

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.**

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Question 1

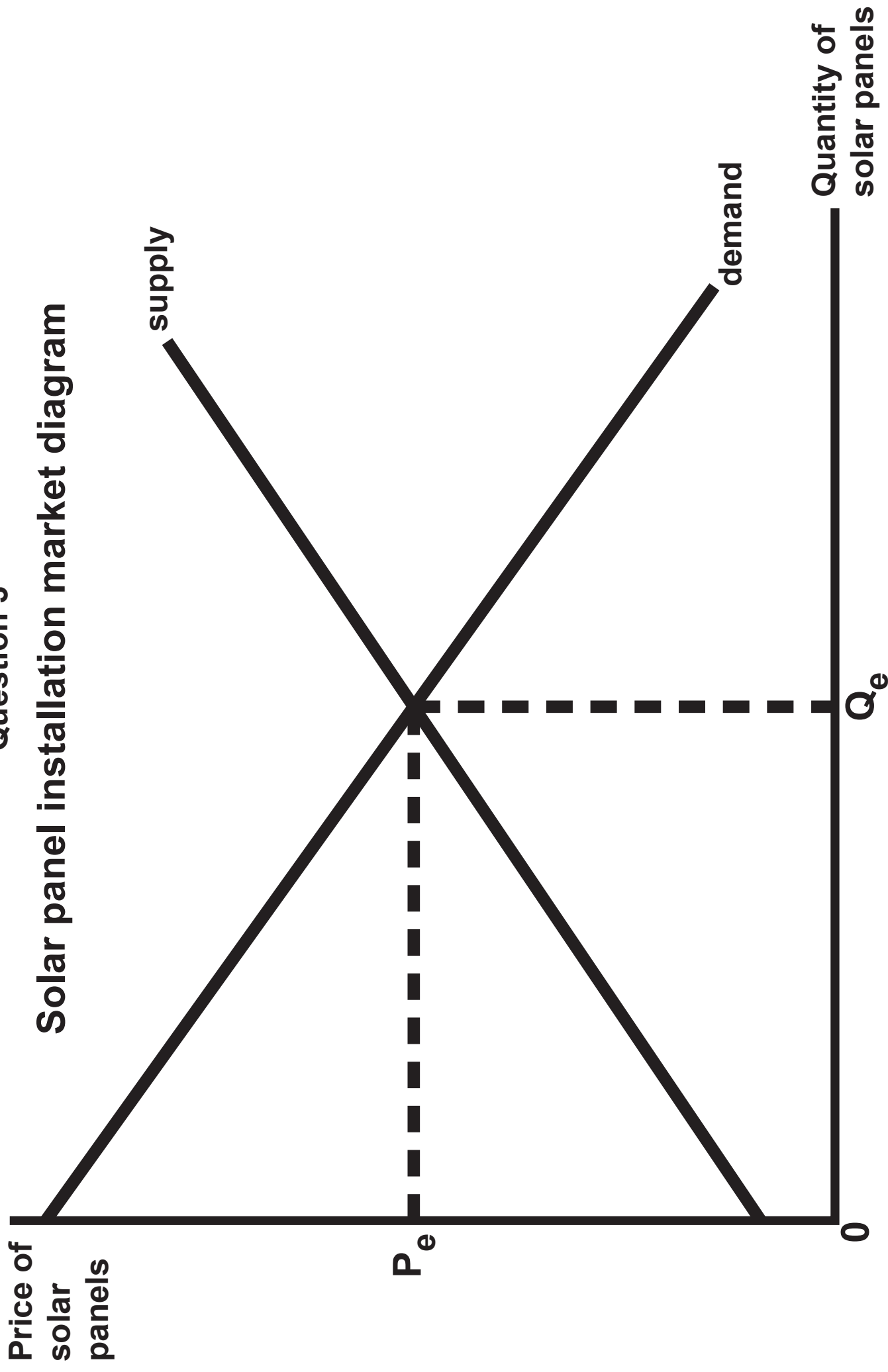
Capital goods output (million units)	Consumer goods output (million units)	Opportunity cost
0	42	–
10	40	
20	36	
30	30	
40	22	
50	12	
60	0	

Question 2

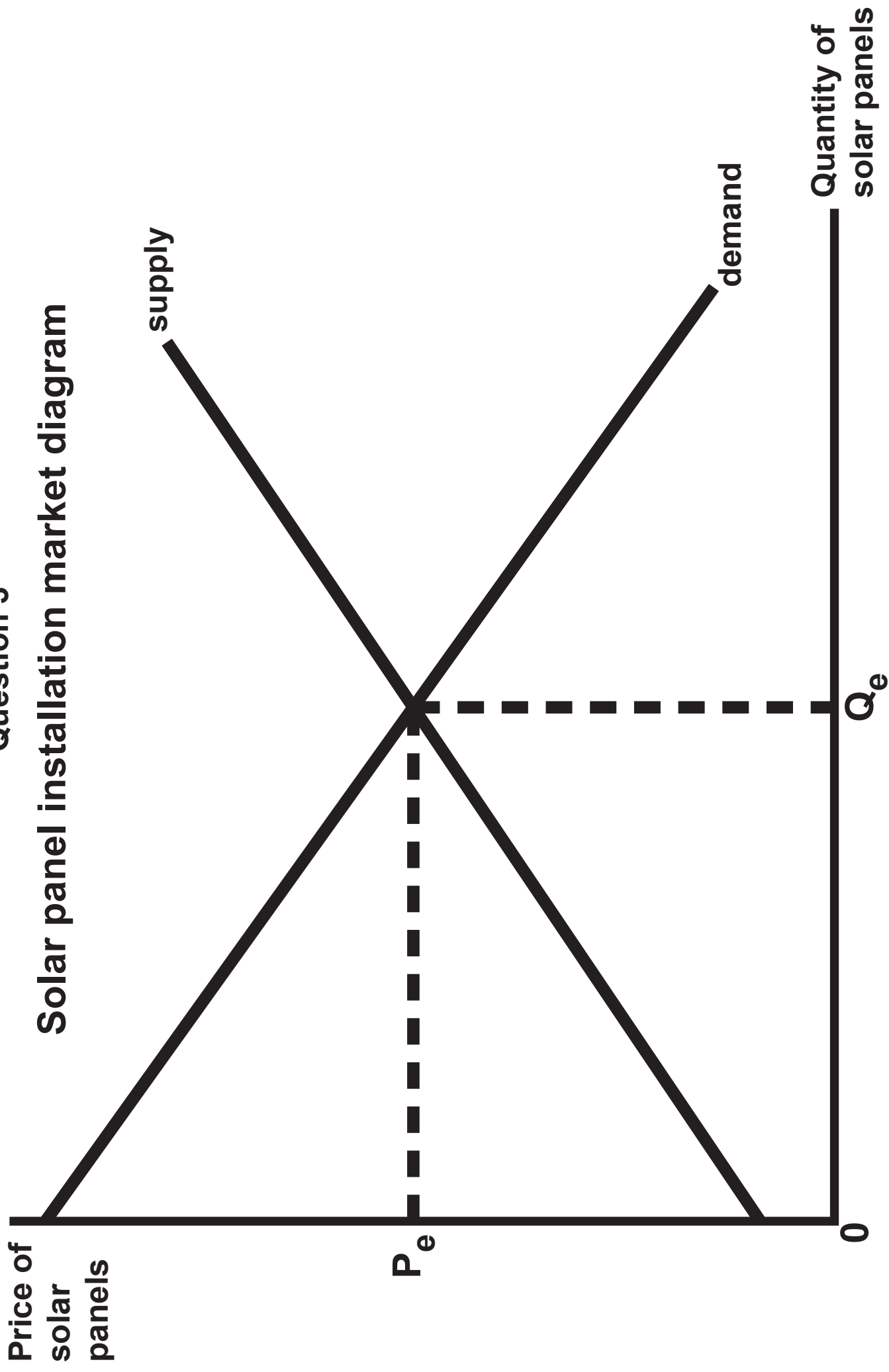
Year	Wheat production (‘000 tonnes)	Index numbers of wheat production (2010 is base year)
2010	14878	100
2011	15257	
2012	13261	
2013	11921	80·1
2014	16606	111·6
2015	16129	108·4

(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



Question 3



Question 6

The market for cigarettes

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

Price of packet of 20 tobacco cigarettes £7·70 – £9·50	Price of e-cigarette kit £9·99 – £19·99
Average price per tobacco cigarette 48 pence	Single cigarette equivalent price of an e-cigarette 7 pence
Price elasticity of demand for tobacco cigarettes –0·35	Price elasticity of demand for e-cigarettes –1·9

(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
5 even hospitals.

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
10 middle–income countries.

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

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

(continued on the next page)

Extract A continued.

that raises tobacco prices by 10% decreases
20 tobacco consumption by 4% in high-income
countries and 5% in low- and middle-income
countries.

However, some 8 million people are expected
to die each year by 2030 – because they have
25 smoked tobacco or have been exposed to
passive smoking. The use of alternative products
such as electronic cigarettes (e-cigarettes) are
gaining in popularity but information about their
effects is uncertain. Little research has yet been
30 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 addition,
35 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

5 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.

10 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.

15 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.

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Extract B continued.

- 20** 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.
- 25** 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.
- 30** 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
- 35** 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 Snowden, 11th July 2013)