

Tuesday 12 June 2012 – Afternoon

A2 GCE ECONOMICS

F584/01 Transport Economics

Candidates answer on the Question Paper.

OCR supplied materials:

None

Other materials required:

- Calculators may be used

Duration: 2 hours



Candidate
forename

Candidate
surname

Centre number

Candidate number

MODIFIED LANGUAGE

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. 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.
- Do **not** write in the bar codes.
- 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.
- This document consists of **20** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

Section A

Answer **all** questions.

British Airways moves closer to transatlantic deal

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

If the US Department of Transport agrees, the three way tie up with American Airlines and Spanish airline Iberia, will enable the airlines to agree fares and scheduling between Europe and the USA.

Willie Walsh, BA Chief Executive, said the route between Heathrow and the USA is already competitive because of the 'Open Skies' deal between the European Union (EU) and the USA which has opened up the transatlantic market to more competition. Virgin Atlantic, has painted slogans on its aircraft in protest against the deal. Sir Richard Branson said, "We have fought this monster monopoly for the past 13 years because we believe that this decision is shameful and consumers will suffer as a result".

Analysts and investors believe that the deal will lead to lower costs at BA. Combining schedules will let BA 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 putting up fares. The airlines can probably achieve all they want from cutting cost overlaps", he said.

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

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

- 1 (a) (i) What is meant by a 'five firm concentration ratio'?

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..... [1]

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

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..... [1]

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

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..... [2]

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

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..... [2]

- (ii) Identify **one** fixed and **one** variable cost for an airline such as British Airways.

Fixed cost:

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Variable cost:

..... [2]

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

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2.

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..... [4]

[5]

- (d)** Discuss the extent to which transport markets have benefitted from deregulation, such as the EU 'Open Skies' policy.

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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Turn over

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 due to 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 producers and consumers benefit from monopoly provision of transport services. **[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]

Start your answer to part **(b)** here

This image shows a full page of a handwriting practice worksheet. It consists of multiple sets of three horizontal dashed lines, providing a guide for letter height and placement. The lines are evenly spaced across the entire page, leaving ample room for writing practice. There is no text or other markings on the page.

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