



AS

ECONOMICS

Paper 1 The Operation of Markets and Market Failure

7135/1

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**DO NOT WRITE ANY ANSWERS IN THIS INSERT.
YOU MUST ANSWER THE QUESTIONS IN THE
ANSWER BOOKLET PROVIDED.**

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CONTEXT 1: BUS TRAVEL

Questions 21 to 26

- **EXTRACT A: Take-up of concessionary bus travel schemes for the elderly in England by gender, 2005–2017**
- **EXTRACT B: Why should the elderly be entitled to free travel on buses?**
- **EXTRACT C: Is continued free bus travel for elderly people justifiable?**

CONTEXT 2: E-CIGARETTES

Questions 27 to 32

- **EXTRACT D: Rates of cigarette smoking in Great Britain by gender, 2005–2017**
- **EXTRACT E: The decline of conventional smoking**
- **EXTRACT F: The rise of the e-cigarette**

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CONTEXT 1

Total for this context: 50 marks

BUS TRAVEL

EXTRACT A: Take-up of concessionary bus travel schemes for the elderly in England by gender, 2005–2017

Year	Male (%)	Female (%)
2005	47	58
2007	62	70
2009	71	78
2011	75	81
2013	73	79
2015	72	78
2017	67	71

NOTE: Concessionary travel schemes involve free or a reduced price of travel

Source: National Travel Survey, Department for Transport, updated July 2018

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EXTRACT B: Why should the elderly be entitled to free travel on buses?

Since 2010, both men and women have been able to apply for a bus pass for free off-peak bus travel when they reach the female State Pension age. By October 2020, this will rise to 66. There used to be regional variations but there is now a national scheme, funded by the UK government. For an annual fee, those over 60 also receive a third off most rail fares.

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What is the justification for letting elderly people travel on buses for free? Various social, economic and environmental reasons have been given, covering both private and external benefits. As well as the ability to visit friends and family, there is improved access to shops, health care and other vital facilities. Many older people also contribute to the economy through voluntary work or child care, the value of which has been estimated to be £10 billion and £3 billion respectively. There is evidence that without free bus travel, a third of these journeys would be made by car adding to congestion, air pollution and traffic-related accidents. Reduced demand for bus travel could lead to fewer bus services, resulting in less availability for paying customers. Currently, the additional 'free' passengers help to spread the fixed costs.

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It has been claimed that each £1 spent on the scheme generates nearly £3 in benefits. Research also suggests that the benefits go more to those on lower incomes and/or without a car, helping to combat the effects of an inequitable distribution of income and wealth. 30

Source: News reports, December 2018

[Turn over]

EXTRACT C: Is continued free bus travel for elderly people justifiable?

- When the State Pension was introduced in 1948, a 65-year-old could expect to live another 13.5 years. By 2017, this had risen to 22.8 years. Recent figures predict that the number of people over the State Pension age in the UK will grow by a third between 2017 and 2042, from 12.4 million to 16.9 million. Many of these pensioners have reasonable incomes.** 1 5
- Bus operators are paid to provide free bus travel on the basis that they are ‘no better and no worse off’ as a result. Government spending on such travel is therefore based on demand. Bus companies also receive subsidies to operate routes in rural areas which would otherwise be unprofitable. However, with the squeeze on public expenditure, funding for these supported services has been cut by 45% since 2010, whilst bus fares have risen by 13% above inflation and over 3000 routes have been cut. With both central and local government looking to make savings of billions of pounds, is free bus travel for the elderly as important, for example, as educating children or emptying bins?** 10 15 20
- Both the take-up rate and number of journeys per bus pass have been falling in recent years, so the free bus pass scheme for the elderly may still be workable. However, as fares continue to rise,** 25

**along with the number of people eligible for a pass,
the basis for the scheme may need rethinking.**

**Perhaps the time has come to stop free bus travel 30
for the elderly or to limit it to certain groups?**

Source: News reports, December 2018

[Turn over]

CONTEXT 1 – Questions 21 to 26

- 2 1** Define ‘fixed costs’ in EXTRACT B (line 26).
[3 marks]
- 2 2** Use EXTRACT A to calculate the DIFFERENCE in the median male and female take-up rates of concessionary travel schemes for the elderly in England for the years shown. [4 marks]
- 2 3** Use EXTRACT A to identify TWO significant points of comparison between the take-up of concessionary travel schemes by males and females in England over the period shown.
[4 marks]
- 2 4** EXTRACT C (lines 12–14) states: ‘Bus companies also receive subsidies to operate routes in rural areas.’
- Draw a supply and demand diagram to show the effects on the market for bus travel of the government providing a subsidy. The total amount of government spending on the subsidy should be labelled clearly. [4 marks]

2 5 EXTRACT C (lines 24–25) states: ‘Both the take-up rate and number of journeys per bus pass have been falling in recent years.’

Explain TWO factors which could lead to an increase in the demand for bus travel in the future. [10 marks]

2 6 EXTRACT C (lines 30–31) states: ‘Perhaps the time has come to stop free bus travel for the elderly or to limit it to certain groups?’

Use the extracts and your knowledge of economics to evaluate whether the UK government should continue to provide free bus travel for all, some or no elderly people. [25 marks]

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CONTEXT 2

Total for this context: 50 marks

E-CIGARETTES

EXTRACT D: Rates of cigarette smoking in Great Britain by gender, 2005–2017

Year	Male (%)	Female (%)
2005	25.3	22.7
2007	22.1	19.7
2009	22.0	20.2
2011	21.0	18.8
2013	21.6	16.8
2015	19.1	16.6
2017	18.7	15.0

Source: Opinions and Lifestyle Survey, General Lifestyle Survey and General Household Survey, ONS, accessed December 2018

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EXTRACT E: The decline of conventional smoking

There have long been concerns about links between smoking and some illnesses. In 2015, smoking was blamed for approximately 79 000 deaths, accounting for 20% of male and 13% of female deaths. Action on Smoking and Health (ASH), an anti-smoking campaign group, has estimated that the cost to society of smoking is about £13 billion a year. They claim that about half of all life-long smokers will die prematurely, with their life expectancy cut by about 10 years. However, it is not just the private costs that concern the government, it is the full social cost.

In 1974, 46% of those 16 and over were cigarette smokers but by 2017 this had fallen to 17%. Fewer under-18s now smoke but girls are more likely to be regular smokers. The decline has been attributed to a variety of measures including tougher regulation. Also, between 2006 and 2016, the price of tobacco rose by 43% more than general retail prices with the tax now being about 80% of the price. Those on low incomes are hit hardest, particularly since they are more likely to smoke.

People who want to stop smoking have traditionally used patches, gum or even hypnosis. Recently, sales of these quitting aids have slowed as vaping/electronic cigarette (e-cigarette) sales

have soared. In 2012, UK sales of e-cigarettes were £44 million but in 2013 sales rose 340%, encouraged by the major tobacco firms, worried about lower sales in many countries. However, the growth of e-cigarettes has fallen since, with some smokers switching back to conventional cigarettes and some uncertainty about the health effects of e-cigarettes.

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Source: News reports, December 2018

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EXTRACT F: The rise of the e-cigarette

According to the Office for National Statistics, 17% of women and 22% of men have tried e-cigarettes, although fewer claim to be current users. Use of e-cigarettes also remains very low among young people; just 2% of 11 to 18-year-olds use e-cigarettes at least weekly. E-cigarettes do not contain tobacco but smokers receive nicotine in a vapour. This makes them less appealing and some believe that about one in ten who smoke e-cigarettes may start smoking conventional cigarettes. However, the main reason people give for their use is to help to stop smoking. According to the NHS website, of the 2.9 million adults who use e-cigarettes, 1.5 million are ex-smokers. They claim that there is a much smaller risk of harm than from conventional cigarettes and this view has been supported by the Royal College of Physicians.

There is strict legislation about labelling, advertising and where e-cigarettes can be used, but in 2016 the Medicines and Healthcare Products Regulatory Agency approved the use of one brand of e-cigarette. This classed it as a medicine which could lead to its prescription on the NHS, perhaps saving money in the long term. Some experts believe many lives could be saved by people vaping instead of smoking but the World Health Organization has concerns about the effects on third parties.

What more, if anything, should be done in the e-cigarette market? Sweden is now the only EU country with a smoking rate lower than the UK. Should the UK government promote a particular brand of e-cigarettes as a 'healthy alternative' to conventional cigarettes? Should the use of e-cigarettes be discouraged or has government intervention already gone far enough?

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Source: News reports, December 2018

[Turn over]

CONTEXT 2 – Questions 27 to 32

- 2 7** Define ‘social cost’ in EXTRACT E (line 12).
[3 marks]
- 2 8** Use EXTRACT D to calculate, to ONE decimal place, the DIFFERENCE between the mean male and female rates of cigarette smoking in Great Britain for the years shown. [4 marks]
- 2 9** Use EXTRACT D to identify TWO significant points of comparison between the rates of cigarette smoking of males and females in Great Britain over the period shown. [4 marks]
- 3 0** EXTRACT E (lines 18–21) states: ‘between 2006 and 2016, the price of tobacco rose by 43% more than general retail prices with the tax now being about 80% of the price.’

Draw a supply and demand diagram to show the effects on the market for cigarettes of the government imposing an indirect tax. The total amount of government tax revenue should be labelled clearly. [4 marks]

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EXTRACT E (lines 31–33) states: ‘the growth of e-cigarettes has fallen since, with some smokers switching back to conventional cigarettes.’

Explain TWO factors which could lead to an increase in the demand for conventional cigarettes. [10 marks]

3 2

EXTRACT F (lines 33–37) states: ‘Should the UK government promote a particular brand of e-cigarettes as a ‘healthy alternative’ to conventional cigarettes? Should the use of e-cigarettes be discouraged or has government intervention already gone far enough?’

Use the extracts and your knowledge of economics to evaluate whether the UK government should encourage, discourage or do nothing more to affect the use of e-cigarettes. [25 marks]

END OF QUESTIONS

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