1.2 Market failure and government intervention: 10-minute Pack

AQA 7136 · Calculator allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Show all your working.

1 A government is deciding how to reduce traffic congestion in a large city, a negative externality of driving: each additional driver imposes time delays on other road users.

(a) Explain why traffic congestion is an example of a negative externality. **(3)**

(b) Evaluate whether a congestion charge (a tax on drivers entering the city centre) or improved public transport provision (a form of subsidy/state provision) is likely to be more effective at reducing traffic congestion. **(5)**

(Total for Question 1 is 8 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 1.2 Market failure and government intervention: 10-minute Pack

Question 1

(a) driving imposes a cost (time delay, additional pollution) on other road users/third parties who are not part of the individual driver's decision to travel **M1**

(a) this cost is not reflected in the private cost the driver faces (e.g. fuel, time), so the marginal social cost of an additional journey exceeds its marginal private cost **A1**

(a) as a result, the free market (with no intervention) leads to a greater volume of traffic than the socially optimal level, causing a welfare loss (excess congestion) **A1**

(a) Answer: Driving imposes uncompensated delay costs on other road users, so MSC exceeds MPC and the market over-provides journeys.

(b) a congestion charge directly raises the private cost of driving, giving an immediate price incentive for some drivers to reduce or retime journeys or switch mode, and can be varied by time of day to target peak congestion **M1**

(b) improved public transport provision increases the availability of a substitute for driving, potentially achieving a more lasting change in behaviour without penalising drivers who have no practical alternative **M1**

(b) a congestion charge alone may be less effective if demand for car travel into the city is inelastic (e.g. commuters with no nearby public transport), since many drivers may simply pay the charge rather than change behaviour **A1**

(b) evaluative point: the two policies are likely to be most effective when COMBINED - the charge reduces the incentive to drive while improved public transport provides the alternative needed for the policy to actually change behaviour, rather than just raise revenue **A1**

(b) (allow any other well-justified line of reasoning consistent with the scenario, e.g. on equity, funding, or time lags in building new transport capacity) **A1**

(b) Answer: Likely most effective combined: the charge raises the private cost of driving while better public transport gives drivers a genuine alternative.

© Revision Library | revisionlibrary.co.uk