



**GCE**

**Economics**

Unit **F584**: Transport Economics

Advanced GCE

**Mark Scheme for June 2015**

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Valid point
	Incorrect
	Unclear
<b>BOD</b>	Benefit of doubt
<b>EE</b>	Effective evaluation
<b>IR</b>	Irrelevant
<b>L1</b>	Level 1
<b>L2</b>	Level 2
<b>L3</b>	Level 3
<b>L4</b>	Level 4
<b>NAQ</b>	Not answered question
<b>SEEN</b>	Noted but no credit given
<b>TV</b>	Too vague

**Highlighting** is also available to highlight any particular points on the script.

'BP' to be inserted on every blank page

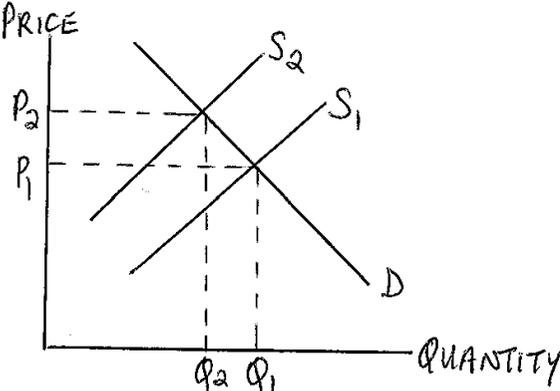
**F584/01****Mark Scheme****June 2015****Subject-specific Marking Instructions**

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (b) of the essays and should be applied consistently between the different essays:

- Level 4:** Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.
- Level 3:** Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.
- Level 2:** Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.
- Level 1:** Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.

Question		Answer	Marks	Guidance
1	(a)	<p><b>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.</b></p> <p><u>Indicative content:</u></p> <ul style="list-style-type: none"> <li>• recession/global economic slowdown / falling incomes</li> <li>• falling price of substitutes</li> <li>• changing preferences</li> <li>• falling consumer confidence – hence, fewer people taking holidays</li> <li>• better weather in the UK – hence, more people holidaying in the UK</li> <li>• effective marketing by UK destinations – hence, more people holidaying in the UK</li> <li>• increasing ticket prices (accept increased oil prices)</li> </ul> <p><u>Exemplar response:</u>                      Recession (1) means that UK consumers have lower disposable incomes and, therefore, cut back on holidays, perhaps no longer travelling abroad on holiday (1).</p>	2	<p>One mark for a correct identification, plus a further one mark for an explanation.</p> <p>Nothing for reference to population (decreasing).</p>

Question	Answer	Marks	Guidance
(b) (i)	<p><b>Using a diagram, explain the impact of an indirect tax such as APD on the market for air travel.</b></p> <p><u>Up to two marks are available for a correct diagram:</u></p>  <p>One mark for shifting the supply curve to the left. One mark for identifying the new equilibrium (new S curve original D curve) at a higher price/lower equilibrium quantity. MUST clearly label new equilibrium such as P2/Q2.</p> <p><u>Up to two marks for an explanation:</u></p> <ul style="list-style-type: none"> <li>• an indirect tax has the effect of raising costs of production (1)</li> <li>• firms have less incentive to supply and, hence, reduce supply (1)</li> <li>• the price increases and the quantity falls (1)</li> <li>• increasing tax can internalise the external cost / raise MPC / MSC</li> </ul>	4	<p>Up to two marks for a diagram.</p> <p>Correct labels on axis required for 2 marks.</p> <p>If macro labels or no labels on axis max 1 for diagram.</p> <p>If AD/AS curves used then no marks.</p> <p>If only quantity demanded or quantity supplied on x axis then max 1 mark.</p> <p>Accept MPC / MSC for S curve.</p> <p>Accept parallel or diverging shift of S curve.</p> <p>Up to two marks for an explanation.</p> <p>Maximum four marks.</p>
(ii)	<p><b>Other than raising government revenue, state and explain one argument in favour of imposing APD.</b></p> <p><u>Indicative content:</u></p> <ul style="list-style-type: none"> <li>• it forces consumers to internalise their negative externality.</li> <li>• Increases the private costs to be close to social cost.</li> <li>• as a green tax, it reduces the consumption of flights which create negative externalities / increases sustainability.</li> </ul>	2	<p>One mark for a correct identification, plus a further one mark for an explanation.</p> <p>No mark for a reference to hypothecation</p>

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	<ul style="list-style-type: none"> <li>• by reducing overconsumption, APD will generate a more efficient allocation of resources.</li> <li>• It creates the incentive for a modal shift to more efficient means.</li> </ul> <p><u>Exemplar response:</u> APD forces consumers to be more aware of the true social costs of flying (1). As such, this will reduce consumption of flights and, therefore, reduce allocative inefficiency (1).</p>		
(iii)	<p><b>State and explain two arguments against imposing APD.</b></p> <p><u>Indicative content:</u></p> <ul style="list-style-type: none"> <li>• it is regressive</li> <li>• it is inflationary</li> <li>• it is difficult to set at the correct level (ie equal to external costs) and, as such, government failure is likely to arise.</li> <li>• if PED is inelastic, it will be ineffective in reducing the number of people flying.</li> <li>• The XED to trains and boats is likely to be inelastic</li> <li>• If the tourism industry lose demand, then they may have to make people redundant or investment may fall or related impact on economic growth due to tourists staying away.</li> <li>• if airline industries lose demand, then they may have to make people redundant or investment may fall.</li> <li>• negative effects on UK firms with overseas operations</li> <li>• the tax revenue is not hypothecated into viable substitutes</li> <li>• it should be a tax on emissions to correct the market failure</li> <li>• it is not set internationally</li> <li>• costs of implementation</li> <li>• less tourism to long haul developing countries</li> </ul> <p><u>Exemplar response:</u> APD is a flat rate tax which takes no account of an individual's income. It is, therefore, a regressive tax (1). As such, it takes a higher proportion of income from low income groups than it does from high income groups (1).</p>	4	<p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.</p> <p>NOTE: the explanation MUST be explicitly linked to APD. In other words, the explanation offered must be in the context of airlines.</p>

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Question	Answer	Marks	Guidance
(c)	<p><b>Comment on the usefulness of Gross Domestic Product data when forecasting demand in the air transport market.</b></p> <p><u>Two marks are available for analysing how GDP data is used when forecasting future demand in the air transport market:</u></p> <ul style="list-style-type: none"> <li>• if GDP is expected to rise then household disposable incomes will rise (1) and, therefore, the demand for air transport will increase as people can afford more holidays and foreign travel (1)</li> <li>• with increased disposable incomes, more people buy goods and services from firms (1) and, therefore, there is more demand for air transport to move these goods to market. (Accept references to air transport being a derived demand.) (1)</li> </ul> <p><u>Two marks are available for analysis of problems of using GDP data:</u> Other factors also need to be taken into account such as fuel prices, population growth, industrial output and the level of imports into the country (1). Therefore, GDP alone will not give a complete picture (1).</p> <p>GDP growth is not distributed equally (1) and therefore may have little impact if concentrated amongst those who already fly regularly (1).</p> <p>GDP data may be inaccurate and is often volatile (1). Therefore, using this data without any other information may provide an inaccurate forecast of future demand (1).</p> <p><u>One mark is available for a clear conclusion/judgement</u> as to whether or not GDP is effective when making forecasts. For example, “when used in conjunction with other data, GDP can be very useful but when used in isolation/alone then it is of more limited use”.</p>	5	<p>Up to five marks.</p> <p>This is a 2+2+1 question.</p> <p>Up to two marks for analysing how GDP can be used when making forecasts.</p> <p>Up to two marks for analysing the problems/ limitations of using GDP to make forecasts.</p> <p>1 well developed piece of analysis can gain 2 marks.</p> <p>Up to 1 mark for clear conclusion / judgement</p> <p>Maximum of 1 + 1 if no references to the air transport market.</p> <p>If no analysis then 0 marks.</p> <p>One mark for a clear conclusion/judgement being offered in the context of the air transport market.</p>

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Question	Answer	Marks	Guidance
(d)	<p><b>Discuss whether or not increasing competition in the provision of air transport services is beneficial to passengers.</b></p> <p><u>Up to three marks are available for relevant analysis of whether or not increasing competition in air transport services has been beneficial:</u></p> <ul style="list-style-type: none"> <li>• leads to lower prices</li> <li>• result in increased consumer surplus</li> <li>• greater choice with new routes possibly being developed</li> <li>• productive efficiency occurs as firms need to produce at minimum AC in order to sell at the lowest possible price to passengers</li> <li>• allocative efficiency occurs as firms want to sell exactly those goods and services which passengers wish to purchase (otherwise they would go bankrupt)</li> <li>• dynamic efficiency leading to non-price competition results in increased quality and possible passenger gains from innovation</li> <li>• accept traditional theory of the firm analysis in terms of the move towards a perfectly competitive market raising efficiency</li> <li>• alternatively, accept supply and demand analysis which analyses the benefits of increased competition in terms of a rightwards shift of the supply curve</li> </ul> <p>Any one point which is clearly developed can gain up to three marks maximum. Alternatively, the identification of three separate but relevant points of analysis can also gain all three analysis marks.</p> <p><u>A further three marks are available for analysis of possible drawbacks/ limits to increasing competition:</u></p> <ul style="list-style-type: none"> <li>• loss of supernormal profits may lead to lower levels of R &amp; D – hence, lower levels of investment by firms and potential loss of dynamic efficiency gains</li> <li>• with a larger number of smaller firms present in markets, there will be the possible loss of economies of scale – hence firms may, in fact, be less productively efficient.</li> <li>• with the need to lower costs of production, firms may well cut corners (ie health and safety risks?) OR may well ignore external costs – hence, market failure may occur due to negative externalities</li> </ul>	8	<p>Up to eight marks.</p> <p>NOTE: this is a 3+3+2 question.</p> <p>Up to 3 marks for analysing whether increasing competition in the provision of air transport services is beneficial to passengers.</p> <p>Up to 3 marks for counter analysis of whether increasing competition in the provision of air transport services is beneficial to passengers.</p> <p>One well developed piece of analysis can gain 2 marks.</p> <p>Up to 2 marks for clear conclusion / judgement</p> <p>Increased economic efficiency must be explicitly explained not simply a list of types of efficiency.</p> <p>The final two marks are only available if two sided analysis is already present.</p>

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	<p><u>A further two marks are available for a conclusion/judgement. These marks are awarded as follows:</u></p> <p><u>One mark for a simple statement</u> – for example:</p> <ul style="list-style-type: none"> <li>• “In conclusion, increasing competition has been beneficial”</li> <li>• “Overall, increasing competition has not been beneficial”</li> </ul> <p><u>Two marks for a developed statement</u> – for example:</p> <ul style="list-style-type: none"> <li>• “The impact of increased competition will be beneficial as long as it is sustained in to the long run. Some transport markets have seen short bursts of competition in the short run which has not been maintained and often markets have returned to oligopoly type structures.”</li> <li>• The threat of contestability can be more important than the actual competition itself.</li> <li>• “It entirely depends upon the scale of increased competition. If just one or two extra firms join the air transport market then this will not necessarily result in a significant change in the market but a large number of new entrants is much more likely to generate a beneficial impact on consumers.”</li> <li>• In order for competition to be beneficial it requires regulation to stop firms cutting corners.</li> </ul>		

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Question		Answer	Marks	Guidance	
				Content	Levels of response
2	(a)	<p><b>Analyse, using examples, why some transport markets are considered to be ‘natural monopolies’.</b></p> <p>Candidates need to analyse the different features/ characteristics.</p> <p><b>Relevant characteristics/features include:</b></p> <ul style="list-style-type: none"> <li>• a situation where one firm has an overwhelming cost advantage</li> <li>• one firm gains substantial economies of scale OR one firm has a significant cost advantage over other firms in the industry</li> <li>• an industry which has substantial fixed costs OR an industry where past ownership of capital resources means that it is difficult and extremely expensive to duplicate</li> </ul> <p><b>Relevant analysis of these could include:</b> High fixed costs exist (L1) which means that as a firm increases output, average fixed costs continuously decline (L2). Hence, it is more efficient to have just one firm producing at a high level of output in order to minimise average costs / prevent using excessive resources (L3) <u>OR</u> to achieve allocative / productive efficiency (L3).</p> <p>Natural monopolies have huge economies of scale (L1). These firms continuously enjoy lower average costs as output rises (L2). Hence, it is most efficient to have just one firm producing in the market – hence, achieving productive efficiency (L3).</p>	15	<p><u>Analysis</u> of HOW characteristic(s) result(s) in a natural monopoly OR the consequences being developed = Level 3</p> <p><u>Identification AND explanation</u> of characteristic(s) = Level 2</p> <p><u>Identification</u> of characteristic(s) = Level 1</p>	<p><b>Level 3: (9–15 marks)</b> For a clear analysis of the characteristics/features of a natural monopoly.</p> <p>13–15: <i>Very good analysis</i>: good analysis of two or more characteristics/features.</p> <p>11–12: <i>Good analysis</i>: Good analysis of one characteristic/feature OR basic analysis of two characteristics/features.</p> <p>9–10: <i>Basic analysis</i>: basic analysis of one characteristic/feature.</p> <p><b>Level 2: (5–8 marks)</b> For an application of knowledge and understanding of the features of a natural monopoly.</p> <p>7-8 marks: <i>Good application</i>: two or more factors identified and explained.</p> <p>5-6 marks: <i>Basic application</i>: one factor identified and explained.</p> <p>Answers in this level will identify and explain characteristics/features but fail to analyse these in terms of why it gives rise to this market structure. In other words, such answers will <u>describe</u> the characteristic, rather than <u>analysing</u> it.</p>

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					Content	Levels of response
			Natural monopolies enjoy significant cost advantages over potential rivals (L1). For example, they enjoy much larger economies of scale (L2). This enables the natural monopolist to undercut any potential entrants in to the market and, hence, maintain its monopoly position (L3).			<p>As soon as two or more characteristics/features are identified and explained then 7-8 marks will be awarded.</p> <p><b>Level 1: (1–4 marks)</b> For knowledge and understanding of what is a monopoly / natural monopoly. Answers in this level will provide a basic definition in terms of a situation where a monopolist has an overwhelming cost advantage.</p> <p>Simple definitions of monopoly will receive 1–2 marks, whilst answers which provide definitions of natural monopolies will gain 3–4 marks.</p>

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					Levels of response
	(b)	<p><b>Discuss whether or not the provision of high quality service for consumers should be the aim of firms in transport markets.</b></p> <p>Candidates are expected to analyse why high quality service may AND may not be the aim / objective of firms in the transport industry. To reach L4, analysis of BOTH sides is needed.</p> <p><b>Relevant analysis of why high quality service would be the main objective includes:</b></p> <ul style="list-style-type: none"> <li>Firms which provide high quality service/a good quality product will gain more sales (L2). This can result in a higher level of demand which can be represented by a rightwards shift of the demand curve showing increased demand for a firm's product / or an increase in market share / modal shift (L3).</li> <li>Accept relevant analysis of allocative efficiency which states that firms will aim to provide the quality that customers want in order to maximise consumer satisfaction (L2). Firms will provide a high quality service AND often provide services which are deemed to be socially desirable. In this way, demand and output can be raised as consumers will demand services which they see as more desirable (L3).</li> </ul>	20	<p><b>Level 4(a): possible judgement includes:</b></p> <p>The aim will vary from firm to firm. For example, before deregulation, some local authority bus companies aimed to provide the best quality service.</p> <p>It depends on the market structure in the industry. For example, a firm in a highly competitive market will have to profit maximise in order to survive (as this is where they make only 'normal' profits).</p> <p>Level 3: answers lacking relevant transport application will receive marks in the lower part of the band, eg 8 marks instead of 10 OR 5 marks instead of 7.</p>	<p><b>Level 4(a): (16–20 marks)</b> For a discussion which includes a judgement as to whether or not providing a high quality service will always be the aim of firms in the transport industry.</p> <p><i>NOTE: To reach L4(a) balanced discussion must already be present.</i></p> <p>18-20 marks: <i>Balanced discussion with good judgement.</i></p> <p>16-17 marks: <i>Balanced discussion with weak judgement.</i></p> <p><b>Level 4(b): (11–15 marks)</b> For a discussion of whether or not a high quality service is likely to be the aim of firms in the transport industry. Two-sided economic analysis.</p> <p>13-15 marks: <i>Balanced discussion with some transport application.</i></p> <p>11-12 marks: <i>Basic discussion</i> (supporting analysis of one side is only basic)</p> <p><b>Level 3: (5–10 marks)</b> One sided analysis of whether or not providing a high quality service will be the aim of firms.</p>

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Question			Answer	Marks	Guidance	
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			<p><b>Possible analysis of why high quality service may not be the main objective include:</b></p> <ul style="list-style-type: none"> <li>• In non-competitive markets, firms will not necessarily need to provide the very best quality services (L2) as they will not face competition from other firms and therefore the need to do this (L3).</li> <li>• A strong brand can lead to complacency (L2) with an aim other than quality taking priority (L3).</li> </ul> <p>Alternative objectives may be more realistic such as:</p> <ul style="list-style-type: none"> <li>• Profit satisficing (firms may wish to avoid damaging price wars and, therefore, simply agree to accept a level of profit without maximising it)</li> <li>• In certain growing markets, firms may aim for sales revenue maximisation, achieved where firms produce where <math>MR=0</math> (L2). This is because the firms may be keen to undercut rivals and offer a lower market price in order to gain market share from rivals (L3)</li> <li>• Profit maximisation will be achieved where <math>MC=MR</math> (L2). This is likely to be a much more realistic objective for firms in the private sector as they will want to maximise profits in order to satisfy shareholders (L3)</li> </ul>		<p>Level 2: answers in this level may simply recognise and describe different objectives of firms.</p>	<p>8-10 marks: <i>Good analysis</i>: one sided analysis which is good.</p> <p>5-7 marks: <i>Basic analysis</i>: one sided analysis which is only basic in nature.</p> <p><b>Level 2: (3–4 marks)</b></p> <p>For application of knowledge and understanding of what high quality service involves <u>but lacking any relevant analysis</u> of why firms may want to do this. OR an answer which lists alternative objectives to high quality service.</p> <p><b>Level 1: (1–2 marks)</b></p> <p>For knowledge and understanding in terms of what high quality service is.</p> <p><i>Quality of Written Communication</i> is assessed in this question. Please see page 5 for guidelines.</p>

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3	(a)	<p><b>Analyse economics and diseconomies of scale which arise in transport markets in the UK.</b></p> <p><b>Relevant examples of economies of scale (EOS) include:</b></p> <ul style="list-style-type: none"> <li>• purchasing/commercial/bulk buying</li> <li>• technical</li> <li>• risk bearing</li> <li>• managerial</li> <li>• marketing</li> <li>• financial</li> </ul> <p><b>Relevant analysis of these could include:</b></p> <ul style="list-style-type: none"> <li>• Transport providers will be able to buy in bulk (L1); for example, fuel for aircraft. As such, they are likely to be able to negotiate larger discounts from suppliers (L2) which means that they will be able to benefit from lower LR average costs (L3)</li> <li>• As transport firms grow, they will benefit from financial EOS (L1). This is because banks will see them as less risky prospects and, hence, will be more willing to lend them money on better terms as there will be less risk involved (L2). As such, transport firms will be able to benefit from lower interest rates and hence will enjoy lower LR average costs (L3).</li> </ul> <p><b>Relevant examples of diseconomies of scale (DOS) include:</b></p> <ul style="list-style-type: none"> <li>• managerial/control issues</li> <li>• co-ordination</li> </ul>	15	<p><u>Analysis</u> of WHY each named economy/dis-economy of scale results in lower/higher AC = Level 3</p> <p><u>Identification AND explanation</u> of relevant economies/diseconomies = Level 2</p> <p><u>Identification</u> of relevant economies/diseconomies = Level 1</p>	<p><b>Level 3: (9–15 marks)</b> For a clear analysis of the possible economies/diseconomies of scale incurred by transport providers.</p> <p>13–15: <i>Very good analysis</i>: good analysis of one economy of scale AND one diseconomy of scale.</p> <p>11–12: <i>Good analysis</i>: Good analysis of one economy (or diseconomy) of scale OR basic analysis of two economies of scale or two diseconomies of scale or one of each.</p> <p>9–10: <i>Basic analysis</i>: basic analysis of one economy OR one diseconomy of scale.</p> <p><b>Level 2: (5–8 marks)</b> For an application of knowledge and understanding of different economies/diseconomies of scale.</p> <p>7-8 marks: <i>Good application</i>: one economy AND one diseconomy of scale identified and explained or identification and explanation of two economies of scale or two diseconomies of scale.</p> <p>5-6 marks: <i>Basic application</i>: one relevant economy OR one diseconomy of scale identified and explained.</p>

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			<ul style="list-style-type: none"> <li>• co-operation</li> <li>• increasing costs of raw materials</li> </ul> <p><b>Relevant <u>analysis</u> of these could include:</b></p> <ul style="list-style-type: none"> <li>• As firms expand they may well suffer from co-ordination problems (L1). If transport providers expand too rapidly then they may well find that it is more difficult to co-ordinate and control their workforce (L2). As such, transport providers may well see their levels of productivity fall (L2) and, as a result, firms may well incur higher LR average costs (L3).</li> <li>• Transport providers may well see the costs of their raw materials start to rise (L1). This is because firms may well start to demand such large volumes of raw materials that their higher demand begins to raise the market prices of such goods (L2). Hence, transport providers begin to suffer from increased LR average costs (L3).</li> </ul>			<p>Answers in Level 2 will identify and explain relevant economies OR diseconomies of scale but will not analyse these. In other words, such answers will describe the example rather than analysing it.</p> <p><b>Level 1: (1–4 marks)</b> For knowledge and understanding of different economies/diseconomies of scale. Answers in this level will provide a basic definition of terms.</p> <p>Simple definitions of ONE of EOS/DOS will receive 1–2 marks, whilst answers which provide definitions of BOTH EOS and DOS will gain 3–4 marks.</p> <p>A lack of application to the transport market will force the mark to the bottom of the relevant level.</p>

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	(b)	<p><b>Discuss the extent to which the UK freight transport market is contestable.</b></p> <p>Candidates will be expected to analyse why the UK freight transport market could be classed as being contestable and then analyse why it might not be.</p> <p><b>Possible analysis of why it is contestable includes:</b></p> <ul style="list-style-type: none"> <li>• legal barriers have been removed with privatisation. Firms are now free to bid for franchises when these become available</li> <li>• there are a large number of potential firms in the road freight/haulage market with firms facing relatively low barriers to entry</li> <li>• deregulation of the EU airline industry through the ‘Open Skies’ policy has provided ‘open access’ for firms fly freight transport anywhere within the UK. This has lowered barriers to entry in terms of air movement of freight</li> </ul> <p><b>Possible analysis of why it is not contestable includes:</b></p> <ul style="list-style-type: none"> <li>• there is imperfect information in the market and, hence, incumbent firms maintain an advantage over potential entrants</li> <li>• with rail freight, contestability is low as the main freight services were sold outright (initially to EWS and Freightliner). High barriers to entry remain in terms of rail freight</li> <li>• high start-up/set-up costs remain in this market (for example, meeting health and safety laws)</li> </ul>	20	<p><b>Level 4(a): possible judgement includes:</b></p> <p>The level of contestability depends on which aspect of the freight industry is being considered – rail, road or airline?</p> <p>The level of contestability will vary over time, depending on the size of incumbent firms.</p> <p>The extent to which the market is contestable depends on the extent to which barriers have to been reduced or still exist.</p> <p>The extent to which the market is contestable depends on the effectiveness of regulation / deregulation.</p>	<p><b>Level 4(a): (16–20 marks)</b> For a discussion which includes a judgement as to how contestable the UK freight transport market is.</p> <p>NOTE: To reach L4(a) balanced discussion must already be present.</p> <p>18-20 marks: <i>Balanced discussion with good judgement.</i></p> <p>16-17 marks: <i>Balanced discussion with weak judgement.</i></p> <p><b>Level 4(b): (11–15 marks)</b> For a discussion of how contestable the UK transport market is. Two-sided economic analysis.</p> <p>13-15 marks: <i>Balanced discussion with some transport application.</i></p> <p>11-12 marks: <i>Basic discussion</i> (supporting analysis of one side is only basic).</p> <p><b>Level 3: (5–10 marks)</b> One sided analysis. In other words, analyses EITHER that the UK freight transport market is contestable OR it is not contestable.</p> <p>8-10 marks: <i>Good analysis:</i> one sided analysis which is good.</p>

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			<ul style="list-style-type: none"> <li>existing firms can benefit from substantial economies of scale in comparison to potential new entrants</li> <li>possible predatory pricing may occur which will deter potential entrants from joining the market</li> </ul>			<p>5-7 marks: <i>Basic analysis</i>: one sided analysis which is only basic in nature. (Answers which lack application to the UK freight transport market will be at the bottom of the band, ie either 5 or 8 marks)</p> <p><b>Level 2: (3–4 marks)</b> For an application of knowledge and understanding of what barriers to entry may exist but lacking analysis of why this alters the level of contestability.</p> <p><b>Level 1: (1–2 marks)</b> For knowledge and understanding of what a contestable market is.</p> <p><i>Quality of Written Communication</i> is assessed in this question. Please see page 5 for guidelines.</p>

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Question		Answer	Marks	Guidance	
				Content	Levels of response
4	(a)	<p><b>Other than Gross Domestic Product data, analyse the factors economists would consider when forecasting the demand for bus usage in the UK.</b></p> <p><b>Factors considered when making forecasts include:</b></p> <ul style="list-style-type: none"> <li>• fuel prices</li> <li>• population growth</li> <li>• car ownership</li> <li>• employment</li> <li>• price of substitutes</li> <li>• age distribution</li> <li>• government policy</li> <li>• level of congestion</li> <li>• quality of bus provision (technology)</li> <li>• price of bus journeys</li> <li>• accept any other reasonable qualifying factor</li> </ul> <p><b>Relevant <u>analysis</u> of these could include:</b></p> <p>Fuel prices are used (L1). As fuel prices rise, fewer people will be able to afford to drive, so less car journeys are made (L2). As a result, there will be a contraction of demand for car use (basic L3) or a forecast shift to a cheaper substitute/modal switch (good L3).</p> <p>Employment (L1). Higher employment will mean more work related transport journeys are required (L2). Hence higher forecast 'derived' demand for a modal switch of transport usage (good L3).</p>	15	<p><u>Analysis</u> of each reason (ie clear analysis of how the factor may be used in forecasting) = Level 3</p> <p><u>Identification AND explanation</u> of reasons = Level 2</p> <p><u>Identification</u> of possible reasons = Level 1</p> <p>DO NOT reward reference to GDP.</p>	<p><b>Level 3: (9–15 marks)</b> For clear analysis of the different factors used in forecasting.</p> <p>13–15: <i>Very good analysis</i>: good analysis of two or more factors used in forecasting.</p> <p>11–12: <i>Good analysis</i>: Good analysis of one factor OR basic analysis of two factors.</p> <p>9–10: <i>Basic analysis</i>: basic analysis of one factor used in forecasting.</p> <p><b>Level 2: (5–8 marks)</b> For an application of knowledge and understanding of the factors used in forecasting.</p> <p>7-8 marks: <i>Good application</i>: Two or more relevant factors are identified and explained.</p> <p>5-6 marks: <i>Basic application</i>: One relevant factor identified and explained.</p> <p>Answers in this level will identify and explain relevant factors but fail to analyse these in terms of how they are used in making forecasts.</p>

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Question			Answer	Marks	Guidance	
					Content	Levels of response
						<p>As soon as two or more factors are identified and explained then 7-8 marks will be awarded.</p> <p><b>Level 1: (1–4 marks)</b> For knowledge and understanding of the factors used in forecasting.</p> <p>One factor correctly identified will receive 1–2 marks, whilst answers which provide several relevant examples of the factors included in forecasting will gain 3–4 marks.</p>

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Question		Answer	Marks	Guidance	
				Content	Levels of response
	(b)	<p><b>Discuss the effectiveness of regulation and subsidies as policies to encourage more people to travel on public transport.</b></p> <p>Candidates will be expected analyse how effective BOTH subsidies and regulation are AND then analyse the possible limitations of these policies before offering a clear judgement.</p> <p><b>Possible analysis of subsidies include:</b>  <b>An explained diagram.</b> Diagram must clearly show the supply curve shifting to the right AND must include fully labelled equilibrium points which must be explained.</p> <p><u>Written analysis</u> in terms of BOTH:                      1. subsidies have the effect of lowering costs of production for firms providing public transport and, hence, encourage greater supply / modal switch (explicitly stating the modes)                      2. this lowers equilibrium price AND encourages increased quantity/consumption</p> <p><b>Possible analysis of regulation includes:</b>  <b>An explained diagram.</b> Diagram may take the form of a perfectly vertical/inelastic supply curve at the regulated level of output OR a leftwards shift of the supply curve for cars as long as this is explained with reference to increased costs of production (perhaps due to health and safety regulations).</p> <p><u>Written analysis in terms of:</u>                      Regulation in the form of laws/rules which are backed up by fines in order to provide individuals with very clear incentives to changes their</p>	20	<p><b>Level 4(a): possible judgement includes:</b></p> <p>It depends on exactly WHAT is being subsidised and regulated, ie is it a capital or fare subsidy?</p> <p>It is likely to be more effective if combined with other policies as part of a wider, integrated solution.</p> <p>Its effectiveness depends on the levels of subsidy and regulation used and for how long the policies remain in place.</p>	<p><b>Level 4(a): (16–20 marks)</b>                      For a discussion which includes a judgement as to how effective subsidies and regulation are in encouraging greater use of public transport.</p> <p>NOTE: To reach L4(a) balanced discussion must already be present.</p> <p>18-20 marks: <i>Balanced discussion with good judgement.</i></p> <p>16-17 marks: <i>Balanced discussion with weak judgement.</i></p> <p><b>Level 4(b): (11–15 marks)</b>                      For a discussion of the extent to which regulation and subsidies will be effective. Two-sided economic analysis.</p> <p>13-15 marks: <i>Balanced discussion with some transport application - BOTH policies must be analysed in terms of how they work.</i></p> <p>11-12 marks: <i>Basic discussion</i> (supporting analysis of one side is only basic)</p> <p><b>Level 3: (5–10 marks)</b>                      One sided analysis. In other words, analyses EITHER how regulation and subsidies will work OR will not work.</p>

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>behaviour as otherwise they will end up being prosecuted. Hence, regulation provides an incentive for people to change their actions.</p> <p><b>Possible analysis of why subsidies may not be effective includes:</b></p> <ul style="list-style-type: none"> <li>• if PED is inelastic then a subsidy will have little effect on equilibrium quantity</li> <li>• the subsidy may not be used to lower prices/ increase capital investment and may simply be used to increase the firm’s profits. Hence, the government needs to check exactly how it is used</li> <li>• how big should the subsidy be? Ideally it should be equal to external benefit but how can this be measured?</li> <li>• the cost to the government (and associated opportunity cost)</li> <li>• if YED is negative then any subsidy will be relatively ineffective during a time of rising incomes as people will be shifting away from buses to other modes of transport</li> </ul> <p><b>Possible analysis of why regulation may not be effective includes:</b></p> <ul style="list-style-type: none"> <li>• the cost of enforcing the regulation may well be excessive and, as such, may negate the benefits</li> <li>• regulation may be set at the wrong level</li> <li>• regulation to encourage lower car use such as increased use of parking permits, low emission zones and increasing environmental standards may be accepted by motorists unless they are sufficiently severe to encourage/incentivise people to change their behaviour</li> </ul>			<p>8-10 marks: <i>Good analysis</i>: one sided analysis of BOTH policies.</p> <p>5-7 marks: <i>Basic analysis</i>: one sided analysis of ONE policy only.</p> <p>(Answers which lack transport application will be at the bottom of the band ie either 5 or 8 marks)</p> <p><b>Level 2: (3–4 marks)</b> For an application of knowledge and understanding of what regulation and subsidies are and what impact they have (eg “subsidies lower price”).</p> <p>Application of knowledge and understanding of BOTH regulation and subsidies = 4 marks. If only one covered, then award three marks.</p> <p><b>Level 1: (1 – 2 marks)</b> For knowledge and understanding of what regulation/subsidies are.</p> <p><i>Quality of Written Communication</i> is assessed in this question. Please see page 5 for guidelines.</p>

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