EXPERT
TUITION

Economics Questions By Topic:

Tradable Pollution Permits (1.4.1)

A-Level Edexcel Theme 1

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Section A

Answer in the spaces provided.

1 The EU tradable pollution permits scheme is expected to become more effective by 2020, due to recent reductions in the number of tradable pollution permits.

(Source adapted from: https://ec.europa.eu/clima/policies/ets_en)

(a) Explain **one** likely effect of reducing the number of tradable pollution permits.

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(b) Regulation of firms that pollute is likely to be a problem because it

(1)

☒ **A** allows firms to use price signals

☒ **B** creates unintended consequences

☒ **C** fills information gaps for businesses

☒ **D** means lower administrative costs

(Total for Question 1 = 5 marks)

2 Tradable pollution permits would be more effective in reducing carbon dioxide emissions within the European Union (EU) if:

(1)

A There is an excess supply of pollution permits

B Major polluting industries such as air travel are excluded from the carbon trading system

C It is difficult to monitor and prosecute firms for exceeding their pollution permits

D The EU is prepared to decrease the supply of pollution permits if the price falls too low.

Answer ☐

Explanation

(3)

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(Total for Question 2 = 4 marks)

3 The European Union Carbon Emissions Trading Scheme permitted the power, cement, steel, oil and paper industries to emit up to 1.9 billion tonnes of carbon dioxide in 2008. The purpose of the scheme is to:

(1)

A fine companies which pollute up to their allowances

B reduce market failure from the major carbon polluting industries

C tax companies which pollute up to their allowances

D prevent industries from buying and selling carbon permits between themselves

Answer ☐

Explanation

(3)

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(Total for Question 3 = 4 marks)

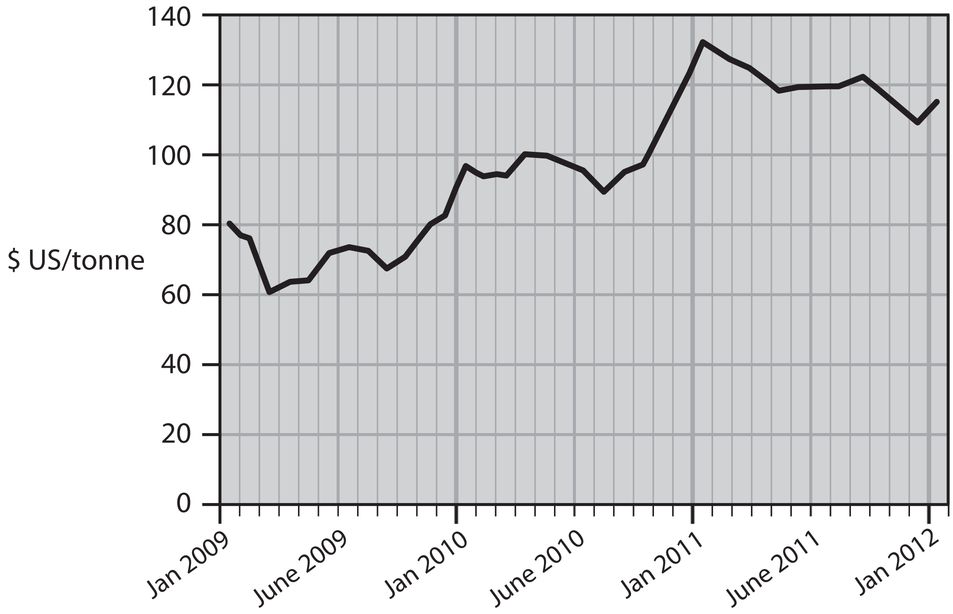
END OF SECTION A

Section B

Answer in the spaces provided.

4 The price of coal

Figure 1: The rising price of Australian coal



(Source: © Worldbank.org)

Extract 1 Floods hit Australian supply of coal

Severe floods have damaged many of Australia's coal mines and railway lines, dramatically reducing the production and transportation of coal and increasing its price by up to 35% per tonne from November 2010 to January 2011. A vast area has been affected by the floods and the cost of pumping out the water and repairing the mines could run into hundreds of millions of dollars. The floods have also led to an increase in speculative buying of coal by stock market traders anticipating shortages.

Despite the higher price of coal and reduced output, the revenues of the big Australian coal producers have remained the same.

The increase in coal prices is expected to put pressure on electricity prices over the coming months. The UK generates about one quarter of its electricity by burning coal, much of which is imported from overseas, including Australia.

(Source: adapted from © Times Newspapers Limited, 5th January 2011)

Extract 2   Carbon emissions trading scheme in Australia

Around 500 of Australia's biggest polluting companies will be forced into an emissions trading scheme in 2015, similar to that operating in the European Union. The Australian Government intends to achieve a 5% cut in carbon emissions by 2020.

Although Australia accounts for just 1.5% of global greenhouse gas emissions, its heavy reliance on coal fired power stations makes it one of the world's biggest carbon polluters per head of population. It is also the world's biggest exporter of coal.

Initially, the companies in the scheme will receive 94.5% of their carbon permits for free, and then obtain government subsidies to purchase the other 5.5% of permits, so that no additional costs to the firms arise. Gradually over time, these subsidies will be removed. Emissions trading schemes have also attracted interest from China and South Korea.

However, the scheme is a blow to the Australian mining industry which faces carbon costs of at least 25 billion Australian dollars by 2020. According to Anglo American Corporation, some 40 000 jobs are directly at risk and a further 100 000 indirectly. It also believes some mining investment projects will be cancelled, adding further to structural unemployment. Government training programmes and relocation subsidies may be required to improve the mobility of labour.

(Source: adapted from © *The Financial Times*, 10th July 2011 and 8th November 2011)

4 With reference to Extract 2 and your own knowledge, assess the benefits of a system of tradable pollution permits for reducing carbon emissions.

(14)

END OF SECTION B

(Total for Question 4 = 14 marks)