

**GCE A level**

1134/01

ECONOMICS – EC4

A.M. WEDNESDAY, 20 June 2012

2 hours

1134
010001**ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A

Answer one question from this section.

1. ‘No more new taxis,’ says Cardiff Council

Cardiff Council has decided to limit the number of taxis in the city following a survey which showed an excess supply compared to the level of demand.

Figure 1 – Licensed taxis in Cardiff 2002-2010

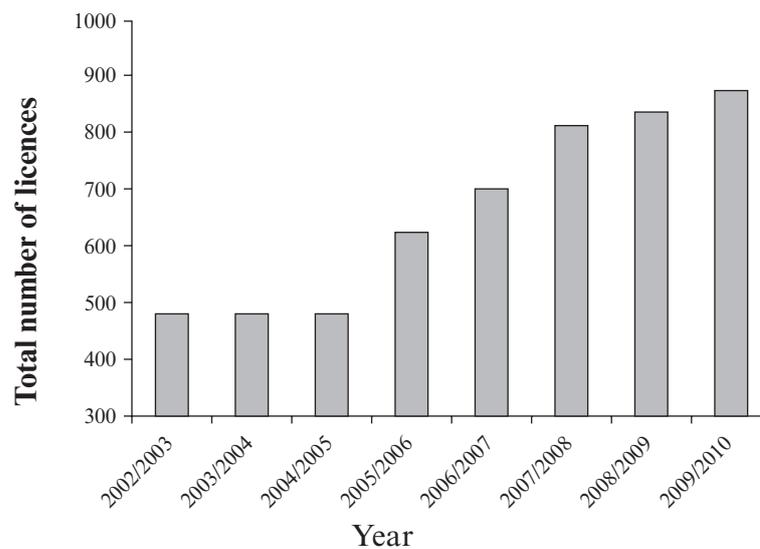


Table 1 – Cardiff population growth 1989-2010

1989	292 000
1994	312 000
2010	330 000

No new licences for taxis in Cardiff will be granted after the council decided today to limit the number of taxis in the city. The decision is welcomed by taxi drivers, who have held a year-long campaign to stop new licences being granted by Cardiff Council.

The council has been waiting for the completion of a survey conducted this year to find out if numbers of taxis in the city exceeded the demand. Following the results of the survey, the council was satisfied that a limit on the number of taxis in Cardiff was needed.

Government guidance advises city councils not to limit the number of taxis in cities, insisting that competition is essential to maximise customer benefits. Cardiff will be in the minority of UK cities going against the recommendation for no limits.

Councillor Asghar Ali said: “We have more than enough taxis in Cardiff. The number of taxis with licences has more than doubled in the last five years.”

Philip Boots, an independent taxi driver who has worked in Cardiff for the last 30 years, said: “Taxi licences were being given out too easily, but now they have decided to limit them, it’s removed a lot of uncertainty for independent drivers, and means we’ll go back to making a better living.”

Although there are a large number of firms operating taxi services in Cardiff, none have a large share of the market. The market contains many one-person businesses, often relying upon the loyalty of regular customers. Many are struggling to make profits, especially as prices are fixed by Cardiff Council. There is concern that limiting the number of licences will make it difficult for new drivers to take up taxi work, especially if it results in a rise in the price of the taxi licence plates required to operate. In the past, it has been relatively easy for people to set up in the taxi business, an option that many workers made redundant from local firms have taken.

The survey findings

25 The study looked at taxi ranks and public attitudes towards the numbers of taxis. Results showed there was always an excess supply of taxis at ranks to meet the demand – particularly around Cardiff Central station. The study recommended that the number of taxi licences be limited.

30 There has been a huge increase in the number of taxi licences in the city from 480 in 2002. Now there are currently 875 taxis operating in the city, alongside 865 private hire licensed vehicles. There is one taxi per 359 people. Bigger cities like Birmingham have one taxi per 726 people – which suggests there are a lot more taxis in Cardiff than there need to be.

The survey also found taxi drivers outside Cardiff Central Railway Station often had to wait 48 minutes at weekends to pick up a new passenger. On average they had to wait between 10 and 15 minutes to get a customer.

35 The survey also questioned 1,000 members of the public in February 2010. Some respondents said they had to wait two hours at a taxi rank, especially when events such as major concerts or rugby games were on – but the majority caught taxis straight away. In general, people were satisfied with taxi services and were unaware there was a problem with surplus numbers of taxis in the city.

40 South Wales Police have expressed concern that limiting taxi numbers might lead to more people, waiting to leave the city centre late at night, particularly at weekends, with the possibility of increased alcohol-related crime. Cuts in bus services might increase this problem.

Disability campaigners also point to the fact that limiting new licences will mean fewer new taxis. All newly-licensed taxis must be under 3 years old and must be accessible by wheelchairs.

Adapted from the Guardian, 30 March 2010

- (a) Using the data, explain the argument that there were “more than enough taxis in Cardiff” in March 2010 (line 12). [8]
- (b) What does the data suggest about the structure of the taxi market in Cardiff? [8]
- (c) Discuss whether Cardiff Council were right to restrict the number of taxi licences to be issued in Cardiff. [12]
- (d) Some environmental campaigners have suggested that Cardiff Council should subsidise local buses and discourage taxi and private car access to the city centre. Discuss the case for and against this policy. [12]

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2. After decades of closures, can the UK's factory gates open again?

With an election looming, politicians are competing to support manufacturing, which despite years of neglect has survived by innovating and specialising.

Table 1 – UK Employment 1980-2010 (millions)

Year	Services	Manufacturing	Other	Total jobs
1980	17.5	6.3	3.4	27.2
1985	18.3	5.0	3.2	26.5
1990	20.8	4.9	3.6	29.3
1995	21.0	4.1	2.8	27.9
2000	22.9	4.0	2.7	29.6
2005	25.0	3.1	2.9	31.0
2010	25.3	2.5	2.9	30.7

Figure 1 – Contribution by sectors to GDP 1980 and 2010

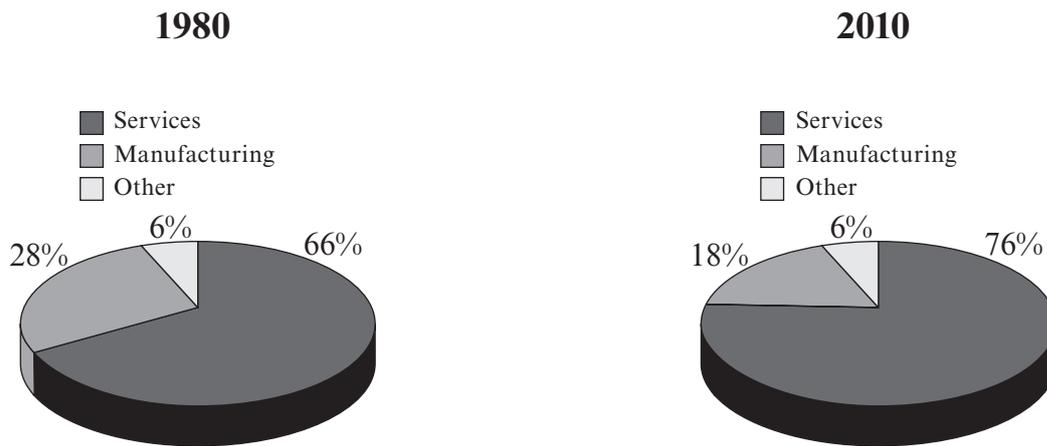
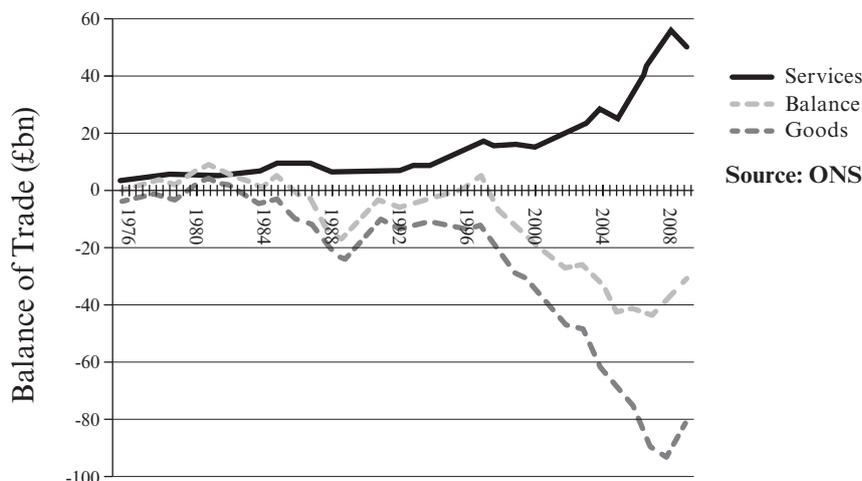


Figure 2 – UK balance of trade in goods and services 1975-2009



West Midlands businessman Alan Vurlan is reminiscing about the tail end of the boom years for manufacturing. “When I grew up, at five o’clock you needed to get off the streets because people were coming out of the factories and it would be like a stampede.”

5 It was a similar picture across the country. Factories employed many millions. They made up more than a third of the nation’s economic output. But by the time Vurlan’s generation were starting on their own careers in the early 1970s the decline was under way.

As competition from overseas manufacturers increased, school leavers and graduates were lured away by a brighter outlook in a fast-growing services sector that was increasingly supported by successive governments. By the time this latest recession struck, manufacturing had already 10 suffered decades of neglect. Once-powerful British businesses such as engineering firm Turner & Newell and carmaker MG Rover had long since closed down.

Today the manufacturing sector makes up 18% of the nation’s GDP and employs 2.5 million people, compared with 4 million in 2000. Yet now, with recovery beginning but looking fragile, politicians are seeking to show their support for manufacturing by making pre-election promises. Labour 15 Chancellor Alistair Darling’s budget last month promised help to smaller firms struggling to attract finance, while the Conservatives are promising corporation tax cuts, to “make Britain an attractive place for manufacturers to do business” and help for firms who want to run apprenticeships.

At the same time claims that UK manufacturing is dead, or at least not worth saving in our 21st century economy, are finally being drowned out, now that Britain has realised that over-reliance 20 on any one sector can end in disaster. With the Government having to spend billions on bailing out the banks, the previous focus on financial services no longer seems so wise.

“The myth that we can exist without paying our way in the world has been exposed,” says Steve Radley, director of policy at the manufacturers’ organisation Engineering Employers Federation. “A rebalanced economy with a focus on an innovative, high-value manufactured goods sector will 25 ensure we are much better placed to enjoy the benefits of higher living standards and higher quality jobs.”

But if the manufacturing sector is to be one of the engines of recovery, tapping into new industries such as clean energy to create new jobs and increasing Britain’s exports, there are questions about how quickly that can happen.

30 The UK remains the world's sixth biggest manufacturer and is home to world-renowned businesses such as Rolls-Royce and JCB. But it has also lost some big names to takeovers by overseas competitors – most recently the Birmingham-based chocolate-maker, Cadbury – something that worries local firms who supplied British firms such as Cadbury that are now foreign-owned. It is a trend that is all too familiar to Warwickshire industrial estate owner Bruce Undy. “We have seen a dramatic reduction in the large companies that our smaller companies supplied, either directly or indirectly,” says Undy.

Another hurdle facing the manufacturing sector is that of the loss of important work skills. Digby Jones, former head of The Confederation of British Industry (CBI), saw many experienced UK workers laid off during the recession and believes they will be hard to win back. Nor is there much new talent emerging to replace those lost workers, he argues.

“Manufacturing has a long, long way to go before it can consider it is out of the recession,” Alan Vurlan says. “One of the problems we face as a country is the lack of skilled workers”. His business needs scientifically skilled staff to develop new products for the building trade. Vurlan wants to see measures from the next government to support apprenticeships, closer links between job centres and business, and better ties with universities to introduce more graduates to the attractions of a manufacturing career.

But for manufacturing industry to prosper, businesses need certainty about the economic outlook, argues Chris Clifford of the CBI. “Investment decisions are being put off. Businesses are uncertain about what is going to happen over the next 12 months or so, and none of the main political parties are giving a clear line as to how they are going to reduce the public sector deficit. Companies need stability and certainty, and at the moment we have got neither.”

Adapted from The Observer, 11 April 2010

- (a) Describe how the structure of the UK economy has changed since 1980. [8]
- (b) Explain the factors which may have caused these changes. [8]
- (c) How far does the change in its industrial structure matter to the success of the UK economy? [12]
- (d) Recent Government economic policies have been focused on reducing the public sector deficit by increasing some taxes and cutting Government spending. Discuss whether these are the best policies to help UK manufacturing firms. [12]

SECTION B

Answer one question from this section.

3. In 2012 it seems unlikely that the UK will join the European Monetary Union (EMU) in the near future.
Discuss whether continued absence from the EMU is good for the UK economy. [20]
4. In 2011 the UK's rate of inflation rose to over 5%. Evaluate the view that the reduction of inflation should be the Government's main priority. [20]
5. Evaluate the policies that poor developing countries might use when trying to compete with richer more developed countries. [20]