

**Modified Enlarged 18pt**

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Monday 4 October 2021 – Morning**

**A Level Economics**

**H460/01 Microeconomics**

**Stimulus Material Insert**

**Time allowed: 2 hours**

**plus your additional time allowance**



## SECTION A

Read the following stimulus material and answer ALL parts of Question 1.

### THE UK AIR TRAVEL SECTOR

The UK's biggest airline, easyJet, has reported profits before tax of £445m on revenues of almost £6bn, in the financial year ending September 2018. As the largest of the UK operators (see Table 1), easyJet faces strong competition from other 'budget' airlines (Flybe and Jet2), package holiday firms (TUI and Thomas Cook) and the previous market leader, British Airways. The recent growth of easyJet in the UK has been helped by the closure of Monarch in December 2017 and continued labour disputes at British Airways.

Table 1 – UK Passenger numbers (million)

	2015	2016	2017
easyJet	58.6	63.3	68.3
British Airways	41.3	42.1	42.8
TUI	10.6	10.9	11.3
Jet2	5.9	6.7	9.7
Flybe	7.8	8.4	9.2
Thomas Cook	6.4	6.6	7.3
Monarch	5.7	5.4	3.4

Source: CAA

15 Across the whole of Europe, easyJet flew a record 88.5 million passengers, up 10% on the previous year, and filled 93% of its seats – meaning only 13 seats are empty on an average flight. Over the year, this ‘load factor’ (the percentage of seats sold across all flights) has increased by 9.8%. Typically, airlines have been satisfied with a load factor of around 75%.

20 Revenue per seat for easyJet in 2018 was £62, leading to a profit of £6.53 on each seat. But the airline had an additional £65m cost from “a change in approach to IT development” and a £40m cost from taking over the landing slots of the failed Air Berlin, at Tegel airport in Germany.

25 A growing amount of easyJet’s revenue comes from what it calls ‘ancillary’ sources. When a customer buys a ticket online, they are also able to book hotel accommodation, car hire and airport transfers. The business aims to grow its holiday sales, offer an  
30 improved customer loyalty programme and target the business-travel market, with “a more personalised product including new business fares”.

Although it is now common throughout the airline industry, easyJet was one of the first airlines to  
35 introduce a ‘dynamic pricing model’ which sees the price of a ticket increase as the date of the flight moves nearer. Table 2 shows how the prices quoted on two separate routes were lower if booked on the 18 December 2018 compared to the 18 March 2019.  
40 As the weeks go by, the price quoted will increase as the date of travel moves nearer. There are always exceptions to the rule, due to other supply and demand factors, but, in general, the sooner a customer books the better price they get.

**Table 2 – Ticket prices quoted on different dates (seat only)**

Route	Date when price was quoted	Date of travel		
		6 April 2019	1 June 2019	5 October 2019
London Gatwick to Gran Canaria	18 December 2018	£194	£74	£60
	18 March 2019	£259	£80	£76
London Luton to Barcelona	18 December 2018	£110	£42	£39
	18 March 2019	£122	£46	£42

*Source: www.easyjet.com (accessed 18/12/18 & 18/03/19)*

- 45 On most routes, customers have a choice of airline, and in each case the service is largely identical. It is now common practice on these short and medium-haul routes that food, seat reservations and luggage are not included in the basic ticket price (see Table 3).

**Table 3 – Ticket prices quoted for London Gatwick to Gran Canaria (to travel on 1 June 2019)**

Airline	Basic price including all taxes	Seat reservation	One piece of check-in luggage
British Airways	£143	Included with luggage	£20
easyJet	£74	£6 to £18.50	£42
Thomas Cook	£73	£10	£48
TUI	£311	£11	£25

*Source: Company websites (accessed 18/12/18)*

50 Air travel is often said to be a demerit good.  
Politicians and economists have argued over the  
degree of control needed in the market and whether  
it is taxed enough. Most passengers entering or  
leaving the UK on a commercial flight will pay the  
55 Air Passenger Duty (APD) which was introduced  
by the UK government in 1993 for environmental  
reasons. However, a report published in 2018,  
called the 'Roadmap to decarbonising European  
aviation' considers other policies to reduce carbon  
60 emissions from air travel. The report criticises the  
lack of taxation of jet fuel across the world, saying:  
"Artificially cheap tickets through tax exemptions and  
government subsidies have propped up and propelled  
the industry." There is certainly a strong case for the  
65 current tax-free status of jet fuel to end.

Substitution, persuading travellers to switch from  
planes to trains, is another solution proposed in the  
report. It calls for, "greater competition in the rail  
sector in order to improve performance and drive  
70 down operating costs and fares". This suggestion  
would have been unthinkable 20 years ago. Today,  
speed and comfort have marginally improved for  
train travel (as there are now more fast routes). While,  
especially for shorter distances, flying has become  
75 increasingly unpleasant and time-consuming.

"It used to be a rule that, in order to compete with a  
one-hour flight, a train journey could be a maximum  
of three hours," says Mark Smith, of rail travel website  
Seat61. "That was allowing for an hour in the air and  
80 two for security, boarding and transfers. That simply  
is not the case anymore, with longer check-in and  
security times."

At the same time as taxing air travel with the APD, the UK government subsidises some routes. One  
85 example, introduced in March 2019, is on a new route between Newquay (in Cornwall) and London Heathrow. Around 170 000 passengers are predicted to use the service each year. Over the first four years, the Department for Transport and Cornwall County  
90 Council will each pay up to £1.7m, representing a subsidy of £10 per passenger for a return flight. The UK Transport Secretary at the time, Chris Grayling, said, “Maintaining and enhancing air routes that help bring together the UK is one of the key benefits. This  
95 new route will see the people of the south west profit from a direct connection into [Heathrow], building on the government’s ongoing commitment to the Newquay route, protecting choice and strengthening trade and travel opportunities for the whole UK.”

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