases in demand if road building occurs as costs fall (increased PED of car use / road haulage in long run). Explanation of reasons for this in terms of convenience etc. Consideration of traffic management as an alternative to increase traffic flows. Possible discussion of other policies perhaps used in conjunction with selective road improvements (links to sustainability) but must be focussed on question.

Level 4	For a discussion of the effectiveness of improving the road network and traffic management to reduce traffic congestion. Clear judgements on effectiveness underpinned by appropriate analysis at top end.	8-15
Level 3	For an analysis of how improving the road network and traffic management can reduce congestion.	6-8
Level 2	For an application of knowledge and critical understanding of how improving the road network and traffic management can reduce congestion without explanation / analysis e.g. long run v. short run.	3-5
Level 1	For knowledge and understanding of use road improvements to reduce traffic congestion.	1-2

Specification Grid										
	Question 1						Questions 2, 3, 4			
	ai)	aii)	bi)	bii)	ci)	cii)	a	b	Total	Overall
AO1		1	1	2			3	2	5	9
AO2	2	1			1		3	3	6	10
AO3			1	2	1	2	4	3	7	13
AO4					2	4		7	7	13

Specification Section	Q1	5.5.1 & 5.5.3
	Q2	5.5.1 & 5.5.4
	Q3	5.5.2
	Q4	5.5.3 & 5.5.4

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