

Paper Reference 8EC0/01
Pearson Edexcel
Level 3 GCE

Economics A
Advanced Subsidiary
Paper 1: Introduction to Markets and Market Failure

Monday 15 May 2017 – Morning

Data Book

In the boxes below, write your name, centre number and candidate number.

Surname					
Other names					
Centre Number					
Candidate Number					

INSTRUCTIONS

There may be spare copies of some data sheets in case you need them.

THIS DATA BOOK MUST BE RETURNED WITH THE QUESTION PAPER AT THE END OF THE EXAMINATION.

Contents

Page

SECTION A

- 4 Question 1
- 5 Question 2
- 6 Question 3
- 7 Question 3 (Spare copy)

SECTION B

- 8 Question 6
- 9 Extract A
- 10 Extract A continued.
- 11 Extract B
- 12 Extract B continued.

Question 1

Capital goods output (million units)	Consumer goods output (million units)	Opportunity cost
0	42	-
10	40	
20	36	
30	30	
40	22	
50	12	
60	0	

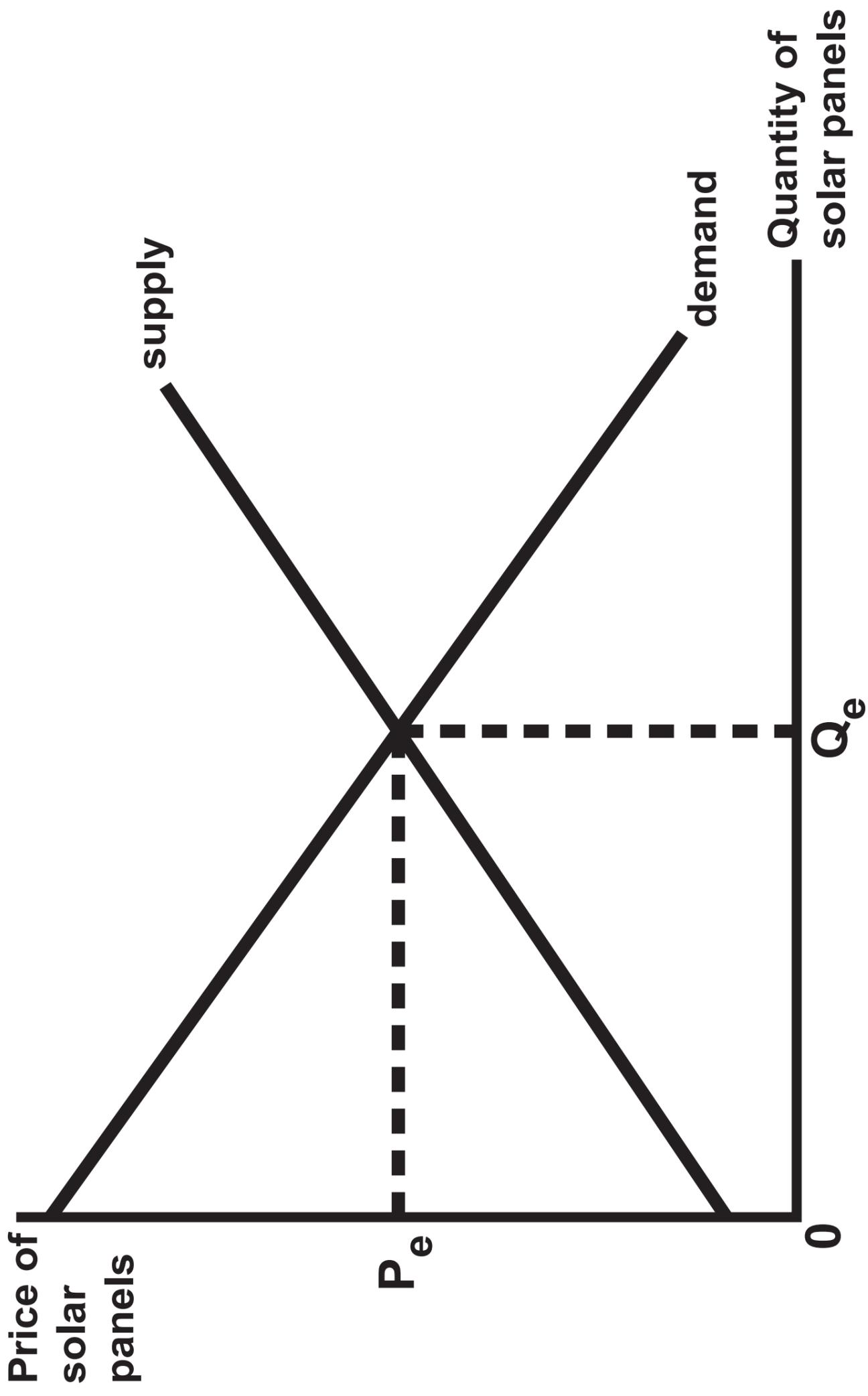
Question 2

Year	Wheat production (‘000 tonnes)	Index numbers of wheat production (2010 is base year)
2010	14878	100
2011	15257	
2012	13261	
2013	11921	80.1
2014	16606	111.6
2015	16129	108.4

(Source: adapted from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466383/farming-statistics-2015-wheat-and-barley-production-uk.pdf)

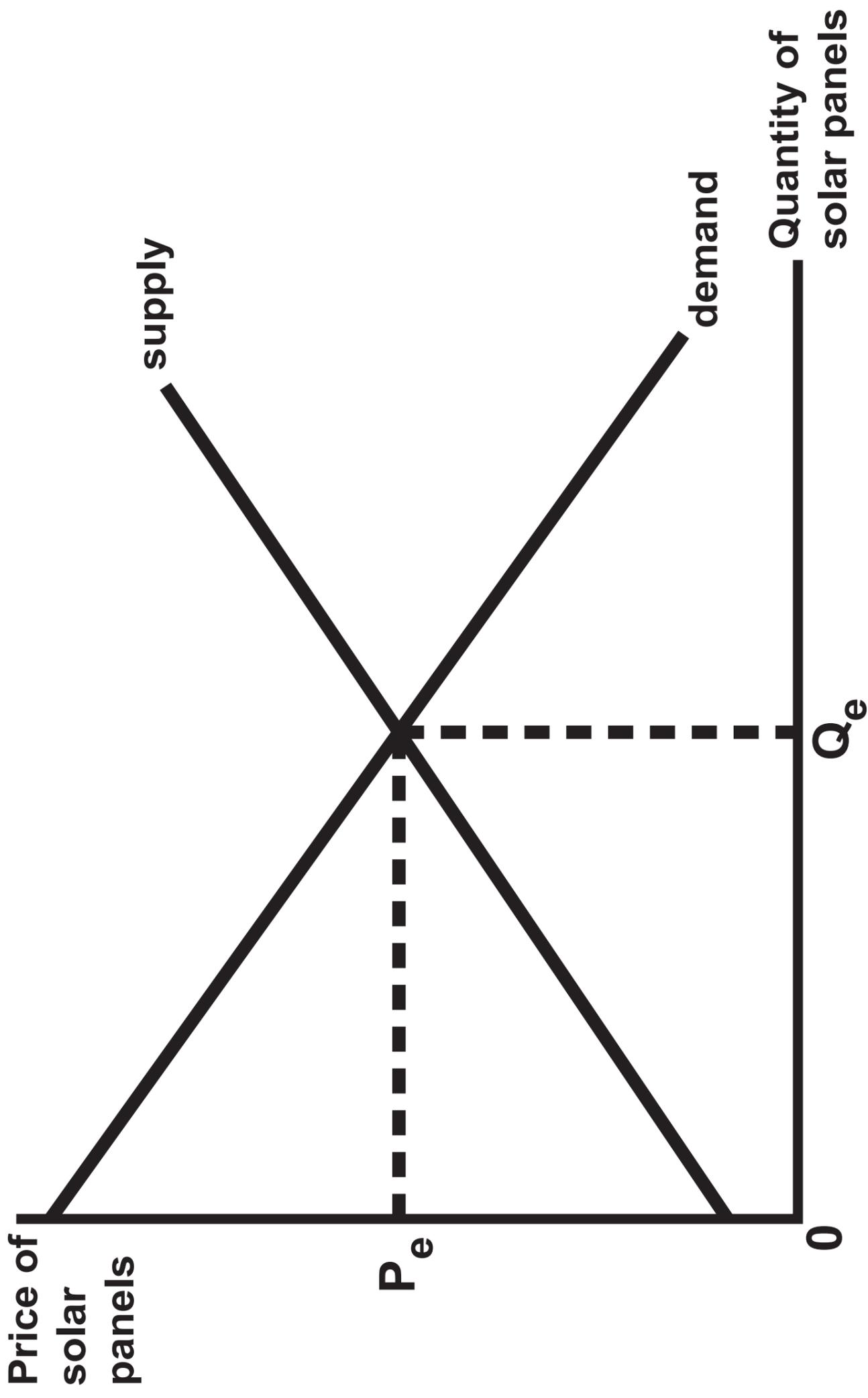
Question 3

Solar panel installation market diagram



Question 3

Solar panel installation market diagram



Question 6

The market for cigarettes

Figure 1: Price elasticity of demand – a comparison between tobacco and e-cigarettes

<p>Price of packet of 20 tobacco cigarettes</p> <p>£7.70 – £9.50</p>	<p>Price of e-cigarette kit</p> <p>£9.99 – £19.99</p>
<p>Average price per tobacco cigarette</p> <p>48 pence</p>	<p>Single cigarette equivalent price of an e-cigarette</p> <p>7 pence</p>
<p>Price elasticity of demand for tobacco cigarettes</p> <p>-0.35</p>	<p>Price elasticity of demand for e-cigarettes</p> <p>-1.9</p>

(Source: adapted from <https://www.blucigs.co.uk/united-kingdom/kits/all-kits>)

Extract A

Government intervention on tobacco

There was a time when smoking was fashionable. Television and magazine advertisements glorified smoking. Everyone from your dad to your doctor smoked in all places – cars, restaurants and even hospitals.

- 5 Tobacco is still the single biggest cause of cancer in the world and the leading cause of preventable deaths. Nearly 80% of the 1 billion smokers worldwide live in low- and middle-income countries.

- 10 Bans on tobacco advertising, promotion and sponsorship can reduce tobacco consumption. Comprehensive smoking bans covering indoor workplaces, public places and public transport have been introduced in 48 countries.

- 15 Tobacco taxes are the most cost-effective way to reduce tobacco use, especially among the young and people in low-income groups. A tax increase that raises tobacco prices by 10% decreases tobacco consumption by 4% in high-income countries and 5% in low- and middle-income countries.

- 20 However, some 8 million people are expected to die each year by 2030 – because they have smoked tobacco or

(continued on the next page)

Extract A continued.

have been exposed to passive smoking. The use of alternative products such as electronic cigarettes (e-cigarettes) are gaining in popularity but information
25 about their effects is uncertain. Little research has yet been done about the long-term health effects of e-cigarettes and the nicotine dispensed by e-cigarettes is highly addictive. The illegal tobacco market still counts for 1 in every 10 cigarettes consumed globally. In
30 addition, tobacco companies still spend tens of billions of dollars each year on advertising and promoting tobacco products and sponsoring events. They continuously challenge the regulatory measures governments are taking.

(Source: adapted from <http://www.who.int/topics/tobacco/en/> and <http://www.who.int/mediacentre/commentaries/reducing-tobacco-use/en/>)

Extract B

Free market approach

Are free markets incompatible with good health? If the solution to every problem involves banning advertising, raising prices and restricting availability, you might easily conclude that the free market is the disease and government regulation is the cure. From this perspective, the providers of food, alcohol and tobacco are determined to push the most unhealthy products on the public at the lowest prices.

Contrary to this viewpoint, the profit motive is not unhealthy. Businesses have an obvious incentive to keep their customers alive and customers have a strong incentive to seek out healthier options. Any company that can make a scientifically sound health claim gains a competitive advantage over its rivals. Health sells. In contrast, government regulation can lead to negative health outcomes. Markets can correct themselves long before government failures are even acknowledged. Over a million Britons, almost all of whom are smokers or ex-smokers, use e-cigarettes, as a less hazardous product than cigarettes and yet e-cigarettes face increased regulations and in many countries they are banned.

(continued on the next page)

Extract B continued.

It is neither consistent nor ethical to prevent smokers from switching to much safer alternatives. Efforts to regulate e–cigarettes are a far greater threat to public health than the products themselves.

We argue that the interests of consumers are nearly always better advanced by the provision of accurate information and free choice than by prohibitions and regulations. The government policy of small but steady tax rises on tobacco and ever–larger warning labels is becoming less effective and leads to unintended consequences.

(Source: adapted from <http://www.iea.org.uk/blog/free-market-solutions-in-health-should-be-allowed-to-flourish>, Christopher Snowdon, 11th July 2013)