



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2015

Economics

Assessment Unit AS 1
Markets and Prices



AE111

[AE111]

THURSDAY 11 JUNE, AFTERNOON

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in all questions.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following passage was written in September 2013. Study it carefully and answer the questions which follow.

UK housing market is inefficient

The UK housing market is failing. This is the conclusion of a recent Institute of Public Policy Research (IPPR) report entitled “Together at home – a new strategy for housing”. The report states that, unless there are fundamental reforms, the dream of home ownership will remain out of reach for large numbers of UK citizens.

Ratio of UK house prices for first-time buyers to average earnings 1995–2011

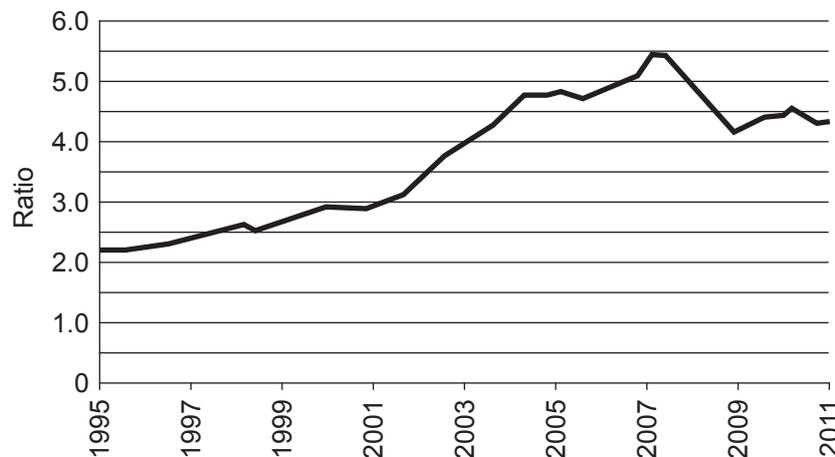


Fig. 1

Source: Adapted from *Forever Blowing Bubbles? Housing's Role in the UK Economy* by Tony Dolphin and Matt Griffith, May 2011 with permission © IPPR

Fig. 1 shows how the ratio of house prices to average earnings has changed for first-time buyers since 1995. Responding to the report, Ryan Peterson, a housing market analyst, stated, “most people consider a prudent limit on mortgage debt to be less than three times earnings. So you can see how difficult it is for first-time buyers to afford a mortgage”.

1

According to the IPPR report there are numerous market and government failures in the UK housing market, but the single biggest failure is the inability of supply to increase in line with demand. The report claims that the UK requires around 250 000 houses to be built each year, but if current trends continue less than 100 000 new houses will be built each year. It is this failure of supply to rise in line with demand that has driven the cost of home ownership beyond the means of the average UK family.

2

One of the reasons why so few houses are being built is related to the planning system and its impact on the price of building land. The planning system artificially reduces the supply of building land which leads to land with residential planning permission costing on average £1.87mn per hectare compared to £20,000 per hectare for agricultural land. This high price for residential building land makes house building extremely expensive and allows the owners of land approved for development to earn significant levels of economic rent.

3

The IPPR report calls for a massive programme of house building on brown-field (previously developed) sites and green-field sites and the creation of strategically placed new towns. “Building more high quality homes will make a significant contribution to UK economic growth. It will also reduce the external costs associated with poor quality housing in areas such as health, the environment, occupational and geographical mobility of labour, education and crime”.

4

The report estimates that poor quality housing costs the NHS £2.5bn per year in additional treatments. It also estimates a cost to the UK economy of approximately £14.8bn in lost earnings from those students who suffer poorer educational performance as a result of poor housing. Tracey Campbell, a housing charity worker, stated, “this report proves what we have always argued: good quality housing is a merit good. The government has a duty to build sufficient housing to ensure that every citizen has access to a high-quality affordable home”.

5

However, not everyone agrees that the answer to the housing problem is to build more homes. Lobby group, Campaign to Protect Rural England, argues that “house building leads to climate-changing greenhouse gas emissions, increased road traffic and congestion, more strain on water sources, and increased quarrying in the countryside. Rather than build new houses on green-field sites we need to make more efficient use of the existing housing stock and reduce the number of empty or under-utilised urban buildings”.

6

Source: Adapted from Together at Home – A New Strategy for Housing by Andy Hull and Graeme Cook, June 2012 with permission © IPPR

- (a) Using the information in Fig. 1, describe the relationship between UK house prices for first time buyers and average earnings between 1995 and 2011. [6]
- (b) Explain the difference between market failure and government failure. (Paragraph 2) [6]
- (c) Explain how the owners of land approved for development are able to earn significant levels of economic rent. (Paragraph 3) [8]
- (d) Explain why good quality housing could be considered to be a merit good. (Paragraph 5) [8]
- (e) Critically examine the case for a massive programme of house building in the UK. [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4**.

2 Air pollution causes 20 000 deaths in the UK each year

- (a) Explain what is meant by the efficient use of scarce resources. [10]
- (b) With the aid of an appropriate diagram, explain how air pollution could represent an inefficient allocation of resources. [15]
- (c) Evaluate the range of policies the government could use to improve air quality in the UK. [15]

3 Elasticity estimates are inaccurate and of no use to anyone

- (a) Explain what is meant by cross price elasticity of demand. [10]
- (b) Explain the main uses of estimates of cross price elasticity of demand. [15]
- (c) Critically examine the view that calculating elasticities is a waste of time and money. [15]

4 Relative poverty on the rise in the UK

- (a) Explain what is meant by inequality in income and wealth. [10]
- (b) Analyse some of the policies the UK government could use to reduce income inequality. [15]
- (c) Critically examine the view that governments should never take action to reduce income inequality. [15]