

# IB ECONOMICS – INTERNAL ASSESSMENT

## FRONT COVER

School code	Name of school
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<b>Candidate name</b>	Student B
<b>Candidate number</b>	
<b>Teacher</b>	
<b>Title of the article</b>	Truck Pollution Fine For Capital
<b>Source of the article</b>	Financial Times <a href="http://www.ft.com/cms/s/0/bc1c3456-d11f-11dc-953a-0000779fd2ac.html?nclick_check=1">http://www.ft.com/cms/s/0/bc1c3456-d11f-11dc-953a-0000779fd2ac.html?nclick_check=1</a> (accessed on: 4/2/2008)
<b>Date the article was published</b>	02/02/2008
<b>Date the commentary was written</b>	20/02/2008
<b>Word count (750 word maximum)</b>	716
<b>Section of the syllabus the article relates to (please tick the one which is most relevant)</b>	<input checked="" type="checkbox"/> Section 1: Microeconomics <input type="checkbox"/> Section 2: Macroeconomics <input type="checkbox"/> Section 3: International economics <input type="checkbox"/> Section 4: Development economics

FT.com / World - Truck pollution fine for capital

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FINANCIAL TIMES

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## Truck pollution fine for capital

By Bob Sherwood

Published: February 2 2008 02:51 | Last updated: February 2 2008 02:51

Hauliers have been warned to clean up their fleets or face a £200-a-day charge for every heavily polluting truck that enters London from Monday.

The capital's low emission zone scheme takes effect next week, requiring all commercial vehicles over 12 tonnes to meet strict European Union emissions standards.

### EDITOR'S CHOICE

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Diesel-engined trucks, coaches and buses with emissions that are too high will incur the £200 charge, with fines of £1,000 for those that fail to pay.

David Brown, managing director surface transport at Transport for London, said: "We have done a huge amount of work to inform operators that they will need to meet the low emission zone standards.

"Many operators have already taken action and a significant number of lorries driving in London already meet the emissions standards. We would urge the remaining operators to make sure they are ready.

The zone is far wider than the central and west London congestion charge area, covering every road in most of greater London, and will operate 365 days a year. The M25 orbital motorway is exempt, however.

It is the first such scheme in the country and the largest of its kind in the world.

Ken Livingstone, London mayor, who set up the scheme, said the levels of charges were set to encourage operators to clean up their vehicles rather than pay the charge regularly.

But business groups have attacked the scheme, claiming it will unfairly penalise small businesses that cannot afford newer vehicles. Many are also sceptical that it will do anything to cut pollution as it will have no effect on congestion in the capital.

The scheme will be widened to include lighter trucks over 3.5 tonnes from July and large vans and minibuses from 2010. The emissions standards could be tightened in 2012.

TfL has run a multi-media and direct mail campaign to warn drivers about the zone, with posters at roadsides and in the Eurotunnel, but the charges are still expected to catch out some hauliers.

Mr Livingstone said: "Thousands of Londoners suffer ill-health from pollution released by traffic fumes. This is why we are launching the London-wide low emission zone.

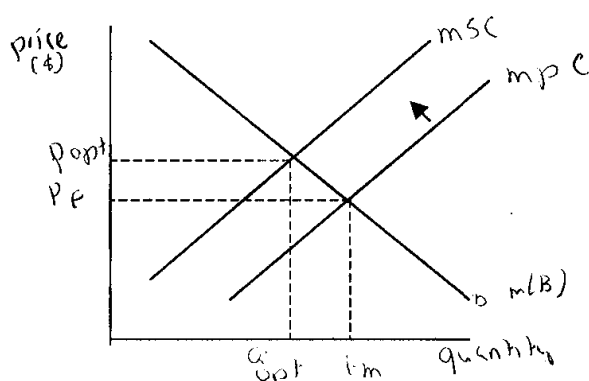
"It will improve Londoners' quality of life, and clean up London's air, which is currently among the most polluted in Europe."

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**Commentary on: Truck Pollution fine for Capital**

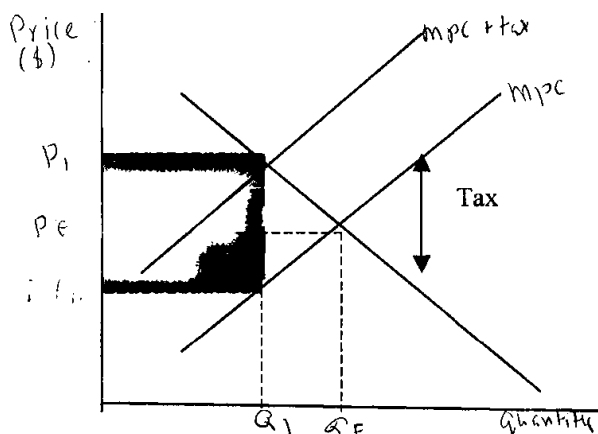
The following article talks about truck pollution in the London city limits due to an excessive amount of older trucks, which create a lot of pollution, going in and out for businesses. This creates negative externalities. Negative externalities are costs either from production or consumption, which affect a third party not involved in the original good. For example, a chemical factory finding a cure for AIDS, dumping waste in a nearby river, causing it to become polluted and people down the river to get sick and die after drinking the water, is a negative externality. Negative externalities are a type of market failure. A market failure is when the allocation of goods is not efficient. The following graph is an externality graph showing the negative externalities.



The graph above is a negative externality graph. It shows QE as the equilibrium with PE. However, due to the pollution it causes, the quality would want to decrease by not letting in as many trucks as before. This would lower the pollution, but would raise the price from PE to P1. The price will rise in order to compensate for the loss of quality supplied.

In order to prevent such a market failure, there are four possible methods available. The first one, being taxes. If taxes are put on vehicles going into the city limits which are a high source of pollution, then businesses may cut down the amount of trucks used, and therefore lowering pollution. However, this causes problems. The taxes are meant as a means to an end, however, businesses are deciding to pay the taxes and keep polluting. As mentioned

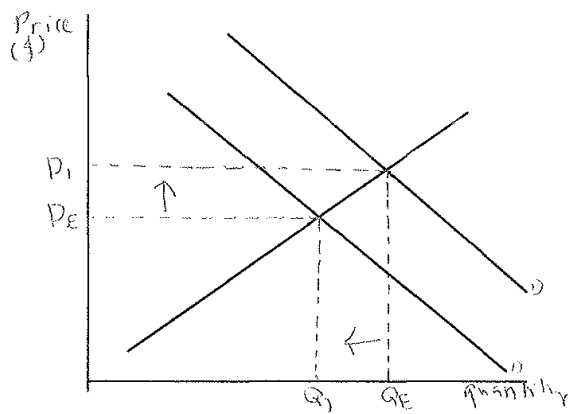
in the article. Since taxes is one of the main factors of supply, producer supply may decrease as it costs more to deliver the products.



In the diagram above,  $P_e$  goes to  $P_1$  as MPC goes to  $MPC + tax$  as taxes are included in the price. This causes the quantity to go from  $Q_e$  to  $Q_1$ . The green area shows the taxes paid by consumers, and the blue by producers.

This article, has short-term, and long-term effects. The short-term effects are mostly bad for the producers since it would require the producers to find another method of transporting goods or paying taxes and having to break the law and pay a fine. However, on the long run, the environment will benefit greatly, as there wont be as much pollution, and producers will have to be able to raise prices. In this article, multiple stakeholders are involved in the situation. Firstly, the producers are involved since it is them who need to change their ways of production. Meanwhile, small businesses may be run out of business, as they may not be able to afford to buy ewer trucks, and therefore to stop polluting as much. This is an unfair disadvantage since they still need o pay either the permits, fines or taxes. The consumers are also effected by this. This is due to the fact, that the demand for any one good will remain the same. However, due to taxes and laws, the supply will decrease, causing shortages. Furthermore, the government is benefiting from this scheme because any wrong doing or taxes, will be paid to the government. Meanwhile, the tax payers are also an important stakeholder. This is because, since pollution is bad for the environment and people are starting to get sick, the UK's healthcare will need to be more active. This means that there will have to be a rise in taxes in order to compensate the extra sick consumers. Overall, the most effective method to reduce pollution, is by selling the land and creating fines. This is

because, it will be harder for businesses to pollute areas without losing some total revenue. The total revenue is the amount of profit received after expenses are paid. The least effective method to reduce pollution, would be creating taxes. This is because, all producers need to do is raise the prices of their goods, and the taxes are compensated by a higher income. It would effect the consumers however.



On the graph above, it shows how consumers would be negatively effected by a change in price. As  $P_e$  goes to  $P_1$ , the quantity of goods demanded would decrease from  $Q_e$  to  $Q_1$  as the opportunity costs would be too high. An opportunity cost is a consequence of spending money on one thing rather than another.