

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
ADVANCED SUBSIDIARY GCE**

2882

ECONOMICS

Market Failure and Government Intervention

WEDNESDAY 3 JUNE 2009: Afternoon

DURATION: 1 hour

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

Candidates answer on the Answer Booklet

OCR SUPPLIED MATERIALS:

Designated Answer Booklet [2882/AB]

OTHER MATERIALS REQUIRED:

None

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- **Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.**
- **Use black ink. Pencil may be used for graphs and diagrams only.**
- **Read each question carefully and make sure that you know what you have to do before starting your answer.**
- **Answer ALL the questions.**
- **Write all your answers in the separate Answer Booklet provided.**

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 45.**
- **The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).**

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Answer ALL parts of this question in the accompanying answer booklet

**‘CAMPAIGNERS TAKE ON INDUSTRY
OVER AIRPORT EXPANSION’**

Environmental campaigners have revealed how they are preparing to lobby a public inquiry into plans to expand Stansted Airport in Essex. The owner of the airport is hoping to gain permission to increase the number of passengers using the airport, from 25 million to 35 million a year, through expansion.

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Campaigners against the expansion claim that the plans directly contradict the government’s target to reduce carbon dioxide emissions by 20% by 2010. They have already won the backing of the local council, which has thrown out the expansion plans, and they are also supported by pressure groups including Friends of the Earth and the National Trust.

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The National Trust argues that Hatfield Forest, which is on the edge of the airport, will be negatively affected by increased noise and air pollution. Uniquely, the Forest has more than 800 trees which are over 500 years old. The National Trust’s experts say that increases in nitrogen oxides in the air, as a result of the airport expansion, could put some of these trees in danger. Keith Turner, the National Trust’s area manager, commented that “the expansion of the airport could damage the historic and scientific values of the Forest”. Others point out that the 200,000 visitors to the Forest every year will no longer be able to enjoy the peace and quiet which the area provides.

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The Airport's owner insists that environmental factors have already been taken into account when drawing up the expansion plans. As a result, the amount of land required for the Stansted expansion has been reduced by a third. Other supporters point to the fact that the economy will benefit to the tune of over £13 billion if airports are allowed to expand. **30**

With arguments on both sides of the issue, the result of the inquiry is very much up in the air, but the result is eagerly awaited by the Airport's owner, environmentalists and local residents. **35**

- (a) (i) Define the term 'external cost'. [2]**
 - (ii) Using the article, identify ONE possible external cost which might arise from the expansion of Stansted Airport. [1]**

- (b) Explain why air travel is classed as a private good. [4]**

- (c) (i) Define the term 'productive efficiency'. [2]**
 - (ii) Using a production possibility curve diagram, identify ONE possible point of productive efficiency. [3]**
 - (iii) Define the term 'allocative efficiency'. [2]**
 - (iv) Explain how the existence of external costs causes allocative INEFFICIENCY. [3]**

- (d) The production of some goods and services causes negative externalities. One possible solution to this market failure would be to tax the production of such goods and services.**

Use a diagram to analyse how a tax on production may correct the market failure arising from negative externalities. [10]

- (e) Comment on the effectiveness of subsidies to producers as a solution to the market failure arising from positive externalities. [6]**

- *(f) Two other forms of government intervention to correct market failure are regulation and the use of tradeable pollution permits.**

Discuss how effective ONE of these policies might be in correcting market failure. [12]

[Total: 45 marks]

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