

(d) Evaluate the argument that market failure can be solved by government intervention.

(20)

Market failure is the disallocation of resources and government intervention is the policies set out by the government in order to reduce market failure.

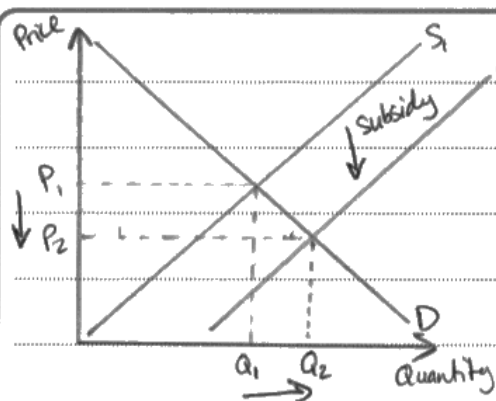
In the UK, there is a market failure for obesity which is claimed to be caused by sugary drinks and foods. The market failure occurred due to the lack of understanding of private and external costs of consumption which lead to a greater social cost than social benefit. The government could intervene by bringing in regulations and legislations on the amount of sugar consumption per each individual by limiting the available supply of these products.

The government can also introduce indirect taxes such as the ones on tobacco and alcohol. Such taxes increase the price of the product which would lead to a decrease in the quantity demanded where there is an elastic demand for the product.

Another possible government intervention is grants and subsidies. To reduce obesity in the UK, enhancing exercises and physical activity can improve the situation amongst with indirect taxation. A subsidy, money given by the government to an individual to spend it on a certain good or service, can be set up on gym memberships to get more people into working out and lowering the obesity rate.



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As seen on the diagram, a suitable subsidy by the government would lead to a decrease in the price of the product and an increase in the quantity demanded. This would result in a positive reaction to the government intervention and therefore ~~more~~ it is more likely to solve market failure.

However, there is a chance of fraud when giving free money to the public where the individual doesn't spend the money on the designated product which would then lead to government failure.

Also, regulations and legislations have to be enforced by the government in order for them to be effective but it is impossible, for example, to place a police officer next to every newspaper stand in order to avoid ~~underage~~ underage purchase of tobacco and alcohol products. The administration costs would exceed the social benefits which would make it very inefficient for the government.

Overall, there are several policies to deal with market failure. It all depends on how big the problem is where there is a market failure such as the UK obesity crisis and also how the government is able to intervene so that the problem is solved rather than making it worse.



which can then lead to government failure which means the UK government would then need to readjust its strategies to tackle the problem which can be costly and time consuming.

(Total for Question 1 = 50 marks)

**TOTAL FOR SECTION A = 50 MARKS**



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