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Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box .

Question 1

POST OFFICE CLOSURES

Extract 1

The Royal Mail

Royal Mail is our letters and packages business, covering the whole of the UK for our one-price-goes-anywhere universal service. Each working day we collect items directly from our 113,000 post boxes, 14,300 Post Office branches and from some 87,000 businesses. These items pass through our network of 70 mail centres, eight regional distribution centres (for customer sorted mail) and 3,000 delivery offices. Then our fleet of over 30,000 red vehicles and 33,000 bicycles help us to deliver them to their final destination. 5

Source: www.royalmail.com

Extract 2

Post Office problems

The loss-making Post Office network receives £150 million a year from the government, equivalent to a £20 subsidy for every rural customer of rural branches. Without this subsidy the price of stamps would be much higher.

However, the Post Office network is crumbling. Over the last two decades Post Offices have been closing at the rate of over 300 a year. And things are set to get even worse. On 14 December 2006 the Government announced the start of a consultation period likely to result in 2,500 more Post Office closures. 5

The Royal Mail has been starved of investment by successive governments and needs at least £2 billion to invest in automation to remain competitive. Royal Mail now faces full competition as its centuries-old monopoly on the delivery of mail was ended on 10 1st January 2006. It is facing massive competition from well-financed competitors.

Source: adapted from <http://www.libdems.org.uk/commerce/issues>



Extract 3

Contribution of urban Post Offices

Research from the New Economics Foundation (NEF) for Manchester City Council quantifies for the first time the contribution that Post Offices make in some of the most deprived parts of the UK. The closure of twenty Post Offices in the Manchester area in 2005 had significant knock-on impacts for local businesses, service providers (such as schools), the local economy, and for local people – particularly the most vulnerable. 5

NEF’s research revealed that for every £10 earned in income, the Post Office generates £16.20 for its local economy – including £6.20 in direct spending on local goods and services. Based on in-depth analysis of Manchester Post Offices, this means that each Post Office contributes in the region of £310,000 to the local economy each year, of which £120,000 is direct spending on local goods and services. In addition, NEF’s analysis reveals that each small Post Office saves small businesses in their local area approximately £270,000 each year. 10

Sixty per cent of local businesses witnessed significant impacts, either to their business, to their clients and/or customers, or to the area following the closure of the local Post Office. Local trade associations noted the knock-on impact of the closed Post Office on shops in the local area, with the businesses themselves reporting significant loss of custom. 15

The danger is that when amenities like the Post Office or banking facilities disappear from a community, the financially mobile are likely to leave, leaving higher concentrations of deprivation, which can lead to further loss of local services.

Source adapted from <http://www.neweconomics.org/gen/lastpost.aspx>



If you answer Question 2 put a cross in this box .

Question 2

CLIMATE CHANGE

Extract 1

The Stern Report

Previous estimates of the costs of climate change – as a result of more hurricanes, more floods and rising sea levels, for instance – have been somewhere between nothing and 2% of global GDP. But the Stern Report says that these figures were wrong, for two reasons. First, the science has changed and global warming seems to be happening faster than previously believed. Second, these estimates have looked at only the likeliest outcomes from climate change, not at the outlying catastrophic possibilities. As a result the Report maintains that if greenhouse gas emissions go on increasing at their present rate, global output is likely to be between 5% and 20% lower over the next two centuries than it would otherwise have been. 5

Compared with those figures, the costs of addressing climate change look quite moderate: the Report estimates that, partly because of the falling costs of alternative energy, global output is likely to be around 1% lower by 2050 than it would otherwise have been. The choice appears to be straightforward but there are several difficulties associated with the issue of climate change. It is uncertain: nobody really knows how much it is going to cost. It crosses generations: this generation will have to bear some of the costs while the benefits accrue to future generations. It crosses national boundaries: no one country can solve the problem. 10 15

Source: Adapted from *The Economist* 30 October 2006

Extract 2

Dealing with Climate Change

“Climate change is the greatest market failure the world has seen,” Stern said. He called for carbon emission control through “taxation, emissions trading or regulation so that people are faced with the full social cost of their actions”.

The airline industry faces the imposition of a new range of green taxes to fight climate change. Stern says that existing fees, such as landing charges are ‘blunt instruments’ for cutting carbon emissions. “However, differentiating them, for example, by length of flight or distance travelled, could improve their effects on reducing emissions.” 5

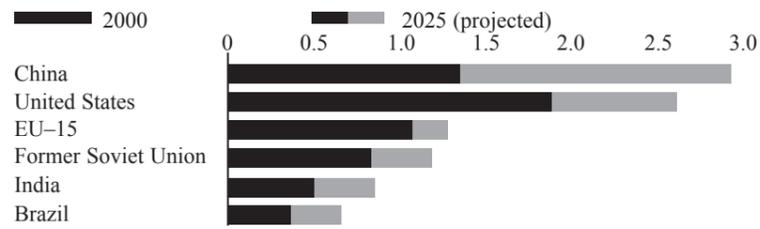
The EU emission-trading scheme fixes overall limits for emissions (with the aim of achieving reductions) while allowing permit holders to trade those permits. Producers using ‘clean’ technology can sell their permits to producers using ‘dirty’ technology, the price being determined by market forces. Stern suggests that “Expanding and linking the growing number of emissions trading schemes around the world is a powerful way to promote cost-effective reductions in emissions”. 10

Regulations might also be introduced to reduce carbon emissions such as laws to regulate greenhouse gas emissions from cars; building regulations for new houses to ensure greater energy efficiency or banning the sales of old-fashioned light bulbs. 15

Source: Adapted from <http://www.dailymail.co.uk> 30 October 2006



Figure 1: Greenhouse Gas emissions (billion tonnes of carbon equivalent)



Source: *The Economist* 4 November 2006

(a) (i) Explain what is meant by *market failure*.

(2)

(ii) Why might climate change resulting from economic activity be regarded as “the greatest market failure the world has seen”? (*Extract 2, line 1*).

(4)



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(9)

(e) Evaluate carbon trading, green taxes and regulation as means of reducing carbon emissions.

Continued



