

Candidate forename						Candidate surname					
Centre number						Candidate number					

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
A2 GCE
F584/01
ECONOMICS
Transport Economics

TUESDAY 12 JUNE 2012: Afternoon
DURATION: 2 hours
plus your additional time allowance
MODIFIED ENLARGED

Candidates answer on the Question Paper.

OCR SUPPLIED MATERIALS:

None

OTHER MATERIALS REQUIRED:

Calculators may be used

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.**
- **The spaces should be sufficient for your answers but if you require more space use the lined pages at the end of this 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 60.**
- **The quality of your written communication will be taken into account in the marking of your answer to Section B.**

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BRITISH AIRWAYS MOVES A STEP CLOSER TO TRANSATLANTIC DEAL

British Airways (BA) has taken a significant step towards securing an alliance with American Airlines after the European Commission approved the deal.

If the three way tie up with American Airlines and Spanish airline Iberia is agreed by the US Department of Transport, the airlines will, in effect, be allowed to agree on fares and scheduling between Europe and the USA. 5

Willie Walsh, BA Chief Executive, said the route between Heathrow and the USA is already competitive thanks to the 'Open Skies' deal between the European Union (EU) and the USA which has opened up the transatlantic market to more competition. Virgin Atlantic, which has emblazoned its aircraft with slogans protesting against the deal, said it would continue to fight the proposal. Sir Richard Branson said, "We have fought this monster monopoly for the past 13 years and are still resolute in our belief that this decision is shameful and consumers will suffer as a result". 10 15 20

Analysts and investors believe that the deal will lead to lower costs at BA because combined scheduling will allow it to fly fewer planes, and the three airlines will not have to duplicate sales teams for customers. Douglas McNeill, analyst at Charles Stanley Securities, said the main benefits would not come from price increases. "It is not about jacking up fares. The airlines can probably achieve all they want from eliminating cost overlaps", he said. 25

Fig. 1 shows the number of seat kilometres sold by the main UK airlines in 2009. 30

Fig. 1: SIZE OF UK AIRLINES BY SEAT KILOMETRES USED (2009)

	MILLION-SEAT KILOMETRES	PERCENTAGE OF TOTAL
British Airways	111 327	37.4
Easyjet Airline	45 236	15.2
Virgin Atlantic	39 282	13.2
Thomson Airways	32 650	11.0
Thomas Cook Airlines	27 154	9.1
Monarch Airlines	15 712	5.3
BMI Group	10 171	3.4

SECTION A

Answer ALL questions from this section.

- 1 (a) (i) What is meant by a ‘five firm concentration ratio’?**

[1]

- (ii) Calculate the five firm concentration ratio in the UK airline market in 2009.
Give your answer to one decimal place.**

[1]

(iii) Explain the impact on market concentration of a merger between Thomson Airways and Thomas Cook Airlines.

[2]

(b) (i) Explain the difference between fixed and variable costs.

[2]

(ii) Identify ONE fixed and ONE variable cost faced by an airline such as British Airways.

Fixed cost: _____

Variable cost: _____

[2]

(c) (i) State and explain TWO possible economies of scale which could be gained from the merger between BA and Iberia.

1. _____

2. _____

_____ **[4]**

[illegible]

[5]

[illegible]

[illegible]

[8]

Section A Total: [25 marks]

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SECTION B

Answer ONE question from this section.

- 2 (a) Analyse the methods used by economists to place monetary values on different externalities, such as noise and congestion, arising from increased transport use. [15]**
- (b) Discuss the effectiveness of subsidising public transport in overcoming market failure in transport markets. [20]**
- 3 (a) Analyse the characteristics of monopolistic competition. [15]**
- (b) Discuss the extent to which monopoly provision of transport services is beneficial to producers and consumers. [20]**
- 4 (a) Analyse why the demand for passenger and freight transport is a derived demand. [15]**
- (b) Discuss the problems of forecasting future trends in transport markets. [20]**

Section B Total: [35 marks]

Paper Total: [60 marks]

SECTION B

Question No. _____

Start your answer to part (a) here

[illegible]

[illegible]

[illegible]

[illegible]

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