



ADVANCED GCE
ECONOMICS
 Transport Economics

2885

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

None

Monday 26 January 2009
Afternoon

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly 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 Question 1 and **one** question from Section B.
- Write all your answers in the separate Answer Booklet provided.
- If you need to use additional answer sheets, fasten these sheets securely to the Answer Booklet.
- Do **not** write in the bar codes.

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 the marking of your answer to Section B.
- This document consists of **4** pages. Any blank pages are indicated.

Section A

Answer this question.

1

BAA to face competition inquiry

The British Airports Authority (BAA) is the owner of seven airports in Great Britain, including Heathrow, Gatwick and Stansted in the south of England. It was privatised in 1987 and in 2006 was sold by its owners to Ferrovial, a Spanish construction company, for a reported £10 billion.

In 2007, BAA was referred to the Competition Commission amid concerns about its market dominance. The Office of Fair Trading (OFT) said it had decided on the reference after most industry bodies it consulted on the issue supported the decision. The inquiry could potentially result in BAA having to sell one of its three main airports in the south of England. 5

BAA has opposed the reference saying its ownership structure helps customers. The well-known budget airline Ryanair welcomed the decision, arguing it was 'good news for consumers'. 10

The inquiry, expected to take up to two years, will focus on BAA's ownership of Heathrow, Gatwick and Stansted and whether this distorts competition to the detriment of passengers. It will also examine BAA's ownership of both Glasgow and Edinburgh airports. BAA has a 60% market share of all UK passenger flights, rising to 90% in the south of England. 15

'Having considered the points made by respondents to the consultation, the majority of whom supported referral, the OFT is of the view that the competition concerns it identified prior to the consultation exercise remain valid and that an investigation by the Competition Commission is now warranted,' the OFT said in a statement. 20

BAA argues its ownership of three of the UK's largest airports enables it to reduce prices for airlines and their customers, while making it easier to raise investment to upgrade terminals.

Many airlines believe BAA's current structure prevents real competition between airports and airport facilities have suffered as a result. 25

BAA's regulators are the Civil Aviation Authority and the Competition Commission which review airports every five years. Each such review covers two major aspects of BAA's business:

- annual increases in revenue from airport charges which most airlines believe to be excessive; 30
- its conduct with respect to customers, business partners and suppliers.

The Civil Aviation Authority has stated that its proposals have been made to provide an environment conducive to long-term investment and BAA must deliver its £8.6 billion ten-year investment plan, while working closely with customers. The regulatory policy also places clear accountability with BAA for delivery and dealing with the risks of operating airports. 35

Adapted from BBC News at <http://news.bbc.co.uk>, 30 March 2007

- (a) State and explain **two** economic reasons for the private ownership of many of the UK's main airports. [4]
- (b) (i) What is meant by the term 'market dominance'? [2]
 (ii) Comment on the extent to which BAA has a dominant market position. [4]
- (c) Ryanair welcomed the decision to refer BAA to the Competition Commission, arguing it was 'good news for consumers' (lines 11–12).
 (i) With the aid of a diagram, explain why economic theory suggests that competition is in the best interest of consumers. [4]
 (ii) Discuss the economic case for increasing competition in the provision of airports and their facilities. [6]

Section B

Answer **one** question.

- 2 (a) Explain the determinants of demand for rail passenger transport. [10]
 (b) Discuss the impact of a growing demand for rail transport services on rail infrastructure and on transport sustainability. [15]
- 3 (a) Explain the private and external costs associated with traffic congestion. [10]
 (b) Discuss, with the aid of examples, the effectiveness of using the cost benefit approach when appraising transport infrastructure projects. [15]
- 4 (a) Explain how the negative externalities caused by transport users result in a misallocation of resources. [10]
 (b) Discuss the extent to which taxes levied on transport users correct the misallocation of resources such users cause. [15]



Copyright Acknowledgements:

Q.1 Adapted from *BAA to face competition inquiry*, 30 March 2007 © BBC News, <http://news.bbc.co.uk>.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (OCR) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

OCR is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.