

**GCE AS****B520U20-1**

S24-B520U20-1

**MONDAY, 20 MAY 2024 – MORNING****ECONOMICS – AS component 2**
Exploring Economic Issues**2 hours**B520U201
01**ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a calculator and a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

You may use a pencil for graphs and diagrams only.

Answer **all** questions.

Write your answers in the separate answer booklet provided.

INFORMATION FOR CANDIDATES

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

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

Answer **all** questions.

1. Cross-railing

In October 2007 the UK government authorised a new infrastructure project called Crossrail's Elizabeth Line. It was a rail capacity improvement project centred on London and the surrounding area, involving the laying of a new 118 km rail track from Reading in the west to Shenfield and Abbey Wood in the east, with a new 21 km (12 mile) tunnelled route under central London.

Figure 1: Crossrail's Elizabeth Line route



Crossrail's Elizabeth Line would cut east to west travel times by 33% for 1.5 million commuters, whilst also making it easier to access Heathrow Airport. Commuters can pay to park at a Crossrail station and then buy a ticket on the Crossrail line. Other commuters might walk or cycle to the station free of charge.

The £18.6 bn project was originally scheduled for 2017 opening. The UK Government hoped it would create a multiplier effect whilst also easing congestion, shortening journey times, increasing London's accessibility for those living outside of London and meeting the needs of London's growing population. Road pricing policies have already been implemented to reduce traffic congestion in London, such as a charge to drive into central London (congestion charge).

Table 1: Potential positive impacts of Crossrail's Elizabeth Line

	Benefits
Estimated net economic benefit (through jobs created during construction, the operation of the line and time saved by improved accessibility)	£43 bn (estimated)
Jobs supported	55 000
Construction/supplier work awarded to UK firms	96%
Suppliers that were small or medium-sized firms	67.5%
Estimated increased supply of high quality commercial and retail office space	4.4 million square metres

Source: <https://www.crossrail.co.uk/benefits/economic-sustainability>

There are further plans to build Crossrail 2 (North to South) but concerns have been raised from local residents and communities over noise and air quality during construction. Whilst there are also concerns about the tunnelling under central London which can cause unstable ground for the buildings above. Michèle Dix, managing director for Crossrail 2, has insisted that in planning the route they had "looked to minimise the impact on local residents and communities as much as possible".

20

- (a) Using a diagram, outline the likely impact of new rail lines on the wages of workers in London. [4]
- (b) Discuss the likely cross elasticity of demand between the car parks at Crossrail's Elizabeth Line stations and the number of tickets sold for Crossrail. [6]
- (c) Using **Table 1**, explain how the building of Crossrail's Elizabeth Line can lead to the benefits of the multiplier effect (line 11). [6]
- (d) Evaluate whether increasing infrastructure is better than increased use of road pricing (line 13) to reduce market failure. [10]
- (e)
 - (i) Define the term 'government failure' and explain why the building of new infrastructure could be considered an example of government failure. [4]
 - (ii) Using the data, assess the extent to which the building of Crossrail would be positive for the short run and long run macroeconomic performance of London and the South East. [10]

2. Corbynomics

In 2008 the Great Recession occurred in the UK, with a decrease of 6% in GDP. One of the economic responses by the UK Labour party government was a decrease in the ad valorem tax of VAT from 17.5% to 15%. At the same time, the Bank of England used monetary policy by decreasing interest rates to 0.5% and injecting funds into the financial system through increasing the money supply.

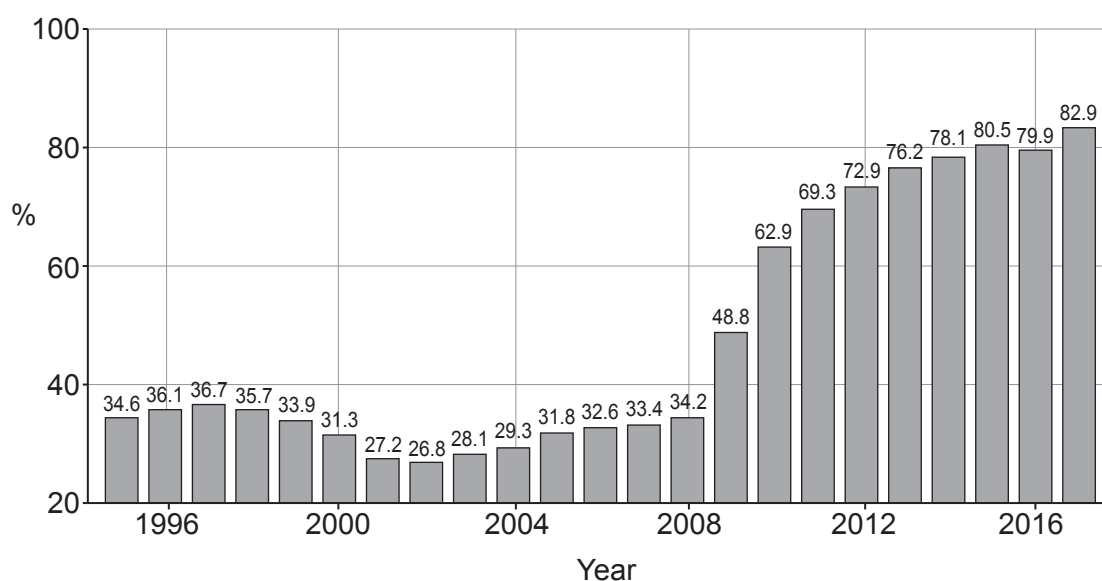
In 2016, the UK Labour party leader, Jeremy Corbyn, proposed economic policies in the hope of winning the 2019 UK general election. These have been referred to as “Corbynomics”.

These economic policies included:

- **Transformation funds:** £150 bn to pay for upgrades to schools, hospitals, social care facilities and social homes, being spent over five years. A £250 bn “green transformation fund” that would be spent over ten years, to put the UK on track for a net zero carbon energy system within the 2030’s.
- **A national investment bank** that could provide another £250 bn worth of loans to small firms at low interest rates. This would support the government’s strategy, such as energy-efficient housing and decarbonisation.
- **Free university tuition** for all 3 and 4-year undergraduate degrees, instead of keeping tuition fees at their £9250 level. In 2017, the Institute for Fiscal Studies stated this would add an extra £11 bn a year to government borrowing. However, this figure is likely to be higher, as around 45% of student loans may never be repaid, which increases government spending.
- **Housing policies**, including rent controls (a maximum price for rent), tax on empty properties and building 150 000 houses per year for those on low income.

These policies could be very expensive, especially given the increase in public sector Net Debt due to the 2008 Great Recession.

Figure 1: UK Public Sector Net Debt to GDP



- 25 The tax increases below were also proposed, whilst improvements in methods to tackle tax avoidance were highlighted as being required.

Table 1: Tax increases proposed

Income tax rates	1 560 000 people paying a higher tax rate An increase to 45% from 40% on earnings between £80 000 and £125 000 50% on earnings above £125 000
Inheritance tax rates	An increase to 40% of every £1 on an estate worth over £350 000 instead of 40% of every £1 over £500 000
Corporation tax rates	An increase to 26% from 20%
2nd home ownership	Annual tax on second homes that are used as holiday homes equivalent to 200% of the current council tax bill for the property

- (a) (i) Using a PPF diagram, illustrate the impact of a recession on an economy that consists of goods and services. [2]
- (ii) Using an AD/AS diagram, explain how monetary policy (line 3) can be used to stimulate economic growth. [6]
- (b) Using the data, describe how the proposed new national investment bank and transformation funds could
- (i) decrease negative externalities [4]
- (ii) increase positive externalities [4]
- (c) Using a demand and supply diagram, consider who benefits the most from a decrease in ad valorem tax (line 2), the consumer or the firms? [7]
- (d) Using the data from **Table 1**, discuss whether the proposed changes to UK tax rates are a good way to raise government revenue. [9]
- (e) Using the data, discuss whether free university tuition or housing policies is the best way to improve income inequality. [8]

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