



Oxford Cambridge and RSA

A Level Economics

H460/01 Microeconomics

Tuesday 6 June 2017 – Afternoon

Time allowed: 2 hours



You may use:

- a calculator



First name										
Last name										
Centre number						Candidate number				

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the barcodes.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **20** pages.

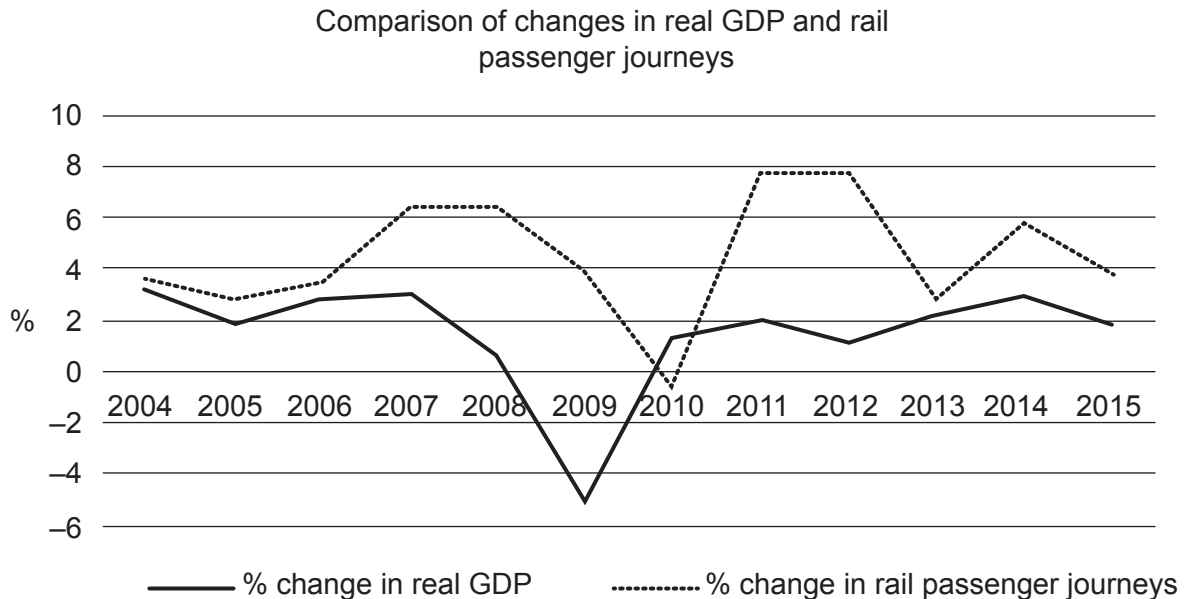
SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

The Economics of Railways

Rail travel is becoming more popular. Fig. 1 shows the change in real GDP and the change in rail passenger journeys between 2004 and 2015.

Fig. 1 – Economic growth rate and percentage change in rail passenger journeys, 2004–2015



The railway network has a high level of fixed costs and is, therefore, often used as an example of a natural monopoly. In economic theory a natural monopoly often leads to a market which is best controlled by one firm. For many years, railway services in the UK were provided by British Rail (BR). BR was a nationalised company owned and run by the government and it had a monopoly on the provision of passenger rail services.

After 1993 there were radical changes made to the railway system in an attempt to introduce a more contestable market. The expensive infrastructure of the railway tracks and stations is now owned and maintained by Network Rail, a state owned 'not for dividend' company with no shareholders, which reinvests its income in the railways. Passenger services are provided by private sector train operating companies (TOCs), such as Great Western Railway, Stagecoach and Virgin. These companies are allowed to bid for the right to run a train service on a particular route. This right is in the form of a franchise that the TOC would have to pay for. The franchise lasts for a fixed time period. When franchises come up for renewal there is a bidding process, and this can result in a new TOC providing the service. To ensure that the firm operating the franchise maintains standards, a regulatory body called the Office of Rail and Road was established to oversee their activities. This body monitors compliance with health and safety legislation as well as industry targets for the rail passenger service. Targets include punctuality, availability of seating and frequency of train services. Fig. 2. shows a selection of regional rail franchises with both current and previous operators.

Fig. 2 – Selected regional rail franchises and TOCs. April 2016

Train operator (TOC)	Regional franchise	Start date of franchise	Finish date of franchise	Previous operator (TOC)
Abellio	Greater Anglia	Feb. 2012	Oct. 2018	National Express E. Anglia
Arriva UK	Wales and Borders	Dec. 2003	Oct. 2018	Wales and Borders
Stagecoach	East Midlands	Nov. 2007	Mar. 2018	Central Trains and Midland Mainline
Arriva UK	Chiltern Railways	July 1996	Dec. 2021	Network South East
Govia	West Midlands	Nov. 2007	Oct. 2017	Central Trains

The East Coast Railway Line

In 2015 an eight-year franchise for passenger train services on the East Coast mainline between London and Edinburgh was awarded to a joint venture between Stagecoach and Virgin. For the five years previous to this the provider was Directly Operated Railways, a public sector firm.

25 Under the management of the joint venture between Stagecoach and Virgin, the franchise began with the 7.55am service leaving Newcastle for London King's Cross.

More services have been promised for the line over the next few years, bringing a 50% increase in capacity and faster journeys to London. Stagecoach and Virgin have pledged to invest about £140m in order to deliver an improved service and a more personalised travel experience for customers. Stagecoach and Virgin are scheduled to pay £3.3bn to the government for the franchise.

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The East Coast line has had several providers of passenger train services. Two private operators failed to meet their financial commitments and their franchise was removed. As a result, a small public sector firm, Directly Operated Railways, stepped in to run trains on the mainline in late 2009.

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In its five years Directly Operated Railways provided over £1bn in payment to the government, as well as several million pounds in profits, to the Treasury. Financial analysis from the Office of Rail and Road shows it was one of two railway firms to make a net contribution to government, paying in more than it received in subsidy or indirect grants, along with Southwest Trains (run by Stagecoach).

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The different prices charged for a train journey from Newcastle to London on the East Coast Line are shown in Fig. 3.

Fig. 3 – Price of adult single ticket from Newcastle to London King’s Cross on Tuesday the 5th of April 2016

Departure time from Newcastle	Arrival time in London	Journey time	Price of adult single ticket
7.08 am	10.20 am	3 hours 12 minutes	£138.00
7.29 am	10.42 am	3 hours 13 minutes	£78.50
9.30 am	12.43 pm	3 hours 13 minutes	£51.00

Source: National Rail Enquiries

1 (a) (i) What relationship does Fig. 1 suggest existed between changes in real GDP and changes in rail passenger journeys between 2004 and 2015?

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..... [1]

(ii) How would an economist explain this relationship?

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..... [2]

(b) Identify and explain, using the stimulus material, one reason why the privatisation of the rail network has made it a more contestable market.

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..... [2]

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SECTION C

Answer **EITHER** question 4 **OR** question 5.

EITHER

4* Perfect competition theory is based on a set of very unrealistic assumptions.

Evaluate the usefulness of perfect competition theory in explaining the behaviour of firms in the real world. **[25]**

OR

5* Profit maximisation is an unrealistic objective and does not explain the behaviour of firms in the real world.

Evaluate the extent to which profit maximization is the most important objective influencing the activities of a firm in the real world. **[25]**

Question no.

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ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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A large area of the page is reserved for writing, featuring a vertical solid line on the left side and horizontal dotted lines extending across the page.



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