Centre No.							Pape	er Refer	ence			Surname	Initial(s)
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6352/01

Edexcel GCE

Economics

Advanced Subsidiary

Unit 2 – Markets: why they fail Thursday 18 January 2007 – Morning

Time: 1 hour

Materials required for examination	Items included with question papers
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In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.

Check that you have the correct question paper.

Answer EITHER Question 1 OR Question 2 in the spaces provided in this question paper.. Indicate which question you are answering by marking the box (\boxtimes). If you change your mind, put a line through the box (\boxtimes) and then indicate your new question with a cross (\boxtimes).

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). There are 2 questions in this question paper. The total mark for this paper is 40. There are 24 pages in this question paper. Any blank pages are indicated.

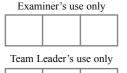
Advice to Candidates

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, including your use of grammar, punctuation and spelling. You are advised to spend the first 10 minutes reading the paper. In calculations you are advised to show all the steps in your working.

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Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box \square .

Question 1

Television broadcasting

Extract 1:

The British Broadcasting Corporation (BBC)

National defence, public firework displays and street lighting are well known examples of public goods. A less well known example is the BBC.

The role of the BBC is to provide a public service in television broadcasting rather than just focusing on commercial aspects of the business. Audience share is still important but so too is audience reach. Emphasis is on diversity and excellence of programmes, particularly in drama, comedy, music and current affairs. The mix of programmes also appeals to ethnic minority viewers.

The television licence fee remains the most important source of revenue for the BBC and there is widespread public acceptance of this form of funding. Each household with a television is required to pay an annual fee of £126.50. The only exception is households with a pensioner over 75 years who receive a free licence. Surveys indicate that around 17 million of Britain's 23 million households place a greater value on the BBC's services than the annual cost of the licence fee. This works out as £2bn of consumer surplus each year. However, 1.15 million households break the law by not paying the licence fee.

Extract 2:

Commercialisation of the BBC

For decades the BBC enjoyed monopoly power over television broadcasting. However, the development of new technology in the 1980s undermined its dominant market position. Satellite and cable television caused a huge increase in channels available to the public willing to pay for the services. Now digital broadcasting will mean an end to the BBC as a public good as viewers could be excluded from watching programmes by devices such as payment cards. Despite this, a fully digital BBC will still have non-rivalry, in the sense that the cost of providing the service to extra viewers will be zero, once the programmes have been made.

The increase in competition will mean the BBC has to make some important decisions concerning the future direction of its programmes. Emphasis may switch to producing more popular programmes for mainstream audiences with greater reliance on commercial sales to other television broadcasting networks. Efficiency savings are also on the agenda. It has already announced plans to relocate its main offices from central London to Manchester. Staff cuts and tighter control on programme budgets have also been undertaken.

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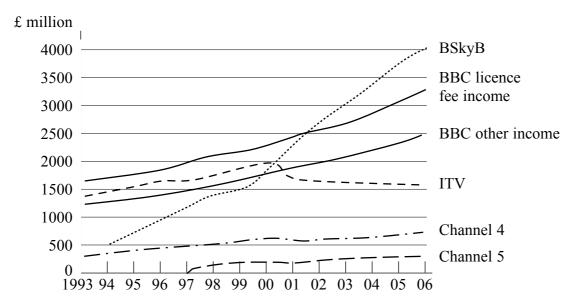
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Source for Extracts 1 and 2: adapted from Gavyn Davies, 'Where the consensus is wrong about the BBC's new charter', *The Independent*, Thursday, 16 December 2004.



Leave blank

BBC income compared to income received by competitors Figure 1:



Source: adapted from Gavyn Davies, 'Where the consensus is wrong about the BBC's new charter', The Independent, Thursday, 16 December 2004.

(a) (i)	Using examples <i>line 2</i>).	from	Extract	1	explain	the	term	'public	goods'	(Extract	1,

(4)



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blank (b) With reference to Extract 1 and Figure 1, discuss the effectiveness of the television licence fee as a means of financing the BBC.



Turn over

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	(8)	
(c) (i)		
(c) (i)	(8) What is meant by the phrase 'monopoly power over television broadcasting' (Extract 2, line 1)?	
(c) (i)		

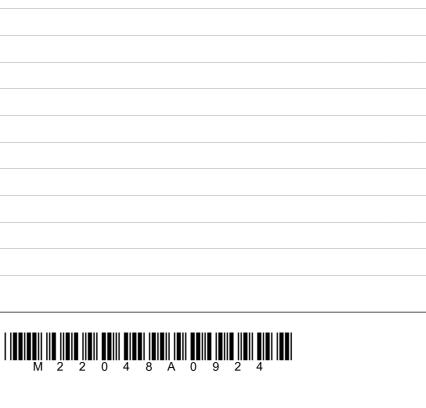
Leave blank (ii) Explain two possible barriers to the entry of new firms to television

(6)

broadcasting.

blank (iii) Why might a monopoly in television broadcasting be against the interest of consumers? Justify your answer. **(6)**

blank (d) Evaluate the likely implications for the BBC of increased private sector competition in television broadcasting.



Turn over

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(Total 40 marks)	
OR	





If you answer Question 2 put a cross in this box \square .

Ouestion 2

Health care provision in the UK

Extract 1: Improvements to the National Health Service (NHS)

There are major external benefits from health care provision which justify government funding of the National Health Service (NHS). However, in 1997 the NHS was widely held to be in crisis. Government spending on the service was just 6.8% of gross domestic product, well below the level of countries such as France and Germany. The number of hospital beds had been falling for years and 1.2 million people were waiting for operations. Doctors and nurses complained of being overworked and underpaid.

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Eight years on and significant improvements have been made according to a report by the Kings Fund, an independent research body. Since 1997, government expenditure on the NHS has increased in real terms by 70% and it is set for further increases up until 2008. This is an attempt to keep up with increasing demand and cost pressures on the health care budget.

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There is an ageing population and increased public expectations of the quality of healthcare. New diseases and treatments have also emerged. The number of patients treated has increased but at considerable financial cost. Over 100 new hospitals have been built since 1997 and staffing levels have risen, with 10,500 more doctors and 20,000 more nurses. Wages and medicine bills have also grown at a faster rate than inflation.

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Source: adapted from 'Inside the NHS' by Lois Rogers, Sunday Times, 20 March 2005, p.15-18

Extract 2: The internal market in the NHS

In April 2005, the government reintroduced the internal market within the NHS in an attempt to reduce the local monopoly power of hospitals. It scrapped the block payments system to hospitals where their income reflected previous budgets. They are now paid directly for the work undertaken. This means every patient's treatment has a price tag attached and it will create competition between hospitals. Patients have more choice over where to be treated.

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The government believes that paying by results will encourage hospitals to do a lot more with the extra resources they have been given. Higher productivity is essential if the government is to meet its ambitious target of a maximum waiting time of four-and-a-half months for all operations by 2008.

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However, the new system is not without problems. Hospitals will have an incentive to offer services which attract higher payments rather than those which do not. For example, short stay admissions attract higher payments than standard attendances at an Accident & Emergency department. Consequently, resources might not be allocated to where they are most needed.

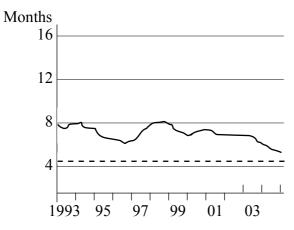
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Source: adapted from The Economist, 8 January 2005



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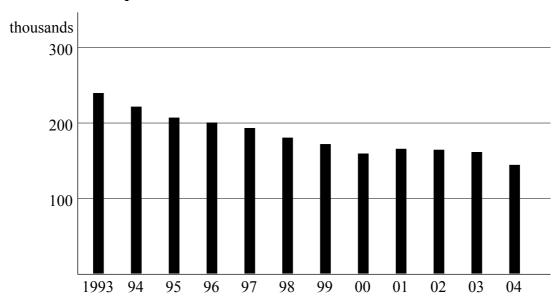
Figure 1: Average waiting times for treatment in NHS



--- Government target

Source: www.kingsfund.org.uk

Figure 2: NHS hospital beds



Source: www.kingsfund.org.uk

Figure 3: **Number of NHS hospital** managers

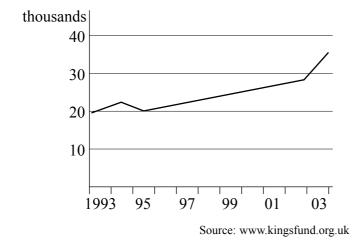
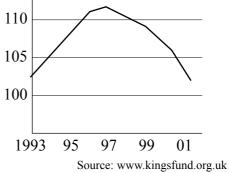


Figure 4: NHS labour productivity index

(Base year 1991 = 100)



Leave blank (a) (i) What is meant by the term external benefits? **(2)** (ii) Analyse the 'external benefits from health care provision' (Extract 1, line 1). Illustrate your answer with an appropriate diagram.

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Leave blank (b) (i) With reference to Extract 1, explain the causes of 'increasing demand and cost pressures on the health care budget' (Extract 1, lines 11 – 12)

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(ii) E	xamine one economic implication of these demand and cost pressures.	(8)
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	(10)
(d) (i)	Outline the meaning of the phrase 'local monopoly power of hospitals' (<i>Extract 2</i> , <i>line 2</i>).
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blank (ii) With reference to Extract 2, examine the case for increasing the role of market forces within the NHS.

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	(Total 40 marks)		
	TOTAL FOR PAPER: 40 MARKS		
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