

**Modified Enlarged 24pt
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.

- 5 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)**
- 10 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**
- 15 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

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

20 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

25 with a load factor of around 75%.

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.

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 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 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

55 separate routes were lower if booked
 on the 18 December 2018 compared
 to the 18 March 2019. 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
 60 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)**

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)

**70 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
75 passengers entering or leaving the
UK on a commercial flight will pay the
Air Passenger Duty (APD) which was
introduced by the UK government
in 1993 for environmental reasons.
However, a report published in 2018,
80 called the ‘Roadmap to decarbonising
European aviation’ considers other
policies to reduce carbon emissions
from air travel. The report criticises
the lack of taxation of jet fuel across
85 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
90 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
95 for, “greater competition in the rail**

sector in order to improve performance and drive down operating costs and fares”. This suggestion would have been unthinkable 20 years ago. Today,
100 speed and comfort have marginally improved for train travel (as there are now more fast routes). While, especially for shorter distances, flying has become increasingly unpleasant
105 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
110 website Seat61. “That was allowing for an hour in the air and two for security, boarding and transfers. That simply is not the case anymore, with longer check-in and security times.”

115 At the same time as taxing air travel with the APD, the UK government subsidises some routes. One example, introduced in March 2019, is on a new route between Newquay (in Cornwall)
120 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 Council will
125 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
130 routes that help bring together the UK is one of the key benefits. This new route will see the people of the south west profit from a direct connection into [Heathrow], building on the
135 government’s ongoing commitment to the Newquay route, protecting choice and strengthening trade and travel opportunities for the whole UK.”

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