Market Failure – GCSE Economics

1. No.22

Define the term 'social cost'.

[2 marks]

Social Cost is the Sum of Private Cost and external Cost of either Consumption or Production.

2. No.25

Explain **two** possible external benefits of HS2.

[6 marks]

1 HS2 will reduce unemployment hence better Living Standards due to higher Incomes.

2 It would reduce road traffic Congestion hence faster movement of goods and factors of Production. This Leads to economic growth.

3. No.26

Do you think that the overall benefits of HS2 are likely to be greater than the costs?

Use **Items A and B** and your own economic knowledge to justify your view.

[15 marks]

HS2 will have both Private and external benefits Which is the Social benefits. To Start with, It will Lead to reduction of unemployment levels hence higher Incomes. In the longterm there will be less Congestion and less air Pollution.

Investment of HS2 will help reduce regional inequality such as the high unemployment rates of 5.6 in the North east. The incomes in the North East and East midlands would be improved from the current 28 444 and 29 796 respectively. Improvement of infrastructure would lead to growth in domestic product in the UK.

On the other hand, the high investment in the high speed railwayline would lead to externalities like pollution on the environment, the machine used in construction would cause

Extra space both noise and air pollution which lowers quality of life. Pollution may also lead to health problems to the population along the areas under construction.

The government expenditure would also lead to inflation hence reducing the purchasing power and reduction in real incomes hence affecting living standards negatively. In addition, the partial completion of the project will not have benefits to the North of the UK hence increased regional inequality. For example the low priced houses of £200172 and £147214 in North West and North East respectively

The overall benefits would be greater than the costs

If the government can invest in preventive measures to deal with the heath effects that can come with pollution.

In addition, the reduction in unemployment overall will lead to higher taxes ~~would~~ which would lead to more investment in the North of UK and bridge the gap of the economic inequalities.