



## **Economics Questions By Topic:**

### **Market Failure (1.3)**

### **A-Level Edexcel Theme 1**

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5 Market failure arises in a free market economy when:

(1)

- A prices fall in response to an excess supply.
- B public goods are under-provided.
- C firms exit a market.
- D government intervention leads to a misallocation of resources.

Answer

Explanation

(3)

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**(Total for Question 5 = 4 marks)**









9 Dentists working in a market economy may undertake non-essential dental work on patients. A likely explanation for this is:

- A dental care is a public good
- B the existence of asymmetric information
- C significant external benefits result from dental care
- D there is a shortage of dentists

(a) **Answer**

(1)

(b) **Explanation**

(3)

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**(Total for Question 9 = 4 marks)**

**End of Section A**

## Section B

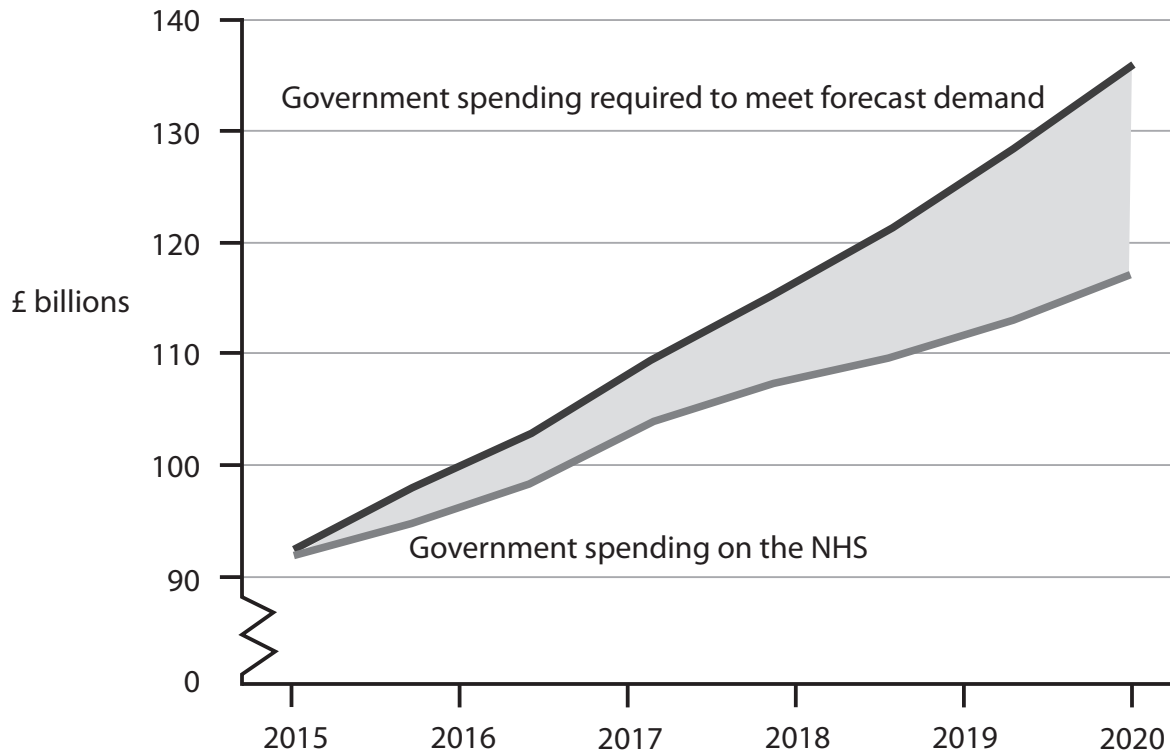
Read all extracts/figures before answering.

Write your answers in the spaces provided.

### Question 10

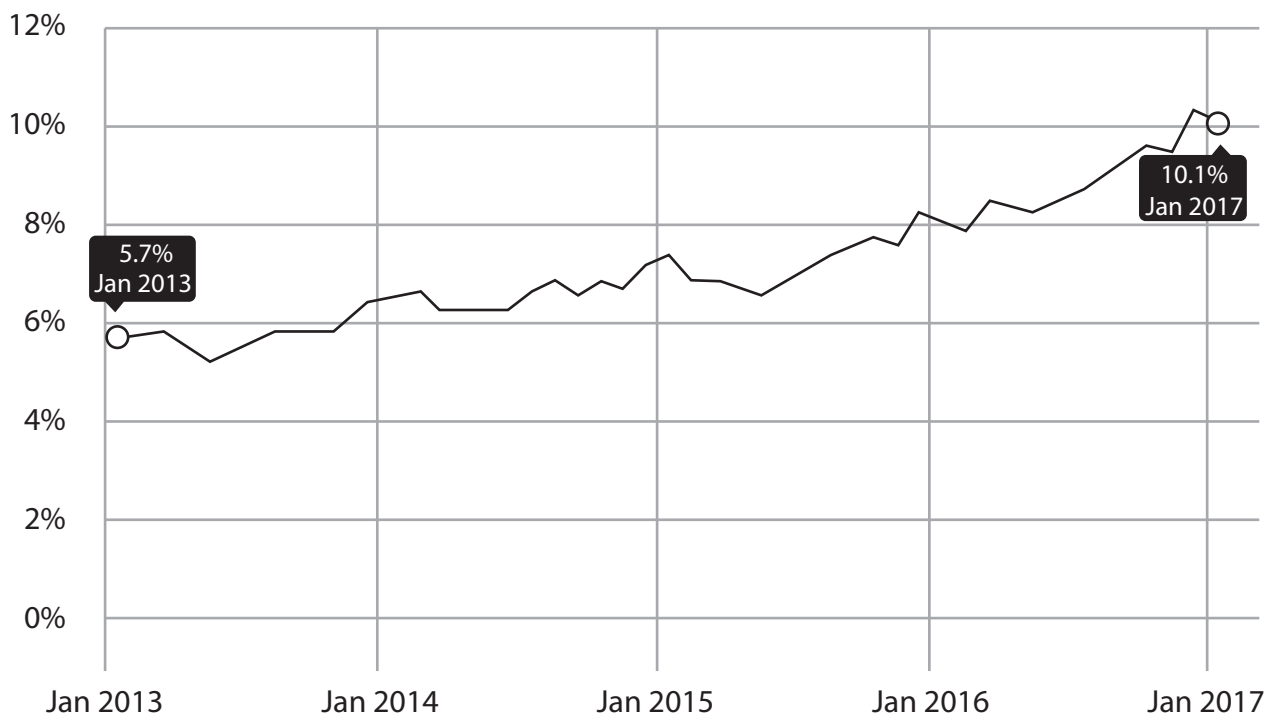
#### Health provision

**Figure 1: National Health Service (NHS) in England: Government spending and projected funding gap, £ billions, 2015 to 2020**



(Source: <https://www.economist.com/news/britain/21706563-nhs-mess-reformers-believe-new-models-health-care-many-pioneered>)

**Figure 2: Percentage of NHS patients in England waiting over 18 weeks for non-emergency treatment**



(Source: <https://www.statista.com/chart/8813/more-and-more-people-made-to-wait-by-the-nhs/>)

### Extract A

#### Hospitals already full

National Health Service (NHS) managers' warned that bed occupancy rates are approaching 99% in some parts of the country, compared with recommended levels of 85%. In 2017 the number of patients waiting for non-urgent treatment passed the four million mark, the highest figure for almost a decade.

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The chief executive of the NHS suggested that waiting list targets for routine operations such as hip and knee replacements would have to be sacrificed in order to protect other services, including accident and emergency (A&E) and cancer care.

However, the government has insisted waiting time targets must still be met. Recently the Chancellor awarded the NHS £2.8 billion over three years, including £1.6 billion in 2018 - less than the £4 billion which NHS officials had asked for to keep up with an ageing population and new medical technologies.

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NHS managers said there was now very little spare capacity in the system, warning of shortages of paramedics, doctors, A&E consultants and nurses.

(Source: adapted from <http://www.telegraph.co.uk/news/2017/12/07/hospitals-already-full-bursting-pressures-mount-warn-nhs-chiefs/>)

## Extract B

### How health care is funded

Most countries have a mixed economy of health provision typically funded from taxation, patient fees and private health insurance.

The NHS was launched in the UK in 1948 to ensure direct state provision by the government of health care 'free at the point of use'. The NHS is mainly funded from general taxation. However, some NHS patients pay for some of their medical care, such as prescriptions to buy medicine. 5

In the ongoing debate about how best to fund the NHS, some people have proposed introducing a £12 charge for visiting a General Practitioner (GP) doctor. Proponents argue that such a charge would deter overuse of GP services by those who do not have genuine health needs. It would also raise additional money for the NHS and create incentives which will stimulate innovation and more choice. 10

Estimates suggested that a £12 charge on the 450 million visits a year to GPs could have raised enough to cover hospitals' overspend in 2016. Based on exemptions for prescriptions, 90% of patients will not be charged including the elderly, children and low income groups. There would also be administrative costs of collecting the charge and verifying exemptions. These arrangements would significantly reduce the amount a charge would generate, assuming no one paying would be dissuaded from visiting their GP. 15

The proportion of people in the UK taking out private health insurance (PHI) to pay for private health care has increased to 10.6%, despite significant increases in the prices of treatment in private hospitals. Some economists argue that the government should provide subsidies to encourage people to take out private health insurance. This would reduce the burden on the NHS by taking some people out of the state system. Furthermore it is argued that private health care increases choice for users, encourages competition and drives up standards of care. 20

A typical PHI policy for a healthy 35-year-old costs about £650 a year but this rises steeply to £2 300 for those aged 70, when claims are far more likely. The level of contribution is based on their risk of requiring health care. PHI also tends to incur high management and administrative costs due to the resources required to assess risk and claims. Also there is the possibility of market failure given asymmetric information. 25

(Source: adapted from <https://www.kingsfund.org.uk/publications/how-health-care-is-funded>)

## Extract C

### Public parks are a public good

Public parks are places which people can use for free to exercise or to relax. Parkrun Limited organises free weekly runs in local parks attracting hundreds of joggers per park to enjoy healthy exercise. The government is proposing to ban local authorities charging Parkrun for the use of public parks to fund the maintenance of public parks. The government considers that it is appropriate for the public to pay a reasonable sum for the private use of a facility such as a tennis court or a football pitch which may be used exclusively. However, the government does not consider it appropriate for a local authority to charge a volunteer community group 'seeking to provide a free weekly event' for the use of a public park. Parkrun share the park with other park users. Although a running course may be marked out there is no restriction on other people using the park.

(Source: adapted from © Crown Copyright Running Free – Government consultation on preserving the free use of public parks, April 2017, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/608372/Parkrun\\_ConDoc.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/608372/Parkrun_ConDoc.pdf) and <http://www.telegraph.co.uk/news/2017/04/14/councils-banned-charging-runners-take-part-regular-saturday/>)





**(b)** 'Public parks are a public good' (Extract C, line 1). Assess this statement.

**(10)**

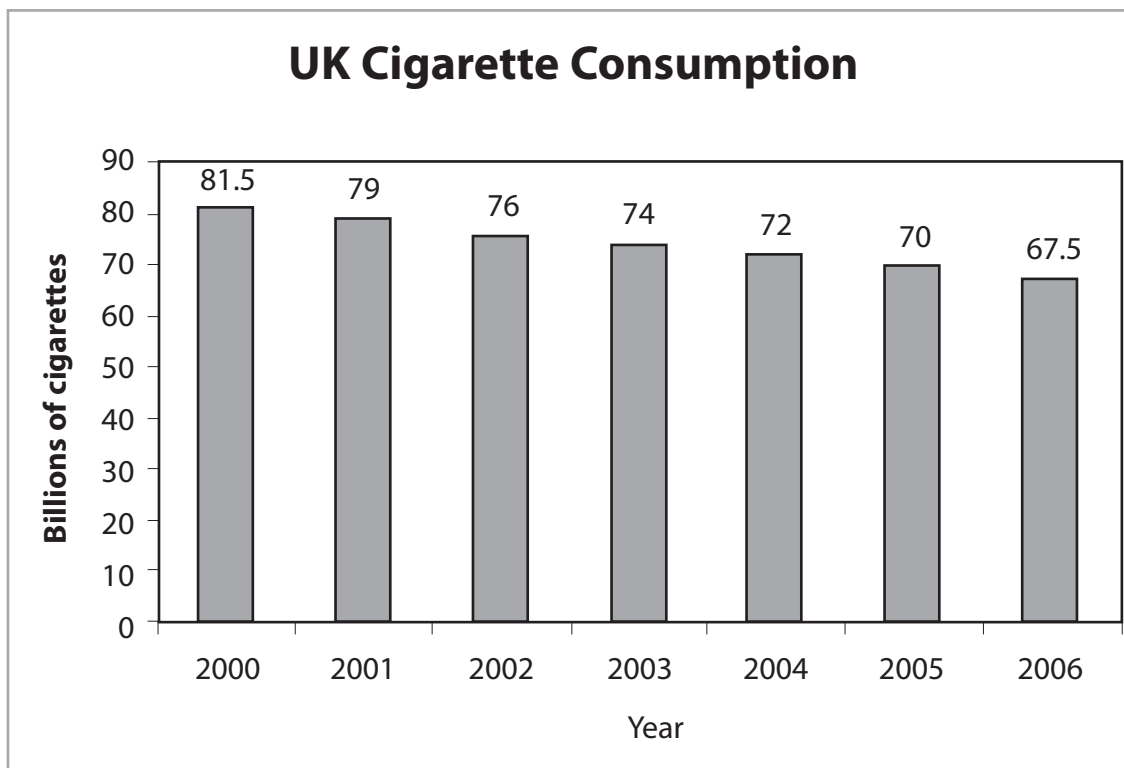
A series of horizontal dotted lines for writing the answer.

**(Total for Question 10 = 16 marks)**

## 11 The UK Tobacco Market

Figure 1:

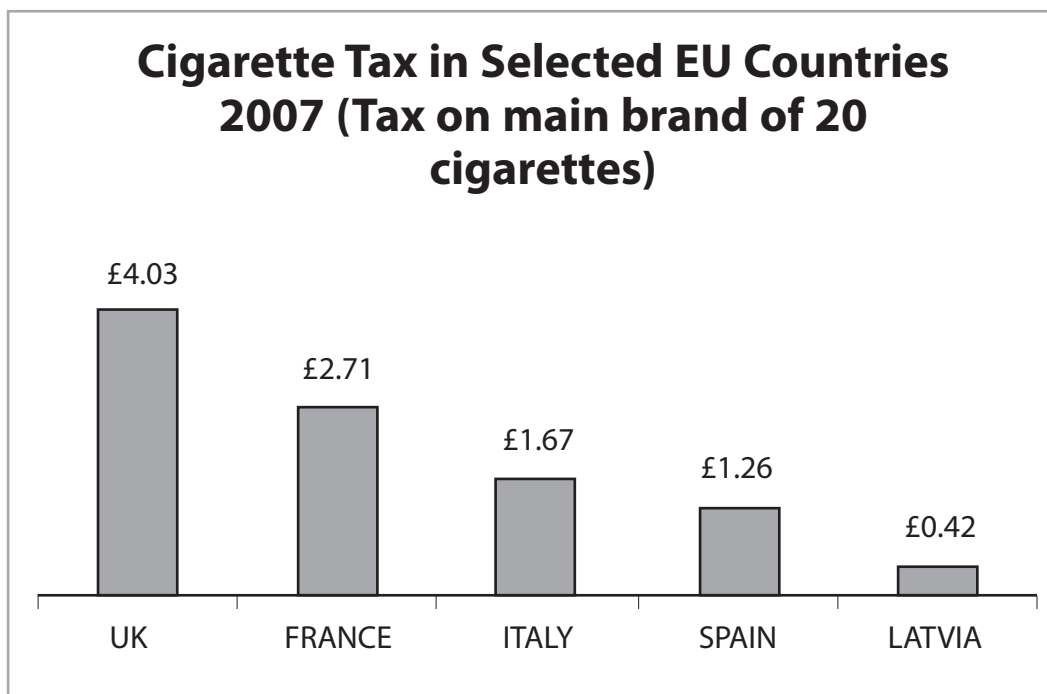
UK Cigarette Consumption (2000 – 2006)



(Source: [www.the-tma.org.uk](http://www.the-tma.org.uk))

Figure 2:

Cigarette Tax in selected EU countries (2000 – 2006)



(Source: [www.the-tma.org.uk](http://www.the-tma.org.uk))

### **Extract One**

### **Tobacco smoking in decline**

The government can be proud of its achievements in implementing strong tobacco control measures over recent years. The ban on tobacco advertising in 2003 and effective public health campaigns have helped smokers to give up. The ban on smoking in pubs, clubs and restaurants in July 2007 means the decline is set to continue.

However, smoking is hardly declining among socially disadvantaged groups. Currently, the government is unlikely to reduce health inequalities and in fact the gap is set to widen.

It is vitally important that the government increases measures to help poorer smokers to quit by widening access to 'stop smoking' treatments and maintaining funding of its mass media educational campaigns. The use of nicotine patches and gum, which are intended to reduce dependency on cigarettes, has helped many smokers give up. The government should also renew its efforts to reduce the illegal practice of tobacco smuggling which has encouraged smoking.

(Source: Adapted from Deborah Arnott, Director of the health campaigning charity ASH)

### **Extract Two**

### **Tobacco taxes too high**

The UK has a higher tax rate on cigarettes than any other European Union country and according to figures from Her Majesty's Revenue and Customs, as much as £25 billion in revenue has been lost since 2000 due to smuggling and cross-border shopping. The Tobacco Manufacturer's Association estimate that UK tax was not paid on 27 per cent of cigarettes consumed in 2006.

Despite the introduction of a smoking ban in pubs, clubs and restaurants in England in July 2007 more than twenty-five per cent of the adult population continue to smoke. Many pubs, clubs and restaurants have invested in comfortable outdoor smoking areas in order to keep as many customers as possible.

The minimum legal age of sale for tobacco was increased from 16 to 18 years of age in October 2007 but this seems to have had little impact on reducing the numbers of young people who smoke, according to a Trading Standards survey in North West England. It found that many young people are still able to obtain tobacco from the informal economy, for example, street markets or neighbours.

(Source: The Tobacco Manufacturer's Association)

**11** To what extent might asymmetric information exist in the tobacco market?

**(6)**

A series of horizontal dotted lines for writing the answer to Question 11.

**End of Section B**

**(Total for Question 11 = 6 marks)**