



**ADVANCED GCE**  
**ECONOMICS**  
 Transport Economics

**F584**

Candidates answer on the Question Paper

**OCR Supplied Materials:**  
None

**Other Materials Required:**

- Calculators may be used

**Wednesday 23 June 2010**  
**Morning**

**Duration: 2 hours**



Candidate Forename		Candidate Surname	
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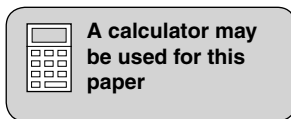
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**INSTRUCTIONS TO CANDIDATES**

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer Section A and **one** question from Section B.
- Do **not** write in the bar codes.
- 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.
- This document consists of **16** pages. Any blank pages are indicated.



## Section A

Answer **all** questions.

***Put UK airport expansion on hold, demands green group***

The government should completely rethink its aviation policy and reject plans to build a third runway at Heathrow, according to a report by an influential body.

The Sustainable Development Commission (SDC) said there were big question marks over the environmental and economic arguments underpinning the proposals for airport expansion. “A lot of the basic data upon which important decisions are made is heavily contested. Our recommendation is that an independent assessment is undertaken”, said a member of the SDC. 5

The report warned that some of the economic arguments behind airport expansion were uncertain, including one fiercely contested claim that adding a third runway at Heathrow would boost the UK economy by £5 billion a year. The report also claimed that the accuracy of environmental data was in doubt, with disputes over the impact of noise and air pollution on those living near to airports. 10

In response to the calls by the SDC, a government spokesman said “We fundamentally disagree with the findings of this report. It is simply wrong to claim that there is agreement that the evidence is flawed.”

The Department of Transport has recently predicted a doubling in passengers using UK airports to 465 million passengers a year by 2030. It is soon expected to give the go ahead to the third runway at Heathrow. 15

Source: The Guardian, Wednesday 21<sup>st</sup> May, 2008, article by Dan Milmo and John Vidal (amended)

**Fig. 1: Impact Assessment of Heathrow expansion\***

Annual Social Costs	Private Cost Infrastructure	£6.18 – £7.6 bn
	External Cost Climate Change	£5.1 bn
Annual Benefit	£17.1 bn	

\* Heathrow expansion includes adding a third runway and a new terminal around 2020.

Source: ‘Adding Capacity at Heathrow’, Annex B: Impact Assessment, Department for Transport (amended)

1 (a) (i) Explain why the demand for air transport can be said to be a 'derived' demand.

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(ii) Explain **two** reasons why the demand for air travel is predicted to increase by 2030 (lines 14–15).

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(c) (i) Explain what is meant by 'cost-benefit analysis'.

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(ii) Using Fig. 1, calculate the annual social cost of Heathrow's proposed expansion.

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(iii) Identify **two** external benefits arising from the expansion of Heathrow airport.

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**Section B**

Answer **one** question.

- 2 (a) Analyse, using a diagram, the market structure of a monopoly. [15]  
(b) Discuss the effects of increased concentration in transport markets. [20]
- 3 (a) Analyse the characteristics of a contestable market. [15]  
(b) Discuss the extent to which the deregulation of buses in the UK has been beneficial. [20]
- 4 (a) Analyse, using a diagram, how the existence of negative externalities results in market failure. [15]  
(b) Discuss the effectiveness of regulation as a solution to the market failure arising from increased transport use. [20]

**Section B Total: [35 marks]**

**Paper Total: [60 marks]**

**Section B**

Question No. ....

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Start your answer to part (b) here

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[20]

Additional pages. If you use this space, please make sure you number your answers carefully.

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