



ADVANCED SUBSIDIARY GCE

ECONOMICS

Market Failure and Government Intervention

2882

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- Designated Answer Booklet [2882/AB]

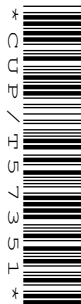
Other Materials Required:

None

Friday 16 January 2009

Morning

Duration: 1 hour



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Write all your answers in the separate Answer Booklet provided.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).
- This document consists of **4** pages. Any blank pages are indicated.

Answer **all** parts of this question in the accompanying answer booklet

Government Spending and the National Health Service

In the financial year 2006-7, government spending in the UK economy amounted to over £550 billion. This represented significant intervention in what would otherwise be a free market economy.

Government spending supports a wide variety of activities ranging from defence, overseas aid, education and the National Health Service (NHS) to spending on lighthouses. The NHS accounts for over £90 billion of total government expenditure, and includes spending on new hospitals, the salaries of doctors, nurses and consultants and also the cost of medicines which are provided to patients.

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Whilst some patients, such as the elderly, receive medicines free of charge, others have to pay a fixed price of £6.85 for each item. The article below considers the implications of the Welsh Assembly providing free medicine to everyone in Wales.

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‘Welsh Assembly votes for free medicine’

Members of the Welsh Assembly have voted by 39 votes to nil to abolish charges for medicine. Welsh Health Minister, Brian Gibbons, said that free medicine would particularly benefit those people on low incomes and added that “the main reason for providing free medicine was to ensure that people are not put off getting the medication they need due to cost”. The Welsh Assembly has estimated the cost of free medicine to be around £29.5 million in the first year, although such spending would significantly reduce inequality.

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This move has been criticised by drug manufacturers who claim that it could lead to a reduction in funding for new medicines. Others, such as the Association of the British Pharmaceutical Industry, said that if free medicines were introduced, demand for medicines would increase. This might also put pressure on the Assembly’s budgets and the hospital building programme.

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Nevertheless, whilst the exact impact of the policy remains to be seen, there will be many people in Wales celebrating the end of these charges.

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Adapted from BBC News at <http://news.bbc.co.uk>, 23 January 2007

- (a) (i) Define the term 'merit good'. [2]
(ii) Explain why lighthouses are often described as a public good. [2]
- (b) (i) Define the term 'external benefit'. [2]
(ii) State and explain **two** external benefits which arise from the consumption of healthcare. [4]
(iii) Explain why the existence of external benefits may give rise to market failure. [4]
- (c) One policy option which may be used by a government to solve income inequality is to introduce a maximum price on products.
(i) Explain what is meant by a 'maximum price'. [2]
(ii) Using a diagram, analyse the impact of a maximum price on a market. [10]
(iii) Comment on the effectiveness of **one** other policy which could be used by a government to reduce income inequality. [7]
- *(d) In order to decide whether or not to build new hospitals, cost-benefit analysis may be used. Discuss how cost-benefit analysis could be applied to the building of a new hospital. [12]

[Total: 45 marks]



Copyright Acknowledgements:

Text

Adapted from *AMs vote for free prescriptions*, 23 January 2007 © BBC News, <http://news.bbc.co.uk>

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