

# CLASS EXERCISE

EE381/382

# EXERCISE 1

## INCREASING THE USE OF THE RAILWAYS

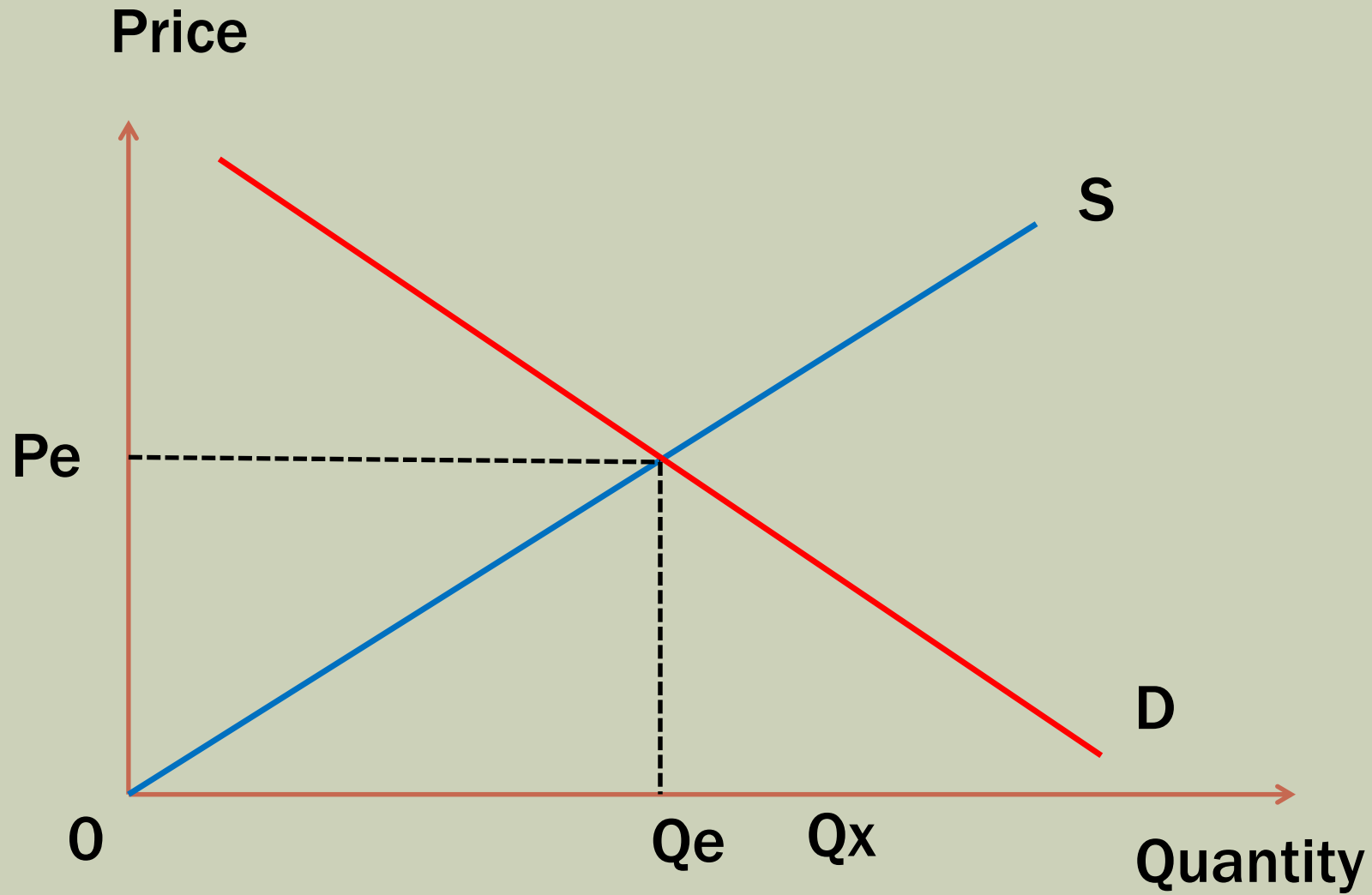
Almost without exception European governments have as one of their main transport policy objectives **an increase in the use of passenger rail travel**

The simple question is, using your new found knowledge of economics, how can these governments assist the market to achieve this aim? If we assume from Figure A that the government wished to see the quantity used of rail services increase from the current position of  $Q_e$  to the level indicated by  $Q_x$ , for environmental and social reasons.

- You should use this diagram as a basis to outline the various options available and consider both direct government intervention in this market as well as intervention in other transport markets that will bring about such a change.
- Further, assume however that the aim would be to increase the level of rail travel without causing a major modal shift from other public transport markets.

- You should illustrate each of your scenarios with a relevant diagram.
- You should also consider all of the implications of your decisions, particularly with regard to the political logic of some of the options.
- Of the scenarios that you have devised, which do you consider would be the most effective? 😊😊😊

# Increasing use of the railways



## EXERCISE 2

# DEMAND AND SUPPLY CURVES

The equation for a demand curve for the daily demand of a **particular bus service** is given by:

$$D=20-15P$$

And the supply curve by the equation:

$$S=10P$$

Where  $P$  is the price and both supply and demand are specified in thousands. Starting at a maximum price of £1.50 and reducing to zero in steps of 10p, **sketch out the demand and supply curves for this bus service.**

- a) What is the equilibrium price and quantity?
- b) If **a rise in the price of rail fares** is estimated to add a daily demand of ten thousand passengers at all prices, specify the equation of the new demand curve and find the new equilibrium price and quantity by adding the new demand curve to your sketch.
- c) From the original market demand curve, however, **a rise in incomes is predicted to reduce daily demand by five thousand passengers at all prices**. Again, specify the equation of the new demand curve and find the new equilibrium price and quantity