

OCR

Oxford Cambridge and RSA

Friday 19 June 2015 – Morning

A2 GCE ECONOMICS

F584/01 Transport Economics



Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:

- Calculators may be used

Duration: 2 hours



| | | | |
|--------------------|--|-------------------|--|
| Candidate forename | | Candidate surname | |
|--------------------|--|-------------------|--|

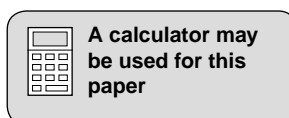
| | | | | | | | | | | | |
|---------------|--|--|--|--|--|--|------------------|--|--|--|--|
| Centre number | | | | | | | Candidate number | | | | |
|---------------|--|--|--|--|--|--|------------------|--|--|--|--|

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. 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.
- Do **not** write in the bar codes.

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.
- This document consists of **20** pages. Any blank pages are indicated.



2

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).

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.

5

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.

10

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. 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.

15

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.

20

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.

25

| 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 |

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

3
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.

.....

.....

.....

.....

.....

.....

.....

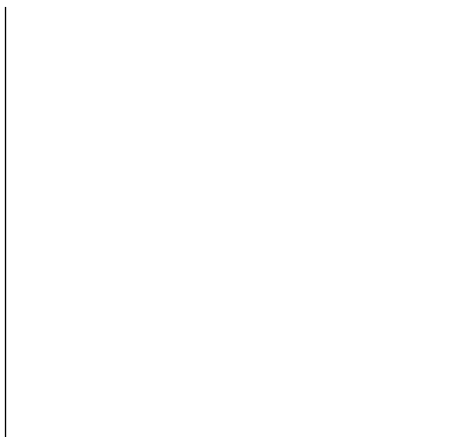
.....

.....

.....

[2]

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



.....

.....

.....

.....

.....

[4]

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]

6

(d) Discuss whether or not increasing competition in the provision of air transport services is beneficial to passengers. **[8]**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

7

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

8

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]

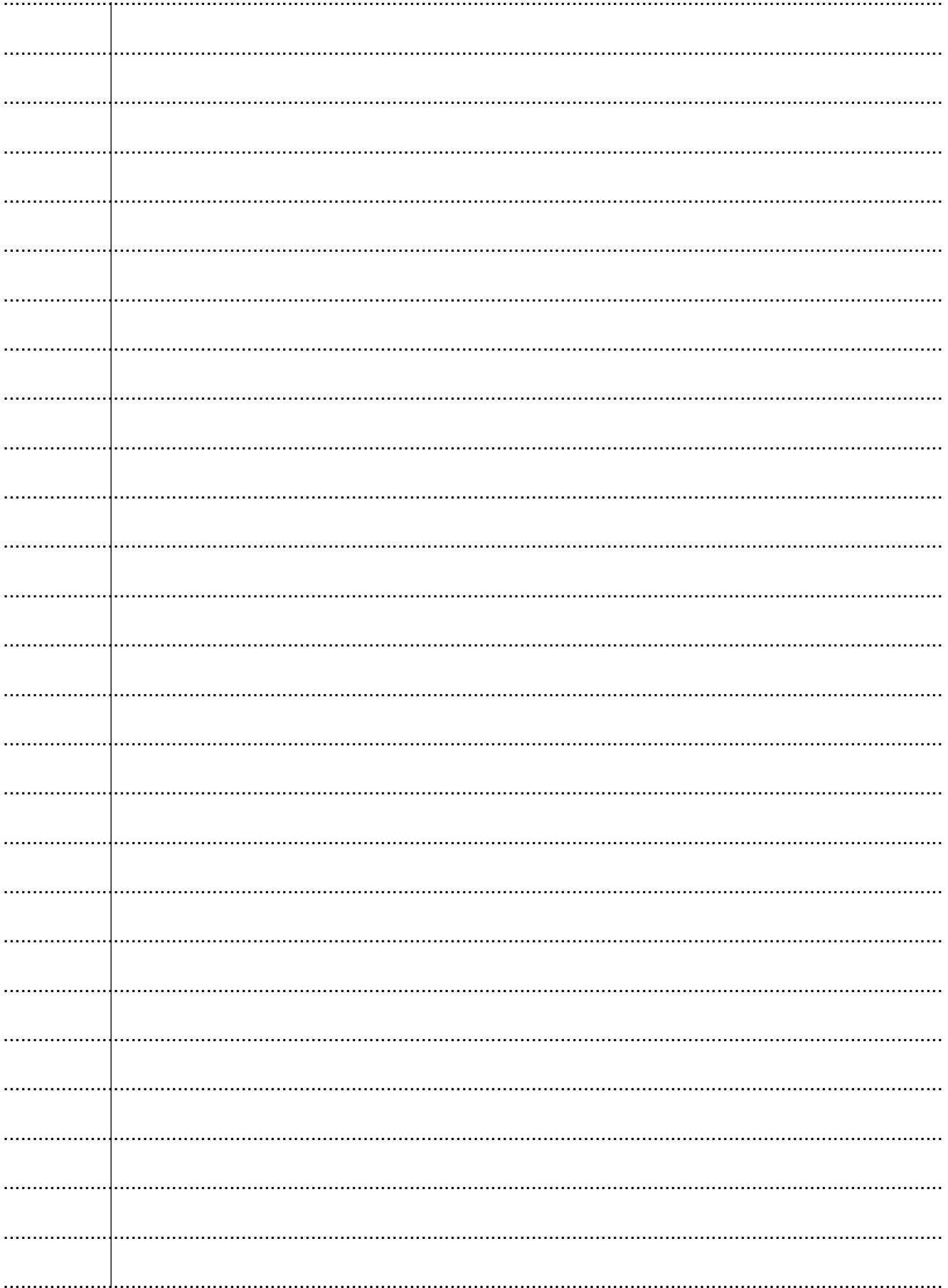
A series of horizontal dotted lines for writing.

A series of horizontal dotted lines for writing.

ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

A large area of horizontal dotted lines for writing answers, with a solid vertical line on the left side. The lines are evenly spaced and extend across most of the page width.



A large area of the page is filled with horizontal dotted lines, providing a space for writing answers. A solid vertical line runs down the left side of this area, creating a margin.



Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download from our public website (www.ocr.org.uk) after the live examination series. If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1GE.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.