

AS ECONOMICS

Paper 1 The operation of markets and market failure

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

CONTEXT 1: LIBRARIES

Questions 21 to 26

- **Extract A:** Percentage of people aged 16–24, 25–44 and 75+ who had visited a public library in England in the previous year, 2008/09 to 2015/16
- **Extract B:** What has happened to the local library?
- **Extract C:** Who should provide libraries?

CONTEXT 2: AGRICULTURE

Questions 27 to 32

- **Extract D:** UK agriculture, forestry and fishing – employment, index of output and milk price, 2009 to 2016
- **Extract E:** UK agriculture in crisis?
- **Extract F:** Crisis? What crisis?

Context 1**Total for this context: 50 marks****LIBRARIES**

Extract A: Percentage of people aged 16–24, 25–44 and 75+ who had visited a public library in England in the previous year, 2008/09 to 2015/16

Year	16–24 (%)	25–44 (%)	75+ (%)
2008/09	42.8	43.7	35.0
2009/10	40.0	40.9	32.9
2010/11	34.4	44.6	37.1
2011/12	34.5	44.0	38.9
2012/13	32.3	42.2	36.5
2013/14	33.4	40.4	33.3
2014/15	28.5	41.3	31.6
2015/16	27.4	37.4	34.3

* A public library consists of books and other information, provided mainly free of charge to the general public by local authorities.

Source: Department for Culture, Media and Sport

Extract B: What has happened to the local library?

Many years ago, a library was a place where you went to borrow a book or perhaps to find peace and quiet to study. However, a recent survey found that only a third of adults had used a library in the previous year, a significant fall since data collection began in 2005. Reasons why fewer people are using libraries include less free time, getting books from elsewhere, including eBooks and preferring to use their leisure time for other activities. Changes in technology and lifestyles have caused many to question the purpose of the local library. 5

Despite this, in the year 2014/15, there were more library visits than to the cinema, Premier League football matches and the top 10 UK tourist attractions combined. Libraries offer health information, provide support for businesses and a venue for community events. They promote lifelong learning and help people to live healthier and happier lives. A recent study put the value of using libraries frequently, in terms of 'life satisfaction', at £1359 per person per year. Many people in rural areas rely on mobile libraries, where large vehicles carrying a range of books and other resources visit regularly. 10

In 2015, about 11% of the UK population lacked internet access. Library staff and volunteers can help with online services and it is important that people have opportunities to develop new skills, which could also increase labour mobility. 15

In December 2016, the Department for Culture, Media and Sport published a plan for public libraries over the next five years. Their aim is to increase the use of libraries by raising awareness of what they do. A more innovative approach may be needed. Closer links with other cultural organisations such as museums and schools, musical activities and talks by local authors, could attract more users. 20

Source: News reports, 2017

Extract C: Who should provide libraries?

- Traditionally, libraries were funded by local authorities, such as Manchester City Council, helped by grants from central government. As the number of visitors and borrowers has fallen, many libraries have closed or been transferred to community groups, often run by volunteers. In Wales, for example, there were 1241 paid library jobs in 2010 but only 979 in 2016, whilst in Oxfordshire, the number of volunteers rose from 108 to 831 between 2010 and 2015. Volunteering can improve people's skills and self-confidence, help their career prospects and productivity, as well as make use of the spare time of the retired. However, Philip Pullman, author of *His Dark Materials*, believes "It is exploiting people's goodness and willingness to work". 5
- Faced with funding cuts, local authorities have to make difficult choices which have an opportunity cost. People's views differ and are influenced by moral and political judgements. A relatively small amount, approximately £762 million, was spent on libraries in England in 2014/15. This is perhaps surprising given their huge impact, including their positive externalities. 10
- The first Libraries Week will be held in October 2017, an ideal opportunity to promote what libraries offer. It is hoped that by 2021, England's international literacy ranking will be higher, with more people reading for pleasure and closer links between libraries and local schools. 15
- A library is not a public good so it does not have to be provided by the state. Perhaps libraries should undertake fundraising or ask wealthy donors for support? Charging for services or links with businesses and other local organisations may also provide much-needed funds. 20

Source: News reports, 2017

Turn over for Context 1 questions

Turn over ►

Context 1 – Questions 21 to 26

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 Define 'public good' **Extract C** (line 18). **[3 marks]**
- | | |
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| 2 | 2 |
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Extract C (lines 11–13) states: 'A relatively small amount ... was spent on libraries in England in 2014/15'.
If the population of England in 2014/15 was 54.5 million, calculate, to the nearest pound, the amount spent on libraries per person. **[4 marks]**
- | | |
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 Use **Extract A** to identify **two** significant points of comparison between the percentage of people aged 16–24 and those aged 75+ who visited a library in England over the period shown. **[4 marks]**
- | | |
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| 2 | 4 |
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 A local authority has a limited sum of money to spend on two services, libraries and other local government services.
Draw a production possibility diagram showing the potential provision of these two services **and** assuming resources are fully employed, label a point X where no resources are used for libraries. **[4 marks]**
- | | |
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| 2 | 5 |
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Extract B (lines 2–3) states: 'a recent survey found that only a third of adults had used a library in the previous year, a significant fall since data collection began in 2005'.
Explain **two** reasons why the demand for library services has fallen. **[10 marks]**
- | | |
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Extract C (line 10) states: 'Faced with funding cuts, local authorities have to make difficult choices'.
Use the extracts and your knowledge of economics to assess whether local authorities should continue to provide public libraries. **[25 marks]**

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Turn over for Context 2

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Context 2

Total for this context: 50 marks

AGRICULTURE

Extract D: UK agriculture, forestry and fishing – employment, index of output and milk price, 2009 to 2016

Year	Employment in agriculture, forestry and fishing (000s)	Output in agriculture, forestry and fishing (2013=100)	Milk price (pence per litre)
2009	389	97.1	23.7
2010	419	96.5	24.7
2011	404	107.1	27.4
2012	426	99.3	28.1
2013	369	100.0	31.6
2014	419	113.9	31.5
2015	368	115.3	24.5
2016	370	111.4	22.7

Source: ONS and Defra

Extract E: UK agriculture in crisis?

Currently 68% of food consumed in the UK is produced in this country but the National Farmers Union (NFU) believe this could drop to 53% unless action is taken. The decision to leave the European Union (EU) has added to the uncertainty faced by farmers. A NFU representative described it as “one of the biggest challenges facing the industry but...a unique opportunity”. Although, over time, the EU has reduced its intervention, many farmers have relied on subsidies, minimum price controls or other interventions to help them to survive or to finance improvements.

5

Recently, UK milk prices have fallen due to excess supply. One prediction was that 20% of dairy farms would close in 2016. Others may switch to other types of farming or offer holiday accommodation. But, if farms close, prices could then start to rise again. Extreme weather conditions in some parts of the world may also increase many agricultural prices. Inequality will always exist but which is worse – lower incomes for farmers or higher prices for consumers? Improved technology could increase productivity but many farmers are struggling to finance this due to falling or volatile prices.

10

And what about the environment? Many people accuse modern farming methods of damaging wildlife habitats and polluting rivers but farmers also play a part in managing and protecting the countryside. Should there be more restrictions on what farmers can do or should they receive more government support?

15

Source: News reports, January 2017

Extract F: Crisis? What crisis?

The fall in the value of the pound since the Brexit vote has increased some import prices by 16% whilst UK grain exports have been at their highest for 20 years. Dairy prices are expected to rise in 2017 due to lower supply and strong demand – a growing world population needs feeding. Incomes are likely to rise for many farmers but higher costs of imported fuel and fertiliser may prevent this.

5

Poultry farmers have been doing better recently, with strong demand for eggs, particularly free-range, and significant productivity gains. However, the cost of feed and the avoidance of diseases such as avian flu are crucial.

Sales of organic food have also been rising steadily in the last few years, partly due to their alleged health benefits. More than half the baby food now sold in the UK is organic. However, organic food is usually more expensive since strict standards lead to lower yields.

10

Genetically modified (GM) foods do not occur naturally but have been developed by scientists to resist disease and increase yield. Some people fear that the food produced is unsafe but others claim that the increased output could raise revenue for farmers and lower prices for consumers. Currently, no GM crops are grown commercially in the UK but the first GM products were sold in British supermarkets in 1996. Leaving the EU will enable us to explore this area further.

15

It is clearly a time of uncertainty for the UK farming sector as over 40 years of EU involvement is replaced but by what? Should the UK government take an active role in agriculture, and if so, what policies should it implement? Or should it leave the sector to market forces with little, if any, intervention?

20

Source: News reports, January 2017

Turn over for Context 2 questions**Turn over ►**

Context 2 – Questions 27 to 32

2 7 Define ‘minimum price’ **Extract E** (line 6). **[3 marks]**

2 8 **Extract E** (lines 8–9) states: ‘One prediction was that 20% of dairy farms would close in 2016’.

If there were 9633 dairy farms in England and Wales in January 2016, calculate, to the nearest whole number, how many dairy farms there would be in January 2017 if the prediction for the percentage of dairy farms closing in 2016 is correct.

[4 marks]

2 9 Use **Extract D** to identify **two** significant points of comparison between the changes in employment and output in agriculture, forestry and fishing in the UK over the period shown.

[4 marks]

3 0 Agricultural production can be divided into genetically modified (GM) food and non-GM food.

Draw a production possibility diagram showing the production of genetically modified (GM) food and non-GM food **and**, on the same diagram, draw a new production possibility curve to show the effect of increased productivity in GM food but no change in non-GM food.

[4 marks]

3 1 **Extract F** (lines 2–3) states: ‘Dairy prices are expected to rise in 2017’.

Explain **two** factors that could increase the price of milk.

[10 marks]

3 2 **Extract F** (lines 18–19) states: ‘Should the UK government take an active role in agriculture, and if so, what policies should it implement?’

Use the extracts and your knowledge of economics to assess to what extent, if at all, the UK government should intervene in the agricultural sector.

[25 marks]

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