GCE AS/A LEVEL

2520U20-1

S19-2520U20-1

ECONOMICS – AS unit 2
Economics in Action

THURSDAY, 16 MAY 2019 – MORNING

2 hours

2520U201
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ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer **all** questions.

Use black ink or black ball-point pen.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded of the necessity for good English and orderly presentation in your answers.

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Answer **all** *the questions.*

1. A BRIDGE TOO FAR!

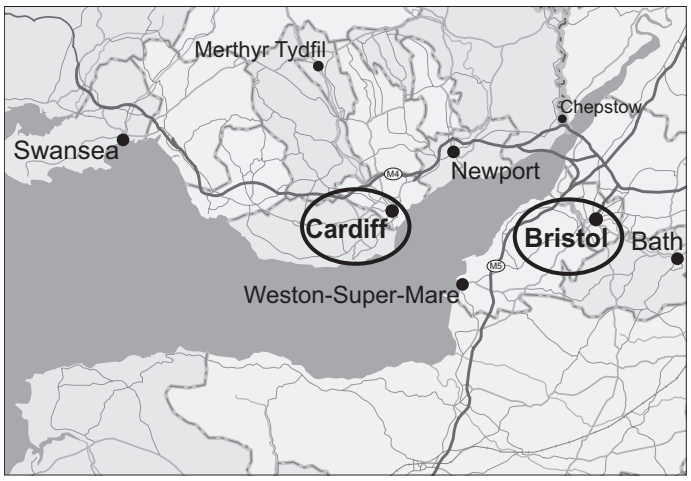
Extract 1

The Severn Crossings is a term used to refer to the two motorway bridges over the River Severn estuary between England and Wales. The two crossings are:

- The **Severn Bridge** – built in 1966
- The **Second Severn Crossing** (Renamed The Prince of Wales Bridge in 2018) – built in 1996

The two Severn Crossings are regarded as the main crossing points from England into South Wales. Over 25 million car journeys are made over the two bridges per year.

Since their completion, motorists have paid tolls on the crossings.



In 2017, the toll price was £6.70. This toll represented 19% of the typical cost of a motorist driving from Bristol to Cardiff in 2017. In 1966, however, the toll price was just 12.5p (or £2.14 in 2017 prices).

A **toll road** is a road for which a charge (or **toll**) is paid for usage. It is a form of **road pricing** typically implemented to help recover the cost of road construction and maintenance. In many cases, tolls are also used to reduce traffic congestion – for example, the London Congestion Charge. Increasing traffic congestion on city roads presents a serious threat to economic growth. A recent Government study concluded, however, that investing in public transport was more effective than road tolls at decreasing traffic congestion in the UK.

Extract 2

In July 2017 it was announced that road tolls on the Severn Crossings were to be removed for all vehicles at the end of 2018.

The Welsh Secretary, Alun Cairns, said the move would boost the economy of South Wales by around £100m a year. He said: "the decision to remove the Severn tolls next year sends a powerful message to businesses, commuters and tourists alike that the UK government is committed to strengthening the Welsh economy.

I want to ensure that visitors and private investors know what Wales has to offer socially, culturally and economically. Most importantly, I want the world to know how accessible we are to business."

(a) (i) Outline what is meant by the phrase “in 2017 prices”. (lines 15 and 16) [2]

(ii) Calculate the 2017 toll price of £6.70 in 1966 prices. Give your answer to the nearest whole penny. [2]

(b) (i) Identify two injections from the data given. [2]

(ii) With reference to the circular flow of income model, explain how increasing injections might lead to a larger increase in national income. [4]

(c) Discuss whether roads are a good example of a public good. [8]

(d) Consider whether the use of road tolls or investment into public transport would be more effective at reducing traffic congestion in the UK. [10]

(e) (i) Using the data, calculate the typical cost of a motorist driving from Bristol to Cardiff in 2017. Give your answer to 2 decimal places. [2]

(ii) To what extent will the removal of tolls on the Severn Crossings affect the level of consumption and private investment in Wales? [10]

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2. CHANCELLOR UNDER PRESSURE

After the General Election of 2017, many members of the Government spoke publicly about the need to increase government spending. As a result, they began to put the Chancellor of the Exchequer, Phillip Hammond, under great pressure.

Figure 1 UK Government Spending 2001-2016

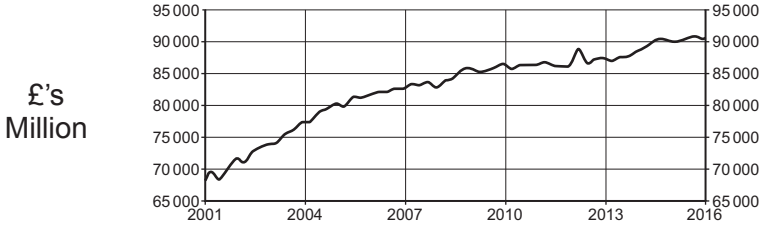
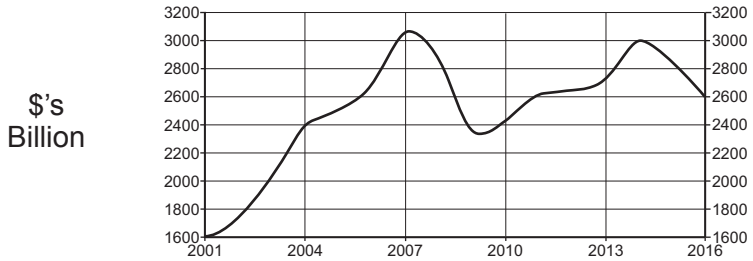


Figure 2 UK GDP 2001-2016



The Chancellor had been critical of such Keynesian expansionary policies in the past – arguing instead that reducing the public sector debt should be the government's top priority. But even he would have found it hard to say no to all of these demands. Suggestions for new policies have included:

Public sector pay increases

Until 2017, there had been a pay ceiling on the public sector. If the ceiling held until its planned end in 2020, public sector workers would be earning less in real terms than in 2004/5, potentially causing labour shortage issues.

Potential cost: £3bn for each percentage point increase in public sector pay.

A pay ceiling (or **pay cap**) effectively sets a maximum wage below the equilibrium wage in the labour market.

Getting rid of higher education tuition fees

Critics of the Government suggested getting rid of higher education tuition fees. They argued that this could be funded by imposing a 45% income tax on those earning more than £80 000 and a 50% tax on those earning more than £110 000.

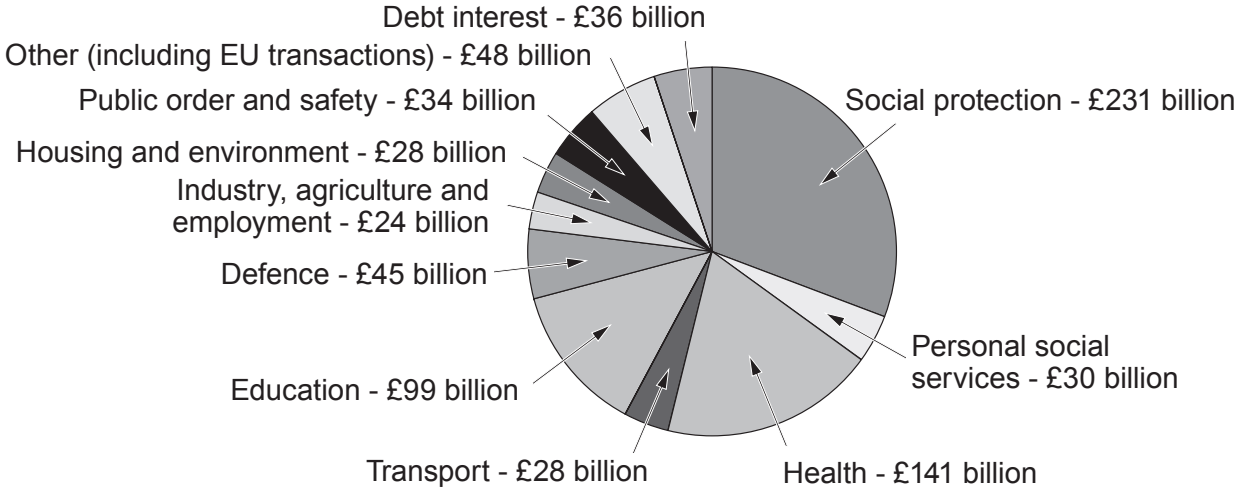
Potential cost: £9bn.

20 **Spending more on healthcare**

Spending on the NHS has been protected since 2010, meaning that healthcare has not suffered from the deep cuts that have affected other departments. Nevertheless, critics suggested that the Government should spend £22bn more than they had promised.

Potential cost: £9bn.

Figure 3 UK Government Spending by sector, 2015/16



(a) Using examples, define the terms 'government current expenditure' and 'government capital expenditure'. [4]

(b) Using **Figures 1** and **2**, discuss the relationship between Government spending and GDP in the UK 2001-2016. [6]

(c) Using a labour market diagram, explain why imposing a pay ceiling on public sector workers might cause labour shortage issues. [6]

(d) Discuss whether a Keynesian approach to fiscal policy will be beneficial for the UK economy. [12]

(e) With reference to the data, discuss whether merit goods like higher education and healthcare should be provided free of charge by the government. [12]

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