

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
General Certificate of Secondary Education

ECONOMICS **1985/2 & 4 (CS)**

PAPERS 2 AND 4 CASE STUDY

SPECIMEN PRE-RELEASED MATERIAL

FOR USE FROM SEPTEMBER 2005

1 hour 30 minutes

INFORMATION FOR CANDIDATES

This is a clean copy of the case study which you should already have seen.

You should refer to it when answering the examination questions which are printed in a separate booklet.

You may **not** take your previous copy of the case study into the examination.

You may **not** take notes into the examination.

This case study consists of 7 printed pages and 1 blank page.

TAKING TO THE SKIES

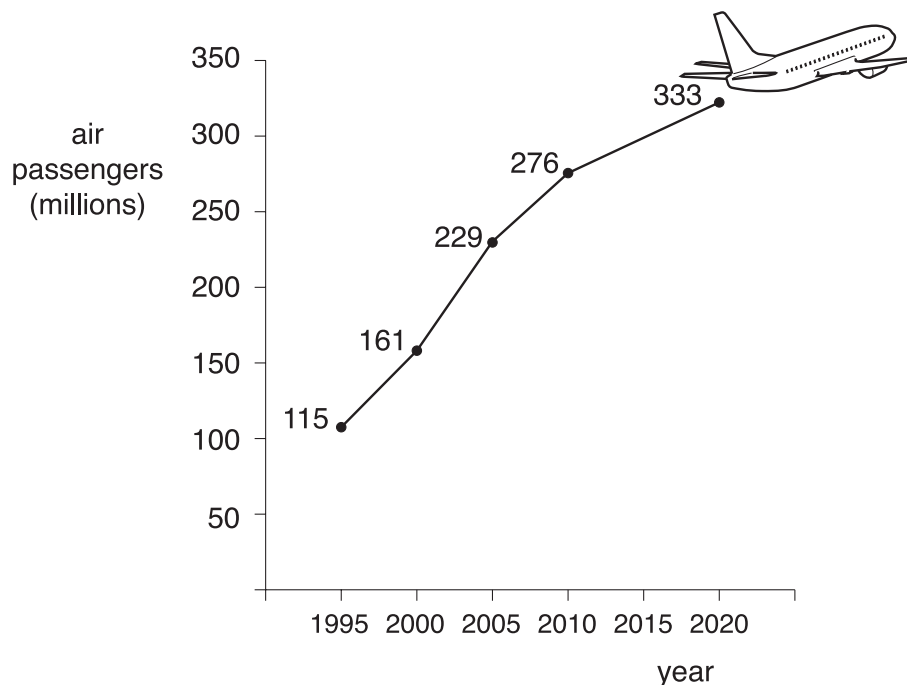
Fig. 1: Background conditions between 2001 and 2003

There has been a long-term increase in the demand for air travel and it is forecast to go on growing. It does not, however, grow smoothly and 2001–2003 was a difficult period. Between the attack on the World Trade Centre (9/11) in September 2001 and mid-2003, airlines faced a number of challenges.

- During 2001 and 2002, \$25 billion of losses were made.
- In 2002/3 there was an 18.5% fall in world air passenger traffic.
- In 2002/3 it was estimated that 100,000 jobs were lost in the industry.
- Well-known airlines such as Swissair and Sabena went bankrupt.

sabena 

Fig. 2: Number of air passengers (millions) using UK airports (actual and forecast)



Source: Transport Statistics GB

Fig. 3: Newspaper headlines in early 2003



*SARS (Severe Acute Respiratory Syndrome) is an illness thought to be spread by international air travel in some parts of the world.

Fig. 4: Low-cost and no-frills – how do they do it?

Traditional full-cost airlines such as British Airways, Aer Lingus and Lufthansa have been faced by a new threat – low-cost, no-frills airlines. The best known of these are easyJet and Ryanair. These low-cost airlines concentrate on the European market rather than worldwide routes. In 2003 they took more than a 5% share of the European market. This share is expected to grow up to 15% by 2010. They have slashed fares and introduced new routes. Low-cost airlines operate differently from full-cost airlines. They:

- use smaller, cheaper airports like Luton and Stansted not Heathrow and Manchester
- turn around their aircraft in less time (30 minutes) to use them more
- concentrate on one type of aircraft to save training and maintenance costs
- sell directly over the Internet to cut out travel agents' commissions
- issue reference numbers not tickets and do not allow choice of seat
- have a single class of seat
- do not carry cargo
- use 'cheap and cheerful' advertising campaigns
- fill a higher percentage of their seats (often over 80%) than traditional carriers.

Fig. 5: The downside of low-cost flights

Not everyone is happy with their experience of using low-cost airlines. Some of the complaints include:

- inconvenient, remote airports
- having to pay heavily for excess baggage (£25 for a surfboard)
- no child discounts
- having to pay for your food
- having to fly at inconvenient times
- not carrying pets/animals
- extra taxes and charges not included in advertised prices
- the use of the Internet to book
- a no refunds policy.



Fig. 6: Low-cost airline pricing policies

Low-cost airlines believe in selling very cheap fares. However, not everybody pays the cheap fare. People get cheap fares if they can book well ahead and if they travel at off-peak times and out of school holidays. As the flight gets nearer, the airlines check sales and raise prices in the light of demand. They may offer very low fares at the last minute if there are unsold seats.

Flights to popular places at peak times can be as expensive as traditional airlines.

The low-cost airlines have usually attracted holiday and leisure travellers whose demand is price elastic. There are, however, some signs of business travellers, whose demand is price inelastic, turning to the low-cost airlines.

A sample of fares for return flights from London to Glasgow is given below.

	easyJet from Luton	Ryanair from Stansted	British Airways from Heathrow
August weekend return	£105.00	£49.48	£78.60
August 7 day return	£75.00	£48.98	£78.60
December weekend return	£50.00	£48.98	£78.60
December 7 day return	£50.00	£28.00	£78.60

Fig. 7: British Airways and Ryanair

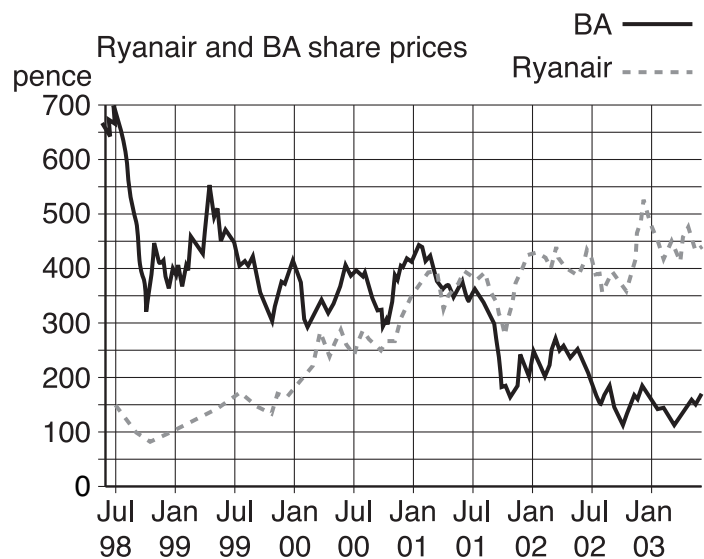
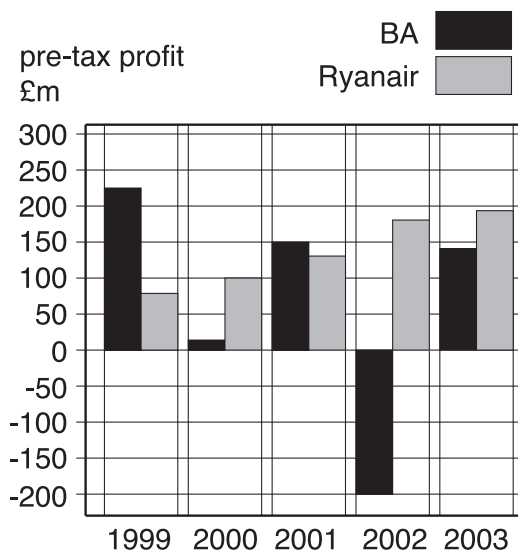
British Airways (BA) is the best known, traditional British airline and used the motto 'The world's favourite airline'. It has worldwide routes, an expensive London headquarters, highly paid pilots and ground staff and runs costly advertising campaigns. Ryanair is the most aggressive of the low-cost airlines and its boss, Michael O'Leary, wants to see it bigger than BA. Figures reported in 2003 show Ryanair's progress towards this target.

	British Airways	Ryanair
Founded	1919	1985
Passengers	38m	16m
Aircraft	330	112
Passenger load factor	72%	84%
Employees	54,000	1,900
Turnover	£7.7 bn	£598m
Profits	£135m	£187m
Stock exchange value	£1.8 bn	£3.2 bn



Source: Independent 26/07/03 (adapted)

Their performance in profits and share price between 1999 and 2003 is given below.



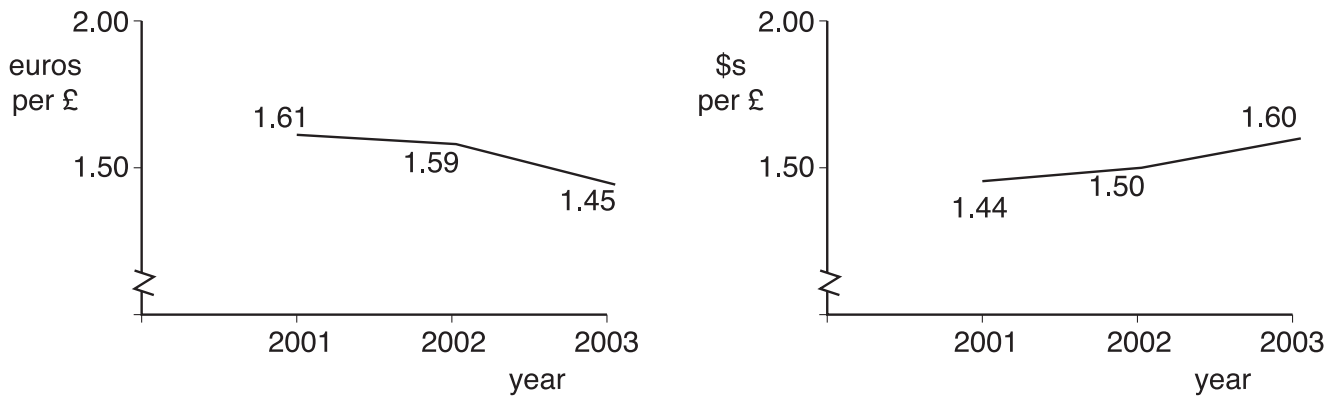
Source: BBC News 30/06/03

Fig. 8: Ryanair and the exchange rate

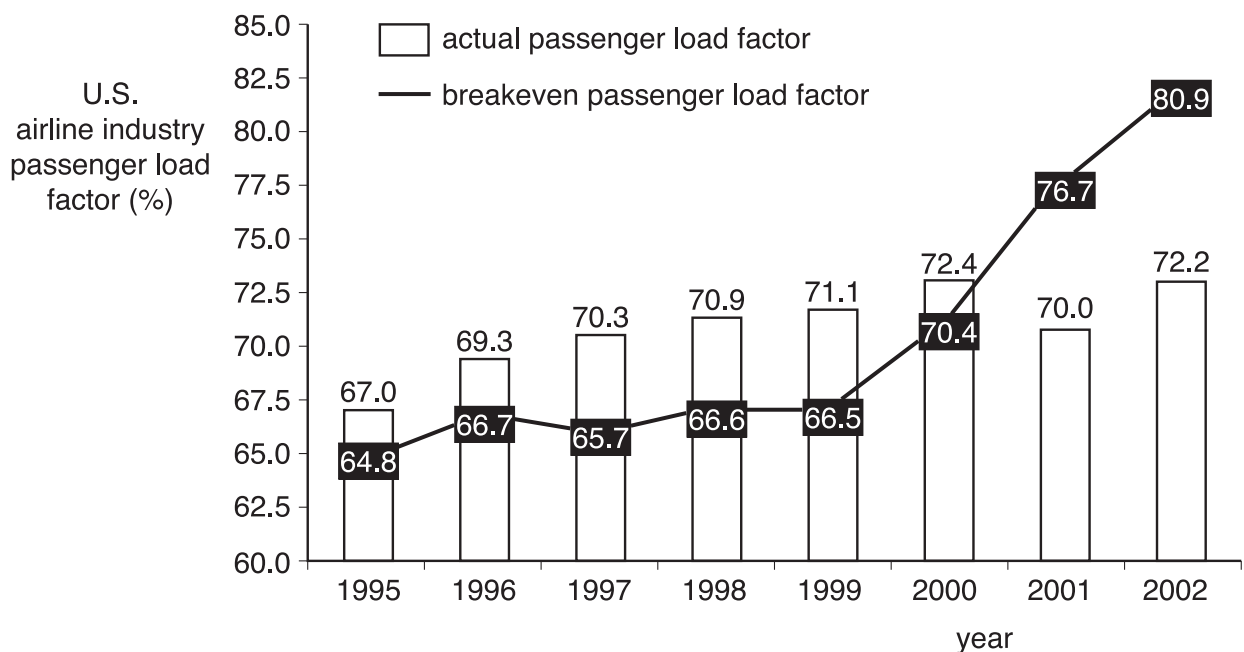
Ryanair makes most of its revenue from flights between the UK and Europe. Ryanair conducts most of its business in £ sterling. However:

- it buys all of its aviation fuel priced in US \$s
- it buys its aircraft from American plane maker Boeing
- it has to pay its expenses at European airports in euros.

Changes in the £ sterling exchange rate can have major effects on its costs and revenues.

The exchange rate of £ sterling 2001–3.**Fig. 9: Breakeven in the airline industry**

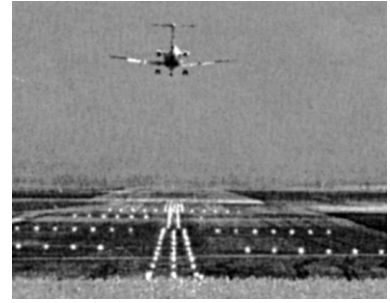
One way that airlines work out their effectiveness is to calculate the percentage of seats sold in an aircraft. This is called the passenger load factor. If an aircraft with 130 seats is carrying 65 passengers then the passenger load factor is 50%. Airlines in USA have been facing a major problem. The graph below shows the extent of this problem.

The actual and breakeven passenger load factor between 1995 and 2002.

Source: United Airlines and Air Transport Association

Fig. 10: The importance of the air transport industry

- Air transport forms a unique global network linking people, countries and cultures.
- Air transport is essential for world business – creating jobs and opening up new market opportunities by attracting businesses to locations in the developed and developing world.
- Over 1.6 billion passengers worldwide use the world's airlines for business and leisure travel. This could exceed 2.3 billion by 2010.
- Air transport provides 28 million direct and indirect jobs worldwide, which is expected to rise to 31 million by 2010.
- The combined direct and indirect employment created at European airports is 4000 jobs per million passengers served.
- Over 40% of world trade of goods (by value) is carried by air.
- Aviation is directly linked to tourism in Europe generating receipts of 700 million euros per day.




Source: Air Transport Action Group

Sources of data

Information on developments in the airline industry can be obtained from the websites of the following:

- BBC News at [//news.bbc.co.uk](http://news.bbc.co.uk)
- Guardian Unlimited at [//www.guardian.co.uk](http://www.guardian.co.uk)
- Airwise News at [//news.airwise.com](http://news.airwise.com)
- Air Transport Action Group (ATG) at [//www.atag.org](http://www.atag.org)
- Civil Aviation Authority at [//www.caa.co.uk](http://www.caa.co.uk)
- International Air Transport Association (IATA) at [//www.iata.org](http://www.iata.org)
- Air Transport Association (USA) at [//www.air-transport.org](http://www.air-transport.org)
- easyJet at [//www.easyjet.com](http://www.easyjet.com)
- Ryanair at [//www.ryanair.com](http://www.ryanair.com)
- British Airways at [//www.britishairway.com](http://www.britishairway.com)
- Department for Transport at [//www.dft.gov.uk](http://www.dft.gov.uk).

Candidate Name	Centre Number	Candidate Number	 <small>RECOGNISING ACHIEVEMENT</small>									
	<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> </tr> </table>						<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> <td style="width: 20px; height: 20px;"></td> </tr> </table>					

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
General Certificate of Secondary Education

ECONOMICS

1985/2

SPECIMEN PAPER 2 FOUNDATION TIER

FOR USE FROM SEPTEMBER 2005

1 hour 30 minutes

Additional materials:
 Clean copy of case study (1985/2 & 4(CS))
 Candidates answer on the question paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Refer to the Case Study given in a separate booklet.

Write your Centre number and Candidate number in the spaces at the top of this page.

Answer **all** questions.

The spaces should be sufficient for your answers but if you require more space, use the lined pages at the end of the booklet and number your answers carefully.

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 80.

The quality of your written communication will be taken into account when marking your answers to questions marked with an asterisk (*).

FOR EXAMINER'S USE	
TOTAL MARK	

This question paper consists of 9 printed pages, 2 lined pages and 1 blank page.

Question 1

(a) Use Fig. 1 to discuss whether the airline industry was in recession in 2001–2003.

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(b) (i) Describe the change in the number of air passengers using UK airports from 1995 to 2020 shown in Fig. 2.

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(ii) Explain possible reasons for the change.

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- (c) Select **one** headline from Fig. 3.
Explain, with the aid of a demand and supply diagram, its effect on the airline market.

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Question 3

Use Fig. 6 to answer the following questions.

(a) (i) How much is the cheapest return flight from London to Glasgow?
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(ii) Which airline offers this flight?
.....[1]

(iii) When is the most expensive return flight from London to Glasgow?
.....[1]

(iv) Which airline offers this flight?
.....[1]

(b) What is meant by price elasticity of demand?
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(c) Discuss why leisure travellers have a more price elastic demand for air travel than business travellers.
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Question 4

(a) Use Fig. 7 to identify **one** example, in the airline industry, of **each** of the four factors of production.

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(b) Use Fig. 7 to answer this question.

Michael O’Leary wants Ryanair to become bigger than British Airways.
How successful has Ryanair been in achieving this target?

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Question 5

Use Fig. 8 to answer the following questions.

- (a) Compare the change in the exchange rates of the £ against the euro and the £ against the \$ between 2001 and 2003.

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- (b) Discuss why changes in these exchange rates can have major effects on Ryanair’s costs.

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Question 6

Use Fig. 9 to answer the following questions.

(a) What is shown by a breakeven passenger load factor?

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(b) Discuss why the trend shown in Fig. 9 is a problem for US airlines.

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If you use the following lined pages to complete the answer to any question, the question number **must** be clearly shown.

A series of horizontal dotted lines for writing an answer.

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

General Certificate of Secondary Education

ECONOMICS
FOUNDATION TIER
PAPER 2

1985/2

MARK SCHEME

1 hour 30 minutes

SPECIMEN MARK SCHEME – For use from September 2005

MAXIMUM MARK 80

This mark scheme consists of 4 printed pages and 1 cover sheet.

- 1 (a) Use Fig 1 to discuss whether the airline industry was in recession in 2001–2003. [4]

Target: to judge data on the state of the airline industry.

Financial losses (1), debt, falling traffic (1), job losses (1) and bankruptcies (1) suggest recession (1).

3 marks for evidence. 1 mark for a conclusion.

- (b)(i) Describe the change in the number of air passengers using UK airports 1995 to 2020 shown in Fig. 2. [2]

(ii) Explain possible reasons for the change. [5]

Target: (i) to describe trend and (ii) suggest reasons for change.

(i) The trend is continuously (1), upward (1), use of data, e.g. more than doubling (1). Max 2 marks.

(ii) Increased incomes leading to more leisure travel (2), globalisation increasing business travel (2), changing attitudes promoting wish to travel (2). Cheaper flights widening prospective travellers (2) or other valid reasons. Reasoned point scores (2) to max of 5.

- (c) Select one headline from Fig. 3.

Explain, with the aid of a demand and supply diagram, its effect on the airline market. [6]

Target: to use supply and demand to analyse change within a market.

Demand will fall (1) because of fear of travel or lower activity or income (1) depending upon choice. Diagram axes (1), original D&S curves (1). New D curve (1). New price or quantity (1). Allow other reasonable interpretations.

- 2 Many passengers choose to fly with low-cost airlines but others still use traditional airlines.

Do you think it is better for passengers to fly with low-cost airlines or traditional airlines?

Use Fig. 4 and Fig. 5 to give reasons for your answer. [10 + 2]

Target: to evaluate patterns of demand for air travel.

For leisure travel in Europe for those with the ability to take advantage of the conditions e.g. the price conscious, those booking ahead, those with flexible travel patterns, low-cost airlines may replace traditional airlines. For others such as business travellers, those valuing services over cost, those needing main airports etc replacement is unlikely. Candidates may use examples to indicate attitudes and may comment on relevance of price elasticity.

Level 3 (6-10 marks)

Candidate discusses consequences of different passenger attitudes.

Level 2 (4-5 marks)

Candidate analyses importance of influences.

Level 1 (1-3 marks)

Candidate recognises different influences.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

- 3 (a) (i) **How much is the cheapest return flight from London to Glasgow?** [1]
 (ii) **Which airline offers this flight?** [1]
 (iii) **When is the most expensive return flight from London to Glasgow?** [1]
 (iv) **Which airline offers this flight?** [1]

Target: to interpret airline price data

(i) £28(1) (ii) Ryanair (1) (iii) August weekend (1) (iv) easyJet (1)

- (b) **What is meant by price elasticity of demand?** [2]

Target: to show knowledge of price elasticity of demand.

PED is a measure of the responsiveness of quantity demanded to a change in the price of the product.

Precise meaning or accurate formula, 2 marks. General idea 1 mark.

- (c) **Discuss why leisure travellers have a more price elastic demand for air travel than business travellers.** [6]

Target: to explain factors affecting price elasticity of demand.

Meaning of more price elastic (1).

Leisure travellers have more freedom to use alternative transport (e.g. rail). They can vary their travel times. Cost is more important to them. They pay cost themselves.

Business travellers must arrive for certain times so high cost flights are a necessity. They rate quality of service more highly than price. Speed of travel means no alternatives. The company pays the cost.

Level 3 (5-6 marks)

Candidate discusses elasticity of two groups.

Level 2 (2-4 marks)

Candidate applies influences to air travel.

Level 1 (1 mark)

Candidate knows influence on elasticity.

- 4 (a) With the help of Fig 7 identify one example, in the airline industry, of each of the four factors of production. [4]

Target: to analyse the use of factors of production in the airline industry.

Capital	Aircraft, headquarters
Labour	Pilots, ground crew
Enterprise	O'Leary
Land	Airport site, HQ site

1 mark per example. Allow examples outside of data. Allow 1 mark for four factors.

- (b) Michael O'Leary wants Ryanair to become bigger than British Airways. How successful has Ryanair been in achieving this target? [6]

Target: to evaluate the achievement of a non-profit motive.

Evidence in support includes higher profits and higher stock exchange value. More usual measures, e.g. employees, capital equipment, turnover and passengers, favour BA. Conclusion that Ryanair has made some very limited progress.

Level 3 (4-6 marks)

Candidate gives reasoned conclusion on relative size.

Level 2 (2-3 marks)

Candidate analyses size relevant data.

Level 3 (1 mark)

Candidate identifies differences in data.

- 5 (a) Compare the change in the exchange rates of £ against the \$ and the £ against the euro between 2001 and 2003. [3]

Target: to interpret exchange rate data.

The £ has strengthened against the \$ (1), by approx. 10% (1), the £ has weakened against the euro (1), by approx. 10% (1) OR from other currency perspective. 2 marks for changes. 1 Mark for reference to data.

- (b) Discuss why changes in the exchange rates have major effects on Ryanair's costs. [4]

Target: to assess the influence of exchange rate changes on airline costs.

Ryanair uses foreign currency to pay some costs (1). The particular changes will make \$ costs cheaper i.e. fuel and aircraft (1) and euro costs dearer i.e. airport fees (1). This will affect Ryanair's costs (1). Overall depends on size of impact (1).

- 6 (a) What is shown by a breakeven passenger load factor? [2]

Target: to show understanding of breakeven in airline context.

Breakeven means $TR = TC$ (1). This can be seen in terms of passengers as % of capacity (1).

- (b) Discuss why the trend shown in Fig. 9 is a problem for US airlines. [4]

Target: to interpret the significance of breakeven data.

The trend shows a move to a less than breakeven position (1). Losses are being made (1). Company may be bankrupt (1).

New policy is needed (1).

- 7 Using the information from the case study and your knowledge of economics, discuss whether increasing air travel is good for the UK economy

In your answer, you could refer to international trade, tourism, employment and the standard of living. [14+2]

Target: to assess the impact of increasing air travel.

Benefits include greater trade, tourism, employment, mobility, standards of living, and economic growth and balance of payments effects. Drawbacks include various external costs, disruption and harm to environment and cultures. The position can be viewed from an individual, company or government position. The outcomes need to be explained and evaluated.

Level 4 (9-14 marks)

Candidate discusses the benefits and drawbacks of increasing air travel.

Level 3 (6-8 marks)

Candidate analyses the consequences of increasing air travel.

Level 2 (3-5 marks)


Candidate explains some effects of increasing air travel.

Level 1 (1-2 marks)

Candidate identifies some effects of increasing air travel.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

Candidate Name	Centre Number	Candidate Number	 <small>RECOGNISING ACHIEVEMENT</small>							
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OXFORD CAMBRIDGE AND RSA EXAMINATIONS
General Certificate of Secondary Education

ECONOMICS **1985/4**
SPECIMEN PAPER 4 HIGHER TIER

FOR USE FROM SEPTEMBER 2005
1 hour 30 minutes

Additional materials:
Clean copy of case study (1985/2 & 4(CS))
Candidates answer on the question paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Refer to the Case Study given in a separate booklet.
Write your Centre number and Candidate number in the spaces at the top of this page.
Answer **all** questions.
The spaces should be sufficient for your answers but if you require more space, use the lined pages at the end of the booklet and number your answers carefully.

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 80.
The quality of your written communication will be taken into account when marking your answers to questions marked with an asterisk (*).

FOR EXAMINER'S USE	
TOTAL MARK	

This question paper consists of 9 printed pages, 2 lined pages and 1 blank page.

Question 1

(a) Use Fig.1 to discuss whether the airline industry was in recession in 2001–2003.

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(b) (i) Describe the change in the number of air passengers using UK airports from 1995 to 2020 shown in Fig. 2.

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(ii) Explain possible reasons for the change.

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- (c) Select **one** headline from Fig. 3.
Explain, with the aid of a demand and supply diagram, its effect on the airline market.

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Question 3

Use Fig.6 to answer the following questions.

(a) What is meant by price elasticity of demand?

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(b) Discuss why leisure travellers have a more price elastic demand for air travel than business travellers.

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(c) Is it reasonable that airlines charge different fares for return flights from London to Glasgow? Give reasons for your answer.

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Question 5

Use Fig. 8 to answer this question.

For the period 2001 to 2003, explain how the changes in the exchange rate of the £ against

- the euro and
- the \$ might have affected Ryanair.

.....[8]

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

General Certificate of Secondary Education

ECONOMICS
HIGHER TIER
PAPER 4

1985/4

MARK SCHEME

1 hour 30 minutes

SPECIMEN MARK SCHEME – For use from September 2005

MAXIMUM MARK 80

This mark scheme consists of 4 printed pages and 1 cover sheet.

- 1 (a) Use Fig 1 to discuss whether the airline industry was in recession in 2001-2003. [4]

Target: to judge data on the state of the airline industry.

Financial losses (1), debt, falling traffic (1), job losses (1) and bankruptcies (1) suggest recession (1).

3 marks for evidence. 1 mark for a conclusion.

- (b) (i) Describe the change in the number of air passengers using UK airports from 1995 to 2020 shown in Fig. 2. [2]

- (ii) Explain possible reasons for the change. [5]

Target: (i) to describe trend and (ii) suggest reasons for change.

(i) The trend is continuously (1), upward (1), use of data (1). Max 2 marks.

(ii) Increased incomes leading to more leisure travel (2), globalisation increasing business travel (2), changing attitudes promoting wish to travel (2), cheaper flights widening prospective travellers (2) or other valid reasons. Reasoned point scores (2) to max of 5.

- (c) Select one headline from Fig. 3. Explain, with the aid of a demand and supply diagram, its effect on the airline market. [6]

Target: to use supply and demand to analyse change within a market.

Demand will fall (1) because of fear of travel or lower activity or income (1) depending upon choice. Diagram axes (1), original D&S curves (1). New D curve (1). New price or quantity (1). Allow other reasonable interpretations.

- 2 Using Fig. 4 and Fig. 5, discuss how traditional airlines might respond to competition from the low-cost airlines. [10+2]

Target: to evaluate the methods available to respond to competitive pressure.

Possible ideas include imitate rivals, non-price competition, reduce costs, diversify or seek to command particular market sectors. One method may be sufficient although candidates will probably offer more than one. Either approach can gain full marks.

Level 4 (7-10 marks)

Candidate evaluates effectiveness of response to threat.

Level 3 (5-6 marks)

Candidate analyses operation of response to threat.

Level 2 (3-4 marks)

Candidate suggests methods to combat threat.

Level 1 (1-2 marks)

Candidate recognises nature of threat from low-cost airlines.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

3 (a) What is meant by price elasticity of demand? [2]

Target: to show knowledge of price elasticity of demand.

PED is a measure of the responsiveness of quantity demanded to a change in the price of the product.

Precise meaning or accurate formula 2 marks, general idea 1 mark.

(b) Discuss why leisure travellers have a more price elastic demand for air travel than business travellers. [6]

Target: to explain factors affecting price elasticity of demand.

Meaning of more price elastic (1).

Leisure travellers have more freedom to use alternative transport (e.g. rail). They can vary their travel times. Cost is more important to them. They pay for themselves.

Business travellers must arrive for certain times so high cost flights are a necessity. They rate quality of service more highly than price. Speed of travel means no alternatives. Companies pay the cost.

Level 3 (5-6 marks)

Candidate discusses elasticity of two groups.

Level 2 (2-4 marks)

Candidate applies influences to air travel.

Level 1 (1 mark)

Candidate knows influence on elasticity.

(c) Is it reasonable that airlines charge different fares for return flights from London to Glasgow? Give reasons for your answer. [6]

Target: to examine the airlines' pricing structure.

Fares vary according to time and length of travel. They also relate to different airports. Charges reflect levels of demand, nature of service, profit levels and costs of provision.

Level 3 (5-6 marks)

Candidate discusses basis of differential fares.

Level 2 (3-4 marks)

Candidate analyses influences on fares.

Level 1 (1-2 marks)

Candidate recognises variations in fares.

- 4 Michael O’Leary wants Ryanair to become bigger than British Airways. How successful has Ryanair been in achieving this target? [6]**

Target: to evaluate the achievement of a non-profit motive.

Evidence in support includes higher profits and higher stock exchange value. More usual measures, e.g. employees, capital equipment, turnover and passengers, favour BA. Conclusion that Ryanair has made some very limited progress.

Level 3 (4-6 marks)

Candidate gives reasoned conclusion on relative size.

Level 2 (2-3 marks)

Candidate analyses size relevant data.

Level 1 (1 mark)

Candidate identifies differences in data.

- 5 For the period 2001 to 2003, explain how the changes in the exchange rate of the £ against the euro and the \$ might have affected Ryanair. [8]**

Target: to analyse the significance of exchange rate changes to an airline.

The £ strengthened against the \$ and weakened against the euro. The weakening \$ makes costs (fuel and aircraft) cheaper to help Ryanair. It may make alternative travel to USA (not Europe) more attractive hurting Ryanair. A stronger euro increases costs at European airports, which is unhelpful but may encourage Europeans to fly to UK, so raising revenue.

More expensive holidays in Europe may deter customers.

Level 3 (7-8 marks)

Candidate analyses benefits and drawbacks of changes in different cases.

Level 2 (4-6 marks)

Candidate analyses benefits or drawbacks of changes.

Level 1 (1-3 marks)

Candidate understands exchange rate movements.

- 6 Use Fig. 9 to discuss the importance for US airlines of the changes in the breakeven passenger load factor. [6]**

Target: to judge the importance of airline passenger levels for profitability.

Pre 2001 US airlines were achieving better than breakeven. Post 2001 they were not breaking even. This requires more passengers or cost cutting to return to profit.

Level 3 (4-6 marks)

Candidate deduces need for action to achieve profit.

Level 2 (2-3 marks)

Candidate applies breakeven concept to data.

Level 1 (1 mark)

Candidate understands breakeven in this context.

- 7 Using the information from the case study and your knowledge of economics, discuss whether the UK government should encourage the growth of air travel. [15+2]

Target: to discuss the benefits and drawbacks of increased air travel with the emphasis on the UK government's perspective.

Air travel promotes trade and mobility. It creates employment in airlines, airports, aircraft manufacture and servicing and tourism, it encourages economic growth, it raises standards of living for some and may help the balance of payments for some countries. Against this it creates negative externalities (air pollution, noise, visual intrusion and airport traffic congestion) and it may contribute to unwelcome cultural and environmental change. Government may consider its impact in terms of its macro targets but also the need to prevent market failure.

Level 4 (10-15 marks)

Candidate discusses the role of government in regulating increased air travel.

Level 3 (7-9 marks)

Candidate analyses impact of increased air travel.

Level 2 (4-6 marks)

Candidate applies effects of increased air travel to impact on UK.

Level 1 (1-3 marks)

Candidate identifies some effects of increased air travel.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)