

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

A2 GCE

F584/01

ECONOMICS

Transport Economics

FRIDAY 19 JUNE 2015: Morning

DURATION: 2 hours

plus your additional time allowance

MODIFIED ENLARGED

Candidate forename		Candidate surname	
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Centre number						Candidate number				
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Candidates answer on the Question Paper.

OCR SUPPLIED MATERIALS:

None

OTHER MATERIALS REQUIRED:

Calculators may be used

A CALCULATOR MAY BE USED FOR THIS PAPER

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the boxes on the first page. Please write clearly and in capital letters.

Use black ink. HB pencil may be used for graphs and diagrams only.

Answer Section A and ONE question from Section B.

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.

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 Section B.

Any blank pages are indicated.

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TRANSPORT TAXES

The UK government applies taxation throughout the transport market in order to change behaviour and to raise revenue.

These taxes include excise duty on the purchase of petrol and diesel, Vehicle Excise Duty on cars (generally known as road tax) and the most recent tax, Air Passenger Duty (APD). 5

APD is an indirect tax which is charged on each individual passenger flying from UK airports. It was first introduced in 1994 and is now charged at four different 'bands' depending on the distance of the flight. The UK is not the only country with such an indirect tax. Other European countries have similar taxes. Ireland has an Air Travel Tax and Germany introduced a departure tax in January 2011. 10 15

The following article discusses the impact of APD on the UK economy. It is followed by Fig. 1 which shows the changes in passenger numbers and the level of APD revenues since 2003/4.

APD: A TAX ON ALL YOUR DREAMS

The growth of low-cost airlines followed deregulation of European Union (EU) air transport in the 1990s and resulted in increased competition in the air passenger market. As a result, air travel became more affordable and British families started to travel longer distances for their annual holiday. 20 25

Twenty years later, after a succession of increases in APD, up by as much as 333% in six years, you could be forgiven for thinking that the government was trying to make flying, once again, a luxury.

The number of passengers taking flights from UK airports fell between 2007 and 2010. Air passengers flying from the UK are already the most heavily taxed in the world. On average they pay almost nine times more duty than people flying from other European airports. In fact the UK Treasury collected almost twice as much in passenger taxes in 2011 than all other European countries combined.

30

35

The Chancellor of the Exchequer has received many complaints about APD. These include those from businesses, tourist boards, MPs, the British Chambers of Commerce and the World Tourism Council.

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Fig. 1 – Passenger numbers and APD revenue 2003/4–2011/12

Year	Total passengers (millions)	Total revenue from APD (£millions)
2003/4	90.9	791
2004/5	98.1	864
2005/6	102.5	905
2006/7	106.1	971
2007/8	107.9	1994
2008/9	102.1	1862
2009/10	96.7	1856
2010/11	93.7	2155
2011/12	97.9	2605

SECTION A

Answer ALL parts of the question in this section.

- 1 (a) Fig. 1 shows that between 2007/8 and 2010/11 the total number of passengers flying from UK airports fell.

Other than the increase in Air Passenger Duty (APD), state and explain ONE reason why this might have happened.

[2]

(b) (i) Using a diagram, explain the impact of an indirect tax such as APD on the market for air travel.



[4]

(ii) Other than raising government revenue, state and explain ONE argument in favour of imposing APD.

[2]

(iii) State and explain TWO arguments against imposing APD.

1 _____

2 _____

[4]

SECTION B

Answer ONE question from this section.

- 2 (a) Analyse, using examples, why some transport markets are considered to be ‘natural monopolies’.**
[15]
- (b) Discuss whether or not the provision of a high quality service for consumers should be the aim of firms in transport markets. [20]**
- 3 (a) Analyse economies and diseconomies of scale which arise in transport markets in the UK. [15]**
- (b) Discuss the extent to which the UK freight transport market is contestable. [20]**
- 4 (a) Other than Gross Domestic Product data, analyse the factors economists would consider when forecasting the demand for bus usage in the UK.**
[15]
- (b) Discuss the effectiveness of regulation and subsidies as policies to encourage more people to travel on public transport. [20]**

END OF QUESTION PAPER

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