



## **Economics Questions By Topic:**

### **Government Failure (1.4.2)**

### **A-Level Edexcel Theme 1**

 0207 060 4494

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 The Foundry, 77 Fulham Palace Road, W6 8JA

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**Section A**

**Write your answers in the spaces provided.**

- 1** HS2 is a high-speed rail network linking the north and south of England. HS2 will be four years late and cost double the Department for Transport’s original estimate.

(Source: <https://www.transportextra.com/publications/local-transport-today/news/58459/hs2-will-be-four-years-late-and-cost-double-the-dft-s-estimate-mps-told>)

Define the term ‘government failure’.

(1)

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**(Total for Question 1 = 1 mark)**



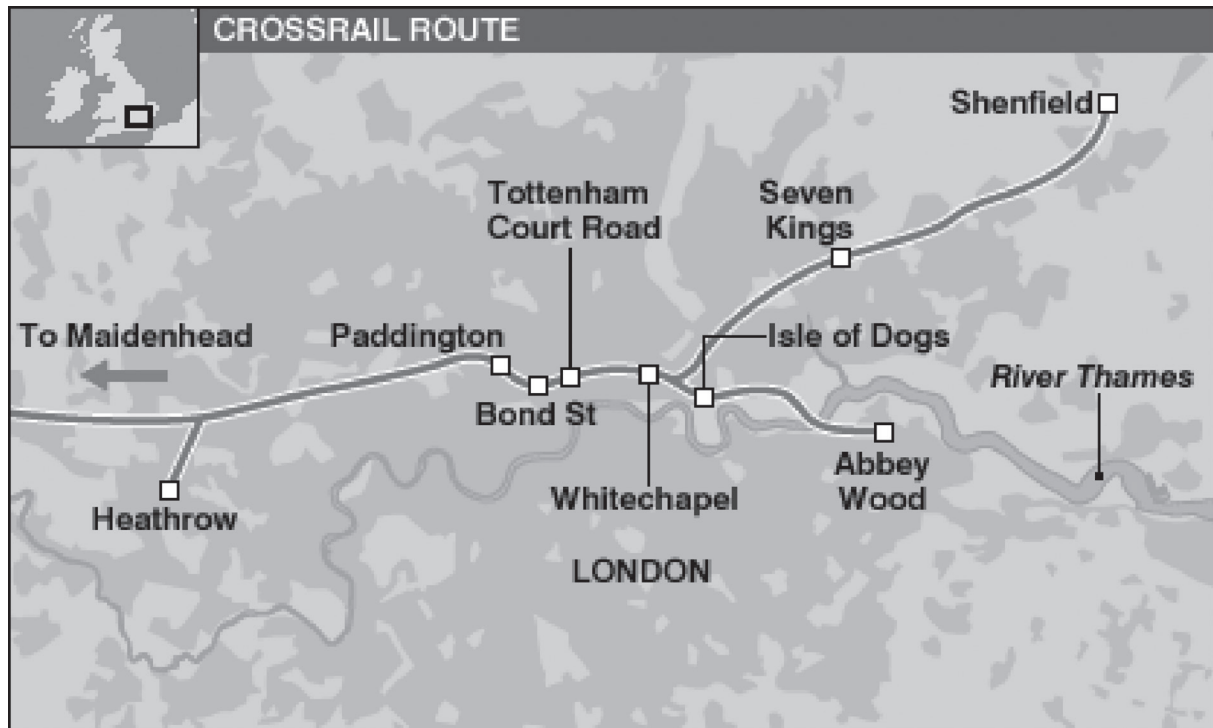
## Section B

Read all figures/extracts before answering.

Answer in the spaces provided.

### 3 The London Crossrail project

Figure 1 The London Crossrail route



(Source: Google images)

#### Extract 1 London Crossrail is Europe's largest infrastructure project

A government-funded East-West rail link across London, known as Crossrail, is due to open in 2018. It involves building 73 miles of railway line to link Reading in the west to Shenfield in the east. It includes 38 railway stations and 26 miles of tunnels under London. London's rail capacity is set to increase by 10% and overcrowding on the existing transport routes should reduce.

5

Crossrail is being built to cope with London's growing population and to support further economic development of the capital city. An estimated 200 million passenger journeys per year will be made on Crossrail. Each train will be 200 metres long and capable of carrying 1 500 passengers. The project has coincided with the tendency for companies to move back into central London, reversing a 20 year trend.

10

Rail travel times are set to come down, for example, Heathrow Airport to the City of London will fall from 55 minutes to 32 minutes. The project will also bring a further 1.5 million people within a 45 minute commute to the major employment centres in London. There is now a discussion about building Crossrail 2 to improve links between north and south London.

15

(Source: <http://www.crossrail.co.uk/benefits/>)

## Extract 2 Employment at London Crossrail

Over 9 000 people are directly employed on the project across 40 construction sites. Another 41 000 jobs have been created indirectly outside London, including the supply of thousands of tonnes of steel from Northern England and construction equipment from the Midlands.

However, at the start of construction in 2009, Crossrail required some 1 200 specialist workers with underground tunnelling skills but were only able to recruit 700 and these had an average age of 55 years. In response to the labour shortage, Crossrail set up a £15 million Tunnelling Academy to train the remaining specialist workers required for the project. This may prove useful for possible future transport infrastructure projects such as the controversial High Speed 2 rail line (HS2) between London and the north. 5 10

Terry Morgan, the boss of Crossrail, warned that Britain's construction skills base will be put at risk without a steady flow of large-scale infrastructure projects. Government spending on infrastructure projects fell by 50% in the first quarter of 2013, creating uncertainty over future employment for specialist construction workers and investment by firms. 15

(Source: adapted from 'Crossrail chief warns infrastructure schemes vital to skills base', James Pickford, Financial Times, 24 June 2013)

## Extract 3 London Crossrail is unfair to taxpayers

Central and local government taxpayers are paying for most of the £14.8 billion cost of the Crossrail project. However, most taxpayers will receive little benefit from the rise in domestic and commercial property values. Only those properties near the stations will experience an increase in value as a result of Crossrail. House prices near the stations have already risen by 20% more than the average, and commercial values along the route are set to rise by at least 10%. The project could lead to an increase in regional inequality. 5

(Source: adapted from <http://www.transport-network.co.uk/Taxpayers-lose-out-on-millions-due-to-Crossrails-crude-funding-structure/9645#.UqOAJxZFAdU>)



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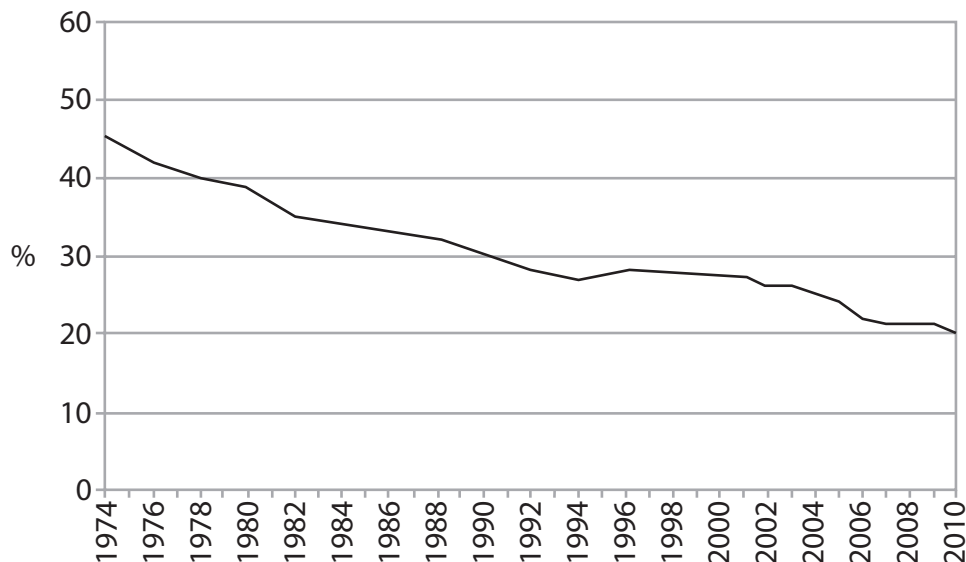
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**(Total for Question 3 = 14 marks)**

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#### 4 Tobacco consumption in Britain

**Figure 1 Percentage of adults in Great Britain who smoke cigarettes, 1974–2010**



(Source: © Crown copyright)

**Figure 2 The estimated costs of tobacco smoking in Britain**

Type of cost	£ billion per year
National Health Service	2.7
Loss of productivity from smoking breaks at work	2.9
Staff absence from work owing to tobacco-related illnesses	2.5
Cleaning up tobacco litter	0.3
House fires from tobacco smoking	0.5
Loss of output from early death of smokers	4.1
Loss of output from early death of passive smokers	0.7
<b>Total</b>	<b>13.7</b>

(Source: © ASH)

### **Extract 1 The decline of tobacco smoking in Britain**

Tobacco smoking has fallen over the past fifty years following government health campaigns warning people of its dangers and greater regulations on its sale and consumption. Higher taxes on cigarettes have also contributed to the decline in smoking. The tax on tobacco now accounts for 80% of the £7.45 price paid for a premium packet of cigarettes.

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The leading anti-smoking pressure group ASH, believes it will take a further fifty years to eliminate smoking in Britain. ASH claims that up to two-thirds of lifelong smokers are eventually killed by their habit.

(Source: © ASH)

### **Extract 2 Tobacco taxation**

In the 2012 Budget the Chancellor George Osborne increased the tax on tobacco by 5 percentage points above the rate of inflation (known as the tobacco tax escalator). This added 37 pence to the price of a packet of cigarettes. The government received £12.1 billion in revenue from indirect taxes on tobacco in 2012.

Despite price increases on tobacco contributing to a fall in its demand, total expenditure has risen (including the tax receipts). For example, consumer expenditure on tobacco increased from £15.1 billion in 2010 to £15.3 billion in 2011.

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Tobacco consumption among 11–15-year-old children has not changed over the past five years with 5% being regular smokers. Tobacco smoking also remains much higher for low income workers in manual occupations (29%) compared to higher income workers in professional and managerial occupations (13%).

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There has also been a significant switch in tobacco sales, from high quality, expensive brands to low quality and cheap cigarettes. The latter now account for 30% of the British market.

(Source: © ASH)

### **Extract 3 Tobacco smuggling and government regulations**

Around 20% of all tobacco smoked in the UK is smuggled into the country and the government loses more than £2 billion a year in potential tax revenue. High tobacco taxes are blamed for creating the illegal trade. The trade is dominated by criminal gangs who can import into the country more than 10 million cigarettes in just one lorry container load.

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However, some of the highest levels of smuggling were found in Spain and Italy, two countries with the lowest tax rates on tobacco.

There has also been an increase in the manufacture of counterfeit tobacco products. Many counterfeit cigarettes are hard to distinguish from genuine brands and often consist of even more harmful chemical compounds. Government plans to force tobacco companies to use plain packaging may make it easier to produce counterfeit cigarettes.

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A government smoking ban imposed on enclosed public spaces since 2007 has coincided with more than 1 500 pubs and bars closing down each year.

(Source: © ASH)



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**(Total for Question 4 = 14 marks)**

## 5 The National Health Service

### Extract 1 NHS funding

The National Health Service (NHS) is the largest employer in Europe with more than 1.3 million staff. It treats over 1 million patients every 36 hours. Between 1997 and 2008 government spending on the NHS increased in real terms from £58.5 billion to £115 billion and accounted for 8.3 per cent of GDP. Spending is planned to increase further to £127 billion by 2011. This reflects growing demand and cost pressures on the health care budget, following an ageing population, advances in medical care and rising staff costs. Staff wages now account for 40 per cent of the NHS budget. 5

However, the huge increases in NHS funding are set to come to an end after 2011 as government spending must be reduced following the impact of the recession. The government has identified ways to increase NHS efficiency by driving down the prices for goods and services it buys, reducing staff sickness, cutting its investment in computer software, improving the use of its buildings and lowering its energy consumption. 10

Some progress has already been made as the average length of inpatient stay in hospital has fallen from 8.8 days to 6.3 days between 1997 and 2008. 15

Source: adapted from: [www.kingsFund.org.uk](http://www.kingsFund.org.uk)

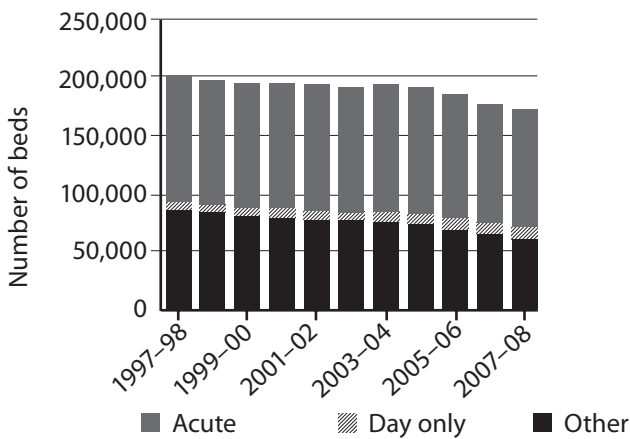
### Extract 2 The growth in NHS management

The number of NHS managers in England rose by nearly 12 per cent in 2009 – more than five times the rate at which qualified nurses were recruited, leading to concerns that cash is being diverted from direct patient care.

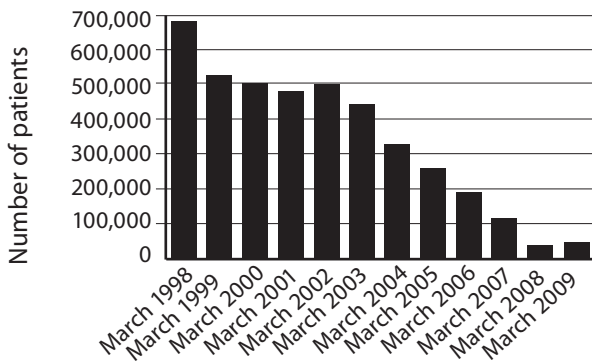
Dr Keith Brent, Chairman of the British Medical Association's Consultants Committee, said that "many of the additional managerial staff have been employed to help the NHS deal with the increasing bureaucracy and fragmentation that have accompanied greater competition, with little or no evidence of benefit to patients." 5

Source: adapted from 'NHS management increasing five times faster than number of nurses', Randeep Ramesh, *The Guardian*, 25th March 2010.

**Figure 1 NHS hospital beds 1997–2008**

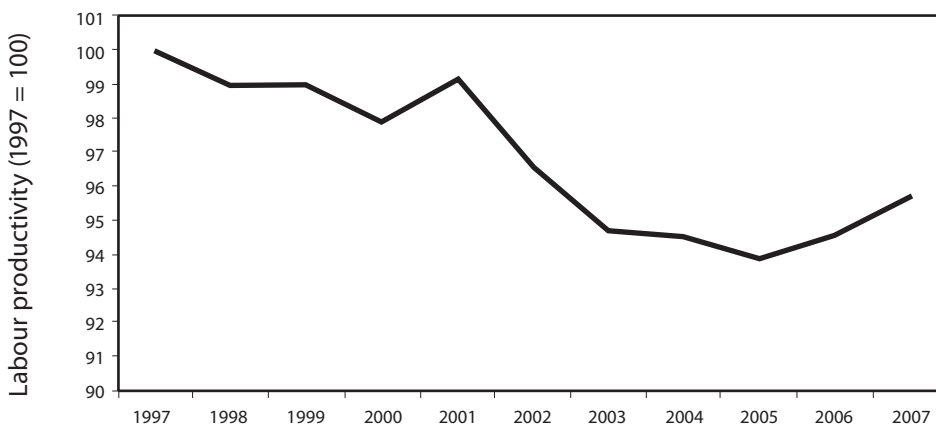


**Figure 2 NHS: number of patients waiting for over 13 weeks for inpatient admission 1998–2009**



Source: Figures 1 and 2: [www.statistics.gov.uk/hub/health-social-care/health-care-system/hospitals-and-health-care-facilities/index.html](http://www.statistics.gov.uk/hub/health-social-care/health-care-system/hospitals-and-health-care-facilities/index.html)

**Figure 3 Productivity in the NHS 1997–2007**



Source: [www.statistics.gov.uk/articles/nojournal/TotalPublicServiceFinalv5.pdf](http://www.statistics.gov.uk/articles/nojournal/TotalPublicServiceFinalv5.pdf)



**5** To what extent does the information provided suggest evidence of government failure?

**(14)**

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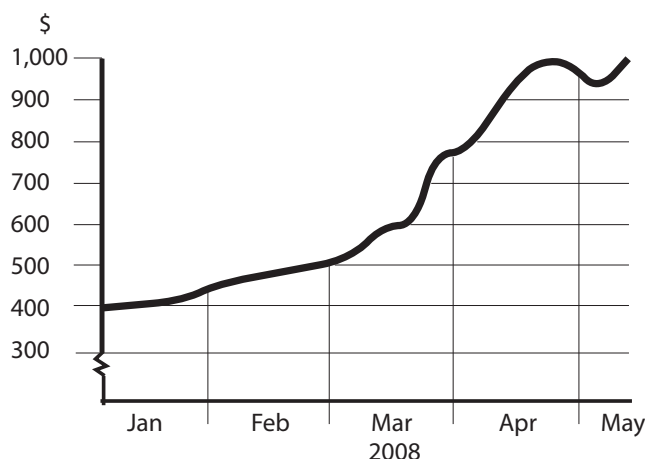
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**(Total for Question 5 = 14 marks)**

## 6 The rice market

**Figure 1: The price of rice, January to May 2008 (price per tonne US\$)**



### Extract 1 Soaring rice prices

The price of rice increased dramatically from \$400 to \$1,000 per tonne between January and May 2008, sparking food riots and protests in many countries, ranging from Haiti in the Caribbean to Pakistan in Asia.

The soaring price of rice is due to rising incomes in developing countries such as China, and population growth in India and Indonesia; severe flooding and droughts in rice growing regions have also had an effect – the most recent example being a cyclone which devastated Myanmar in May 2008. 5

In Thailand, one of the world's largest rice producers, farmers have responded by raising supply. Fields which have been unused for many years are now being ploughed and rice seed planted. Farmers are even contemplating three or four harvests a year rather than the usual one or two. Many have given up jobs in towns and cities to return to the countryside and cash in from growing rice. 10

(Source: 'Fear of rice riots as surge in demand hits nations across the Far East' by Leo Lewis, *The Times*, 8th April 2008.)

### Extract 2 Government intervention in the rice market

Governments in several rice growing countries such as India, Vietnam, Egypt and Cambodia have imposed restrictions on rice exports in order to switch supplies to their own domestic consumers. This should make rice more affordable. However, it could cause problems in the long term since rice farmers will not benefit from the high global price that consumers in developed countries are prepared to pay. It will affect the incentive to produce. 5

The governments are also considering a buffer stock scheme which aims to adjust market supply between good and poor harvests and so guarantee rice at an affordable price. However, buffer stock schemes have failed spectacularly in other commodity markets, for example, coffee, cocoa and tin. These have reflected problems in funding and excess production. The millions of rice growers in Asia could make it unworkable. 10

(Source: 'Thai cartel idea outrages rice consumers' by Carl Mortishead, *The Times*, 3rd May 2008.)

6 To what extent might restrictions on rice exports lead to government failure?

(10)

A series of horizontal dotted lines for writing the answer.

Handwriting practice area with 20 horizontal dotted lines.

**End of Section B**

**(Total for Question 6 = 10 marks)**