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ECONOMICS

Papers 2 and 4

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CASE STUDY

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Afternoon

Duration: 1 hour 30 minutes



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- This is a clean copy of the Case Study material which you have already seen.
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- You may **not** take notes into the examination.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

Tourism and the economy

Introduction

There has been an upwards trend in tourism over the last few decades, especially in Europe where international travel for short breaks is common. Tourists now have higher levels of disposable income and more leisure time and they are also better-educated and have more sophisticated tastes.

There is now an increasing demand for better quality products, which has resulted in the mass market for beach holidays breaking up into smaller more specialised markets, such as 'Club 18-30', quieter resorts, family-oriented holidays, or adventure and activity holidays. Demand is further increased by people taking additional short break holidays.

The developments in technology and transport infrastructure, such as the use of jumbo jets and low-cost airlines, have made many types of tourism more affordable. There have also been changes in lifestyle such as Internet sites where customers can choose and buy holidays in the comfort of their own home.

However, there have been a few setbacks to tourism, such as terrorist threats to tourist destinations including Bali and European cities. Some other tourist destinations, including beach resorts such as Cancún (Mexico) have lost popularity due to shifting consumer tastes.

Fig. 1 – Where UK residents go on holiday (selected major destinations)

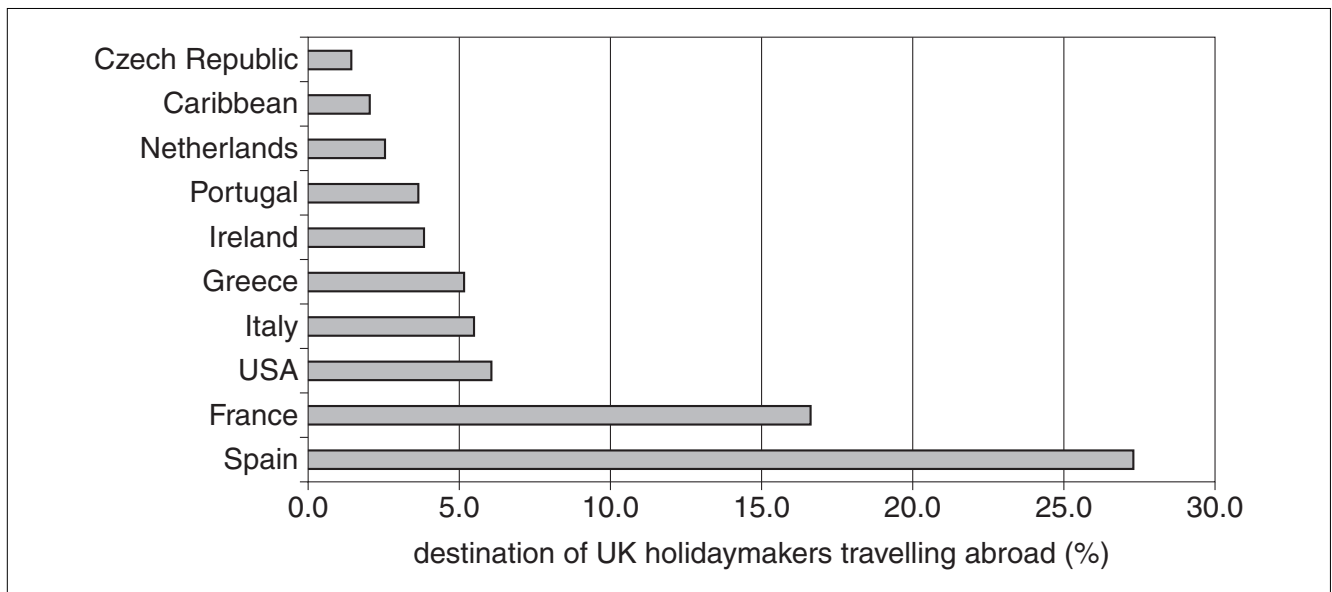


Fig. 2 – Number of foreign tourists going to selected countries on holiday

Rank (2005)	Country	Millions of foreign tourists			
		1990	1995	2000	2005
1st	France	52.4	60.0	77.2	76.0
2nd	Spain	34.0	34.9	47.9	55.6
3rd	USA	39.3	43.5	51.2	49.4
4th	China	10.4	20.0	31.2	46.8
5th	Italy	26.6	31.1	41.2	36.5
6th	United Kingdom	18.0	23.5	25.2	30.0

Fig. 3 – Merger of Thomas Cook and My Travel

EU approves holiday firms merger

A £2.8bn merger of holiday firms MyTravel and Thomas Cook can go ahead, the European Union (EU) has ruled.

The deal – creating the second biggest travel operator in Europe – would not harm consumers, according to the EU.

The new firm will be known as Thomas Cook. The merger, planned for completion by June 2007, could result in cost savings of £75m a year.

The main reason for the merger is in order for the new firm to be able to compete better with the low-cost airlines.

Fig. 4 – Low-cost versus full-cost airlines

Low-cost airlines such as easyJet and Ryanair operate differently from full-cost airlines and package holiday companies. They:

- use smaller, cheaper airports.
- turn around their aircraft in less time (30 minutes) to use them more.
- sell directly over the Internet to cut out travel agents' commissions.
- issue reference numbers not tickets and do not allow choice of seat.
- offer standard economy seats only.

Facts	British Airways	Ryanair
Return ticket price (London to Barcelona, April 2008)	£101.50	£55.97
Airport flying from	London Heathrow	London Stansted
Complimentary food and drinks	Yes	No
Luggage allowance	Free – up to 23 kg	Up to 15 kg costs £5
Leg room	30-31 inches Economy 38 inches Premium Economy 73 inches Business Class 78 inches First Class	30 inches all seats
Booking	Online and travel agents	Online only

Fig. 5 – News headlines

Pair A –

Poor UK weather leads to increased sales of package holidays

UK interest rates rise again this month

Pair B –

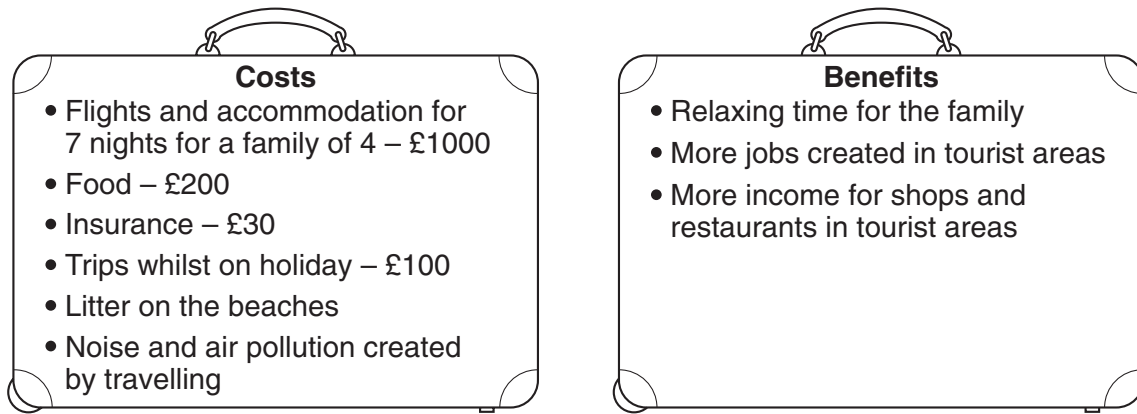
UK government introduce new climate change tax on airlines

War in Iraq causes supply of oil to fall

Fig. 6 – Is tourism a good thing?

We all love to get away on holiday, whether we are relaxing and unwinding on the beach or enjoying various activities, but what is the cost of our enjoyment?

Below are some of the private and external costs and benefits of a UK family of four taking a holiday in Spain:



The Spanish government is concerned about the external costs of tourism and is thinking of following the UK and introducing a climate change tax.

Fig. 7 – £ to US\$ exchange rate

Fig. 8 – Exchange rates**US\$2 pound**

The USA is still a good value destination for UK holidaymakers and there will be plenty of people leaving some extra suitcase space for the shopping-mall bargains.

Sterling rose to just over US\$2 on the foreign exchanges in mid 2007 - its highest for 26 years. One reason for this rise has been the increase in UK interest rates.

Fig. 9 – UK holidays**“Public good becomes a private good”****Private beach trialled at resort**

UK resorts are lagging well behind their European counterparts in terms of tourism. UK resorts now have to think of new ways to attract domestic and foreign tourists.

Tourism bosses in Blackpool have decided to cordon off a section of the beach for the bank holiday weekend and make it into a private beach.

For a small fee, families will be able to gain access to the area and will be guaranteed deckchairs, sun loungers and parasols.

They will also be given ‘goodie bags’ containing buckets, spades and drinks.

Blackpool tourism chief Jane Seddon said: “This is a first for Blackpool, and possibly the UK. There are seven miles of sands here so it is not as if we are leaving non-payers with nowhere to go.” The rest of the beach would still be regarded as a public good.



Fig. 10 – The economic benefits of tourism to the UK local and national economy

Tourism is very important to the UK. It generates significant income, provides millions of jobs, supports communities and helps maintain and improve important national assets.

The growth of tourism has not only aided regeneration of seaside resorts but also urban areas such as Birmingham.

Tourism is a vital component in the make-up of the national economy. In 2006 it was worth £74 billion to GDP, which was 6.4% of the UK's total GDP. The government collected an estimated £11.8 billion of tax paid by tourists on goods and services.

In terms of employment, the industry employed 2.2 million people – 7.7% of the UK workforce.

Fig. 11 – The UK current account balance – 1980-2006

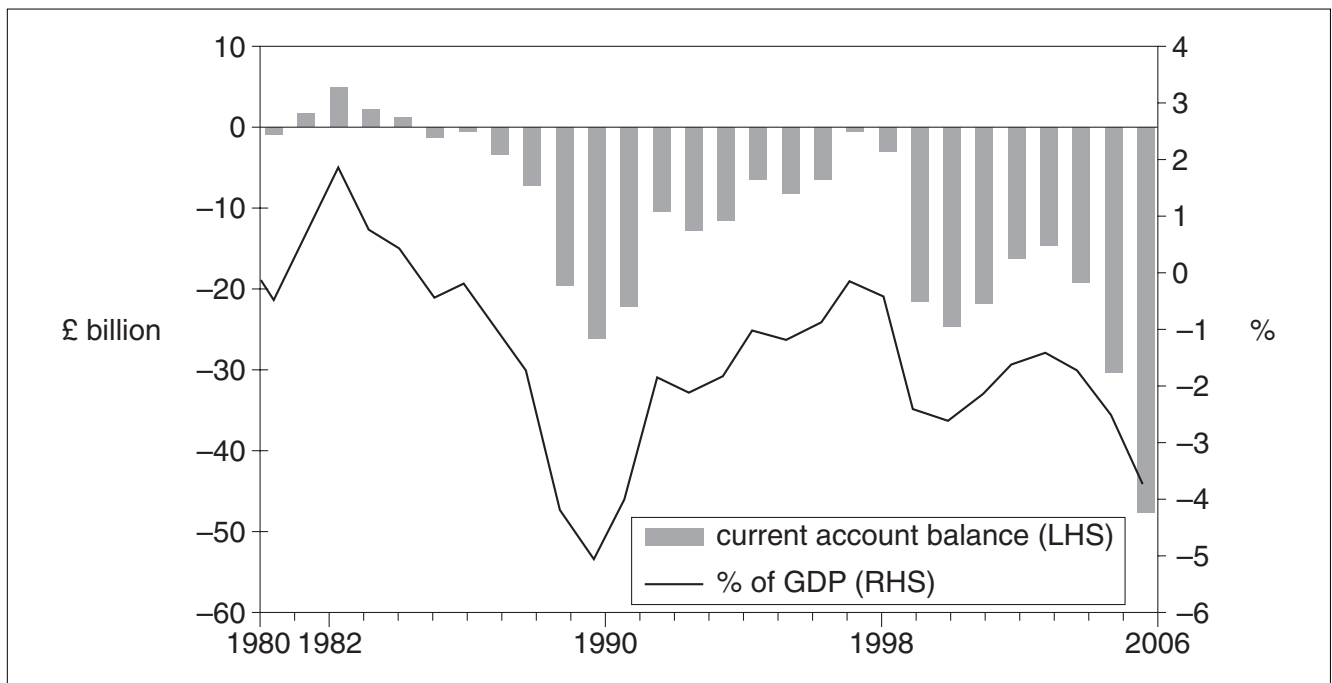


Fig. 12 – UK GDP – 1966-2006

Year	GDP (£ millions)
1966	41,546
1976	105,773
1986	354,953
1996	718,383
2006	1,024,088

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