In the course of this unit, you will learn about:

• The economic problem and its relevance to transport issues
• The factors of production that make up the production of all transport services
• The production possibility frontier and its illustration of the three concepts of scarcity, choice and opportunity cost
• The importance of transport to economic development
Most individuals have a basic need to travel from one location to another.

Modern life—structured around accessing goods and services that lie outside of the immediate vicinity of the home.

Transport services required
- to gain access to employment, education, leisure activities, personal care/health services as well as access to retail outlets for household goods such as food, clothing, electrical goods, books, CDs and so on.
• The development of the world wide web,  
  ─ has not, as yet, succeeded in turning the majority of individuals into computer geeks that need to get out more!  
  └ Transport therefore still has a key role to play in modern society.  

• This importance is further reflected in the link between transport levels and economic growth.  

• In the past this link has been very strong, as both passenger and freight transport play a vital role in the function of the economy, with strong growth normally associated with innovative transport solutions.
Transport issues that economics can shed light on

• congestion and the role of road pricing,
• the impact of traffic on the environment,
• the organisation of public transport services,
• the rise of low-cost airlines,
• the capacity of the rail network, or indeed ‘problems on the railways’ and so on,
Why transport has experienced major changes in recent years

• Governments worldwide have become increasingly aware of the need to introduce effective ways of containing the use of the private car, both as a means of tackling congestion and as a result of the negative environmental impacts its use entails.

• Transport in general and the movement of passengers and freight bring with its considerable negative impacts in terms of air pollution, noise and visual intrusion.

• There has also been regulatory change and a reduction in state ownership of transport companies in all areas of transport, from the rail and bus industries, to freight companies, and in the aviation sector.
What is Transport Economics?

– Economics is one of the social sciences, concerns the study of people and their actions.
– It is therefore about the production, distribution and use of society’s goods and services

• Transport economics is a branch of economics that deals with the allocation of resources within the transport sector. (American economist John R. Meyer)
• Transport economics could also be defined as the study of the movement of people and goods over space and time.
• It is a branch of economics that deals with the allocation of resources within the transport sector.
SCARCITY, CHOICE AND OPPORTUNITY COST

- Scarcity is defined as the main economic problem and apply both to the Third world economies or advanced economies.
- In simple terms individuals cannot have everything that they want because there is a finite limit on the resources that can be used to satisfy these ‘wants’.
- Any resource is therefore scarce,
- If individuals cannot have all that they want, then choices need to be made,
  – put simply every choice involves a cost.
- This will always be the next best alternative that could have had been selected when that choice was made. This is known as the opportunity cost of that decision.
• Thus if a particular society does not have sufficient resources to build both a new stretch of motorway and a new airport, it must make a choice between the two.

• If it chooses to build the motorway then the opportunity cost of the motorway is the airport that was not built.

• Opportunity cost therefore can be formally defined as the next best alternative forgone and is consequently not assessed using financial criteria.
These three concepts of scarcity, choice and opportunity cost can all be illustrated on what is known as a production possibility frontier.
ECONOMIC CHARACTERISTICS OF TRANSPORT

1. The most important characteristic of transport is that it is not really demanded in its own right.

   – People wish, in general, to travel so that some benefit can be obtained at the final destination. The trip itself is to be short as possible.

   – The demand for transport is therefore a derived demand.
2. Another characteristic is that transport demand takes place over space and time.

   – This distinguishes transport economics from other branches of economics.

   – Transport journeys are made over a particular distance between start and end points and take a particular amount of time.

   – The reality though is that this demand is not spread evenly throughout the network. This uneven demand can cause traffic congestion.
3. Transport is often divided into fixed and mobile component, the fixed component consist of infrastructure and the mobile component of vehicles and operations.
IMPORTANCE OF TRANSPORT IN ECONOMIC DEVELOPMENT

• Transport by itself is not sufficient condition for development; however, the lack of transport infrastructure can be seen as a constraining factor on development.

• The development of transport increases traveling and trade, especially in agricultural product. This contributed to the development of cities and ports.
• **Role in Production**: It enables the entrepreneur to assemble more easily the raw material and labour input needed to make a specific product.

  – The same transportation system moves intermediate goods to other producers for subsequent use in their production process, and it moves finished goods to the consumers. An efficient transport system enables Just in Time (JIT) production techniques. Components are delivered when needed reducing a firms stock levels hence unit costs.
• **Employment Opportunities**: Transport also contributes to economic development through job creation.

  - This can either be direct or indirect. Direct employment will be created in the industry itself, such as drivers, logistics managers and pilots. Indirectly, jobs are created in for example the insurance and financing industry, related to the assets of transport companies.
• **Geographical Specialization**: The development of transportation system has enabled regions to specialise in producing its most efficient output. Production and consumption of products can take place in two different locations.

• The bulk of the electronic products we use daily, such as television sets, is manufactured in the east and transported through ship to Africa.

• Substantial economies of scale have been achieved and these have resulted in reduced per unit production costs.
• **Trade:** Transportation has enabled countries to trade with other countries throughout the world. International transportation has led the way to more world trade, and it has enabled nations or regions to specialise in producing whatever it can do best (comparative advantage)

• **Tourism:** The airline industry has specifically contributed to the growth in the tourism industry, due to airline being fast, safe and relatively cheap. The car rental industry, likewise has also played a major role in tourism development. Currently tourism industry is the fastest growing industry in Namibia.
• **Others:**
  
  • Time Utility; Efficient transportation creates time utility by ensuring that products are at the proper locations when needed
  
  • Place Utility; The reduction in transportation cost between points A and B gives a commodity a place utility. This place utility will encourage market areas to purchase products from distant suppliers that might be locally produced
  
  • Quantity Utility; Transportation gives goods a quantity utility through the assurance that the goods will arrive without damage. This helps assure that the quantity demanded is the same as quantity delivered