

Edexcel GCE

Economics and Business

Advanced

**Unit 4B: The Wider Economic Environment and
Business**

January 2013 and June 2013

Paper Reference

6EB04/01

Pre-release material

To be opened on receipt

Advice to Centre Staff and Candidates

- Candidates are expected to be familiar with the evidence provided here for the Unit 4B question paper before entering the examination room.
- A copy of this pre-release material will be included in the question paper, together with some new evidence, which you should study carefully before answering the questions.
- Candidates will not be allowed to take copies of this pre-release material into the examination.

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Evidence A

UK has 'most expensive train fares in Europe'

In a rail fares study, consumer organisation Passenger Focus compared services in Great Britain with those in continental Europe.

Fares were 50% higher in Britain than on the Continent, and "turn up and go" fares to London from elsewhere in the UK cost more than similar European journeys.

Annual season tickets for journeys under 25 miles were 88% more expensive than the next most expensive country – France – and more than four times pricier than the cheapest country – Italy. These rail systems are state owned and French SNCF is highly profitable.



The number of passengers per train journey kilometre in 2009 was 107 in Britain and 294 in France. This was due to SNCF's high-speed system which has a large share of passenger transport. These trains have large seat capacity (500 seats), long trains (240m) and some use double deck coaches.

Anthony Smith, Chief Executive of Passenger Focus, said: "This study explains why Britain's passengers are happy with the quality of services but not happy with value for money. Pricing of tickets is a key factor, but so are overcrowding and delays at peak times. Passengers cannot be expected to pay above-inflation fare increases year on year during a recession".

The study suggested that the Government reconsider its plan to shift the cost of railways from taxpayers to passengers, arguing the policy was "born in very different economic times".

(Source: adapted from ICM News, 19 February 2009 and the *McNulty Report*, May 2011)

Evidence B

High Speed Rail

A new high-speed rail network would transform the UK's economic geography. It would bring cities closer, enable businesses to operate more productively, support employment and regeneration, provide a genuine alternative to domestic aviation, and create a platform for sustainable economic growth and prosperity.

A Y-shaped high-speed rail network (HS2) linking London to Birmingham, Manchester and Leeds, including stops in the East Midlands and South Yorkshire, as well as direct links to the HS1 line and into Heathrow Airport, would cost £32 billion to construct and would generate wider benefits of £44 billion, as well as revenues totalling a further £27 billion.

HS2 would slash journey times, deliver a huge increase in capacity to meet rising demand and ease overcrowding on existing railways. New high-speed links would enable the UK's key urban centres to attract new businesses and directly access the economic strength of London and the South East.

The first phase alone would support the creation of more than 40,000 jobs and contribute to major regeneration programmes in Britain's inner cities.

(Source: adapted from www.dft.gov.uk/pgr/rail/pi/highspeedrail/)

Evidence C

Public subsidy for rail users must end

Transport secretary Philip Hammond said above-inflation fare rises could disappear if reforms proposed in an independent report are implemented. He ruled out fare cuts, warning that the £5.2bn a year state subsidy is unsustainable. Fare payers currently spend £6.2bn a year on tickets. "Only 12% of the population use trains," he said.

Hammond spoke in advance of a report recommending:

- Cutting £1bn a year from costs by 2020
- Handing control of routes to train operators
- The removal of conductors
- Increases in regulated fares such as commuter season tickets and off-peak fares on long-distance routes will be capped at RPI plus 3% (currently RPI plus 1%)
- Taking empty carriages out of service outside rush hour.

Bob Crow, rail union General Secretary, said the main cause of inefficiency was a system that divided responsibility between government-backed Network Rail owning tracks and stations and 17 franchisees operating services under government contracts. "Attacking staff, ticket offices and putting up fares, while train operators are handed gold-plated contracts, is just an escalation of the worst practices of privatisation."

(Source: adapted from *The Guardian*, 19 May 2011)



(Photograph source: Rui Vieira/PA)

Evidence D

EU Directive 91/440 – Development of the Community's railways

There is a need for greater integration of the European railway system into an increasingly competitive market. We need to facilitate increased international competition and enable trains from each member state to operate freight and international passenger services on the tracks of others. Deutsche Bahn already has plans to run trains direct from Germany into London St Pancras.

The Directive applies to all European Union rail transport activities, with the exception of those limited to local services.

Management independence

European Union (EU) countries must ensure railways (even if state-owned) are managed independently of the state, holding separate assets, budgets and accounts and enabling them to efficiently provide quality service at the lowest possible cost.

Separation between infrastructure management and transport operations

EU countries must ensure the separation of infrastructure and transport operations by publishing separate profit and loss accounts and balance sheets. The purpose is to ensure fair competition between operators in the international use of tracks.

(Source: adapted from http://europa.eu/legislation_summaries/transport/rail_transport/l24057_en.htm)

Evidence E

Labour calls for review of trains contract awarded to Siemens

The Labour Party has added to pressure on David Cameron over the decision to award a £3bn train contract to Siemens of Germany. The Shadow Business Secretary, John Denham, and his transport counterpart Maria Eagle, said awarding the Thameslink trains deal to Siemens rather than the Bombardier factory in Derby “dealt a body-blow to British manufacturing”.

The decision could cost 20,000 jobs, including 6,000 people employed by Bombardier in the UK. Bombardier is reviewing its UK operations following Thameslink’s decision.

Eagle and Denham said: “At a time when economic growth remains weak, a threat to so many cannot be allowed to happen unless all possible solutions are explored.”

They added that future train contracts, for Crossrail and HS2 projects, are likely to be tilted in favour of the company producing the 1,200 Thameslink carriages.

Philip Hammond, Transport Secretary, and Vince Cable, Business Secretary, suggested that other European countries protect their industrial interests when handing out manufacturing contracts. However, they noted that EU rules require equal, transparent and non-discriminatory treatment of bidders for government contracts.

Government industrial policy favouring protectionism is regulated against. EU guidelines state explicitly that governments must not base contract awards on a bidder’s location or nationality.

The Unite trade union said the UK should follow the example of Germany, where state-backed Deutsche Bahn awarded a €6bn (£5.4bn) high-speed train contract to Siemens.

(Source: adapted from www.guardian.co.uk, 3 July 2011)

Evidence F

Campaign for Better Transport warns Government over high speed rail



Campaign for Better Transport (CfBT) is urging the Government not to neglect the rest of the rail network and other public transport in favour of HS2. It warns that if the new line only serves parkway stations, rather than city centres, it risks becoming a strategy that will add to congestion and encourage car use.

CfBT's Director, said: "High-speed rail offers an opportunity to improve UK transport and provide greener long-distance travel. The danger is the Government is so focused on getting plans through against local opposition that it ignores the need for improving the whole network".

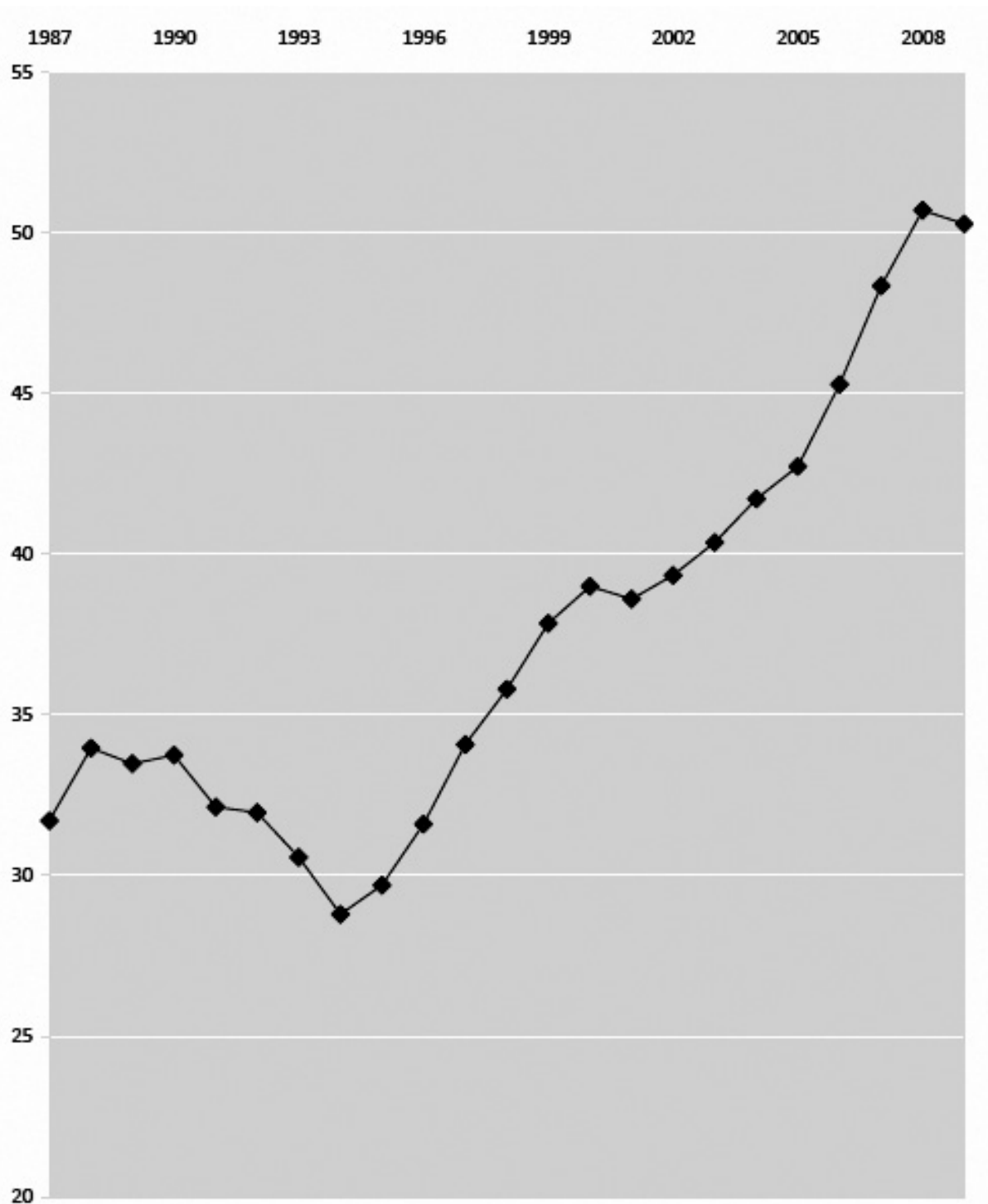
"We're worried ministers will cut budgets elsewhere to pay for high-speed rail. That could mean steeper fare rises and cuts in local services. The best way for rail to offer a greener alternative is to electrify more, but plans could be put back as high-speed rail eats up all the funding. New jobs created will mainly be in London and the Heathrow link will only increase air travel."

CfBT cautioned that proposed fare increases should be reviewed as a matter of urgency to keep fares on existing lines affordable for the majority of passengers.

(Source: adapted from www.rail.co.uk, 23 February 2011)

Evidence G

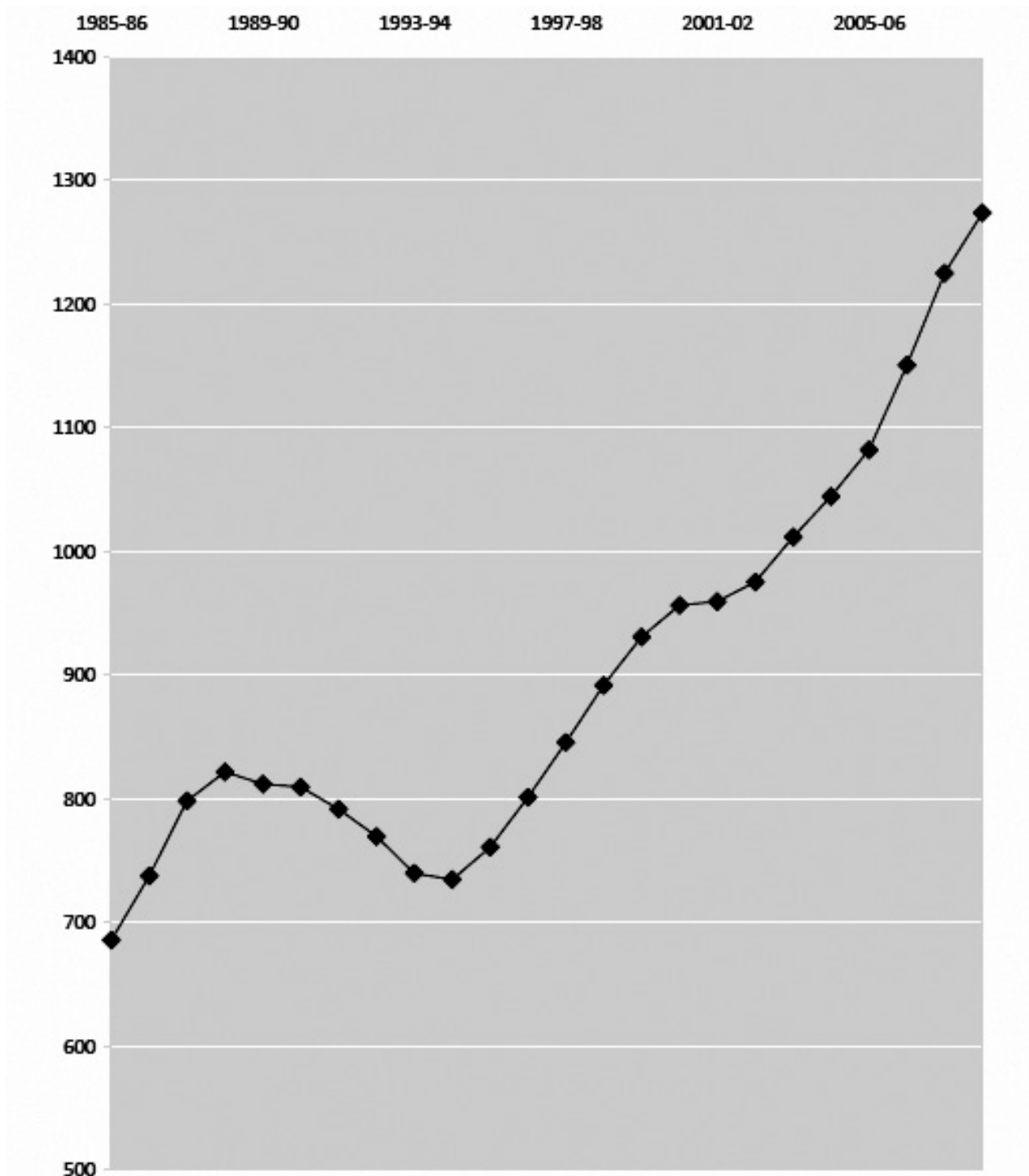
Passenger kilometres travelled
Great Britain annual data 1987 to 2009 (billions)



(Source: adapted from Office of Rail Regulation (ORR))

Evidence H

Passenger journeys
Great Britain annual data 1985-86 to 2008-09 (millions)



(Source: adapted from Office of Rail Regulation (ORR))

Evidence I

Commuters face overcrowding

Overcrowding on Britain's busiest train services will become worse because targets for increasing capacity on the rail network will be missed, an official inquiry warns.

Despite a £9bn investment programme, designed to double the number of places on trains, launched in 2006, failure to deliver extra seats will mean efforts to keep overcrowding at current levels will fall short.



By 2014, a 15% shortfall in additional places on London peak services means more people will have to stand. The situation is worse in other cities, where there will be a third fewer places than needed. Taxpayers would have to step in to meet the shortfall because train operators were not obliged to.

The inquiry also found that commuters were forced to pay for new services that did not even stop at their stations. South-east passengers had been hit with above-average fare rises to pay for 140mph high-speed Javelin trains many could not use.

A London School of Economics study also found millions of rail passengers are getting a slower service than 70 years ago. It found that decades of innovation had brought little benefit for passengers. A trip from Surbiton to Waterloo took 17 minutes before WWII, now the journey is two minutes longer; London to East Croydon takes 16 minutes, compared to 15 in 1939; commuters from Wimbledon fared worse, now 20 minutes compared to 17 in 1930; Victoria to Orpington takes 30 minutes – 6 more than it did in 1976.

(Source: adapted from *The Daily Telegraph*, 5 March 2009 and *The Independent*, 9 November 2010)