



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2023

Economics

Assessment Unit AS 1
assessing
Markets and Market Failure



SEC11

[SEC11]
MONDAY 15 MAY, MORNING

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all** questions in Sections **A** and **B** and **one** question in Section **C**.
You are permitted to use a calculator in this paper.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

- Section A: 25 Marks
- Section B: 35 Marks
- Section C: 20 Marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings. Quality of written communication will be assessed in Questions **5**, **6(b)**, **(c)** and **(d)**, **7** and **8**. Quantitative skills will be assessed where appropriate.

Section A (25 marks)

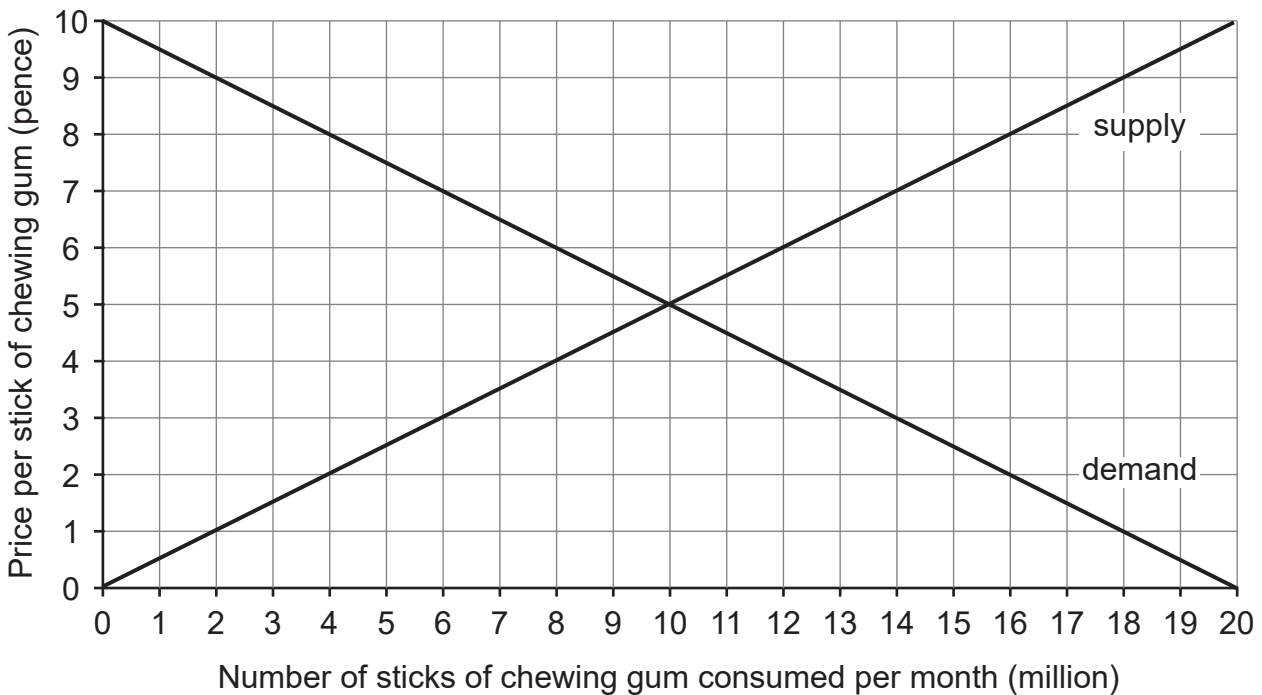
Answer all questions

- 1 Following Britain’s exit from the European Union (EU), there were significant delays to some lorries transporting goods from the UK to the EU because they lacked the necessary customs documents. One Brexit-supporting MP said, “This confirms my opinion we were right to leave the EU.”

With reference to the above statement, explain the difference between a positive and a normative statement.

[4]

- 2 The graph below shows the demand and supply per month for chewing gum in a certain country.



The government plans to impose a specific tax of 2 pence per stick on chewing gum.

- (a) Using the information in the chart above, calculate how much tax revenue the government would collect each month if it imposed a 2 pence per stick tax on chewing gum.

[3]

- (b) Using the information in the chart above, calculate the change in consumer surplus that would result from the imposition of a 2 pence per stick tax on chewing gum.

[4]

- 3 Fastbus is a private company providing bus services in a small city. Its main competitor is Zoom Trains. Fastbus has calculated the Cross Price Elasticity of Demand for its services with respect to changes in the price of Zoom Trains to be +0.3.

Using the information above, calculate the likely change in the numbers of passengers carried by Fastbus if Zoom Trains increases its fares by 5%.

[4]

- 4 In August 2021, Infrastructure Minister Nicola Mallon announced that £8m would be invested in new LED street lights across Northern Ireland. These lights, which have a predicted lifetime of approximately 25 years, are energy efficient and will contribute to the Minister's green agenda.

With reference to the information above, explain why street lighting could be described as a public good.

[4]

- 5 Rare earth metals are essential in the manufacture of a range of devices such as batteries for electric vehicles and mobile phones. Over recent months, prices of "rare earths" have increased significantly. This is due to a number of factors, notably:

- Many governments have been promoting the use of electric vehicles.
- China, the world's most important producer of rare earth metals, has been restricting exports as part of its trade dispute with the USA.
- Increases in real income in developing countries have increased demand for luxury goods such as mobile phones.

With the aid of an appropriate diagram, explain the rise in the price of rare earth metals. [6]

Section B (35 marks)

Answer all questions

The following passage was written in July 2021. Read it carefully and answer the questions which follow.

6 Aviation: A missed opportunity

The COVID pandemic had a significant impact on the airline industry. In spring 2020, over 80% of passenger flights were affected by restrictions. Even after that, recovery was slow, with nervous consumers and government restrictions severely reducing passenger numbers. Whilst there is some debate about how long it will take the airline industry to recover, there is little doubt that it will. Previously, the aviation industry had recovered from falls in demand due to terrorist attacks in 2001 and the financial crash of 2008. Economist Richard Williams said, "Income elasticity of demand varies between 0.8 for short-haul flights to 2.4 for long-haul ones. Assuming consumer incomes rise, we will see a rapid growth in passenger numbers."

1

Whilst this may be good for the airline industry, it does generate external costs as airlines are increasingly major polluters. Between 2013 and 2018 the carbon emissions of airlines grew by 26.3% whilst emissions of other heavy polluters, such as coal and cement companies, fell. Climate change campaigner Carla Wilson said, "During the lockdown period, greenhouse gas emissions from flights fell by 60%. Governments are missing a golden opportunity to reset the airline industry on a more sustainable path."

2

On the other hand, aviation sources argue the industry has become more efficient; for instance, the amount of fuel burned per passenger dropped by 24% between 2005 and 2017. However, these environmental benefits have been outpaced by sustained growth in air traffic. In comparison to other modes of travel, flying is very environmentally unfriendly, as illustrated in Fig. 1 below.

3

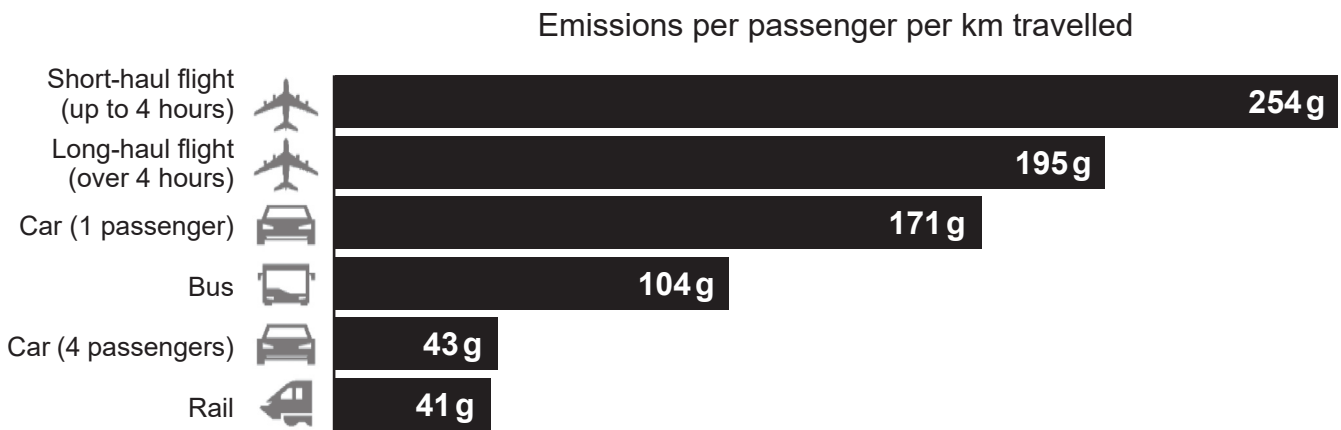


Fig. 1: Greenhouse gas emissions from transport

Despite this, and other considerations such as noise pollution near airports, the airline industry is treated more favourably by government than other forms of transport. Unlike train tickets, flight tickets are not subject to VAT and aviation fuel is not taxed. Environmental campaigner James Lawson said, “At a time of melting polar ice caps, extreme weather events and record temperature rises, it is vital that emissions are reduced. Governments need to take action now against an undertaxed, underregulated and out of control civil aviation industry.”

4

- (a) Using the information in **Fig. 1**, compare the emissions from short-haul flights with those from bus and rail travel. [5]
- (b) With reference to the concept of income elasticity of demand, explain why rising consumer incomes could cause a rapid growth in air passenger numbers. [6]
- (c) With the aid of an appropriate diagram, explain why the free market might lead to the airline industry supplying more flights than the socially optimal level. [9]
- (d) Critically evaluate the range of policies a government could pursue to reduce greenhouse gas emissions from the airline industry. [15]

Section C (20 marks)

Answer one question

- 7 In 2019 consumption of alcohol in Scotland fell by 3.6%. This was the first full year of implementation of a minimum price for alcohol of 50p per unit. The Chief Executive of Alcohol Focus Scotland said, “Even a small reduction in the amount of alcohol consumed will mean fewer lives damaged by, or lost to, drink. Increasing the price of alcohol is one of the best policy measures to reduce alcohol consumption and the harm it causes.”

Critically examine the view that imposing a minimum price is the most effective way to reduce the consumption of alcohol and the harm it causes.

[20]

- 8 In traditional economics, it is assumed that consumers are expert utility maximisers who will weigh up the costs and benefits of every decision. However, some economists argue that consumers may act irrationally because they are impulsive, ill-advised or ill-informed.

Critically examine the view that consumers do not always behave in a rational fashion.

[20]

THIS IS THE END OF THE QUESTION PAPER

Permission to reproduce all copyright material has been applied for.
In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA
will be happy to rectify any omissions of acknowledgement in future if notified.