



Theme 1 Sample Essays [Free Version]

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Expert Tuition Managing Director, Ahmed Alaskary, has put this revision pack together to help students with their A-Level Economics revision. Ahmed has over 10 years experience teaching A-Level Economics, with a particular expertise in the Edexcel examination board.

This pack is intended to supplement a students learning and **should not** be used as an alternative to thorough revision of the specification. The intention is to show students how they can apply their knowledge to exam-style questions. The essays are a combination of amended past papers (adjusted for the new specification) and other questions based on the specification.

We kindly ask that you do not distribute these notes. Essay packs are also available for Theme 2, Theme 3, Theme 4 & Paper 3. To get your hands on a copy of any of these, please e-mail enquiries@expert-tuition.co.uk or call us on 0207 060 4494. Please note, we offer block-purchase offers for schools and other educational establishments.

Marks Breakdown¹

5 Mark Question:

Knowledge 1, Application 1, Analysis 3

8 Mark Question:

Knowledge 2, Application 2, Analysis 2, Evaluation 2

10 Mark Question:

Knowledge 2, Application 2, Analysis 2, Evaluation 4

12 Mark Question:

Knowledge 2, Application 2, Analysis 4, Evaluation 4

15 Mark Question:

Knowledge 3, Application 3, Analysis 3, Evaluation 6

25 Mark Question:

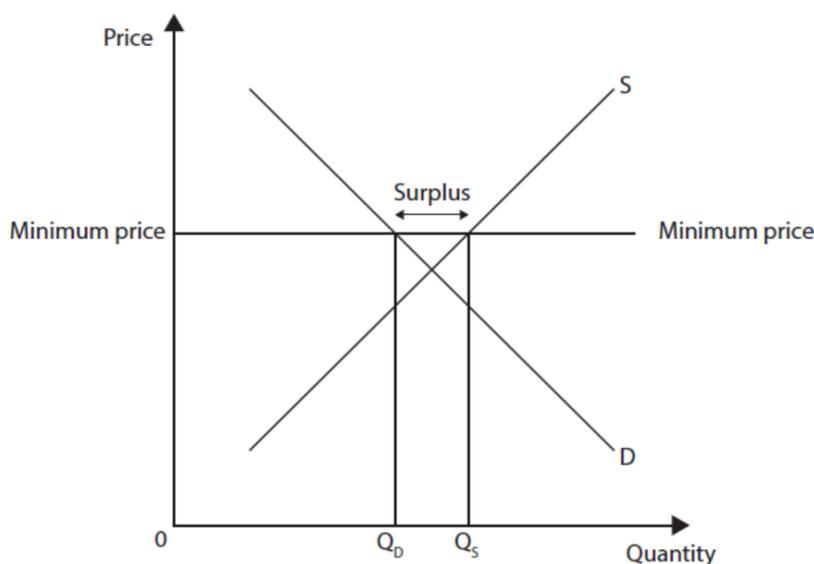
Knowledge 4, Application 4, Analysis 8, Evaluation 9

¹ We strongly recommend that students familiarise themselves with the mark scheme and in particular, as part of their revision, read through Examiner Reports for questions they find difficult when studying.

Evaluate whether a minimum price on sugar would be more effective than taxation to help deal with the obesity crisis in the UK [25]

The overconsumption of sugar has several negative implications for both individuals and the economy. A demerit good is one that is overprovided by the free market and yields external costs. An external cost is a negative third party spillover effect arising from a private transaction. In the case of sugar, individuals over-consuming it are likely to experience health problems such as diabetes and heart disease. As such, this would negatively impact productivity levels in the UK and add more strain on the NHS.

One argument in favour of using a minimum price scheme is that it would make sugar more expensive. A minimum price scheme is a legal minimum price that producers cannot sell below.

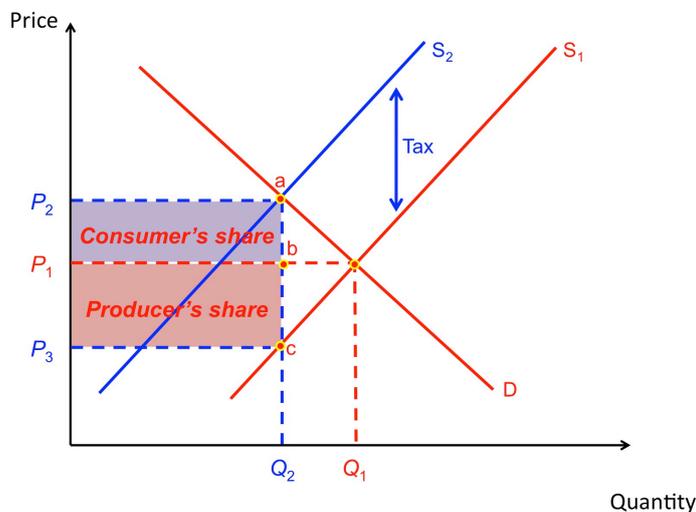


A minimum price would result in a contraction along the demand curve, as consumers have less incentive to buy at this higher price. As a result, there would be an excess supply of $Q_d - Q_s$ units. Initially, firms may produce Q_s units at this new higher price, but given that they can only sell Q_d units, they are likely to reduce production in the long run.

The reduction in the number of units bought from Q_e to Q_d helps to correct the market failure caused by an overconsumption of sugar. It would also make it more costly for firms who use sugar as part of their production process, and thus, reduce the level of sugar in their goods.

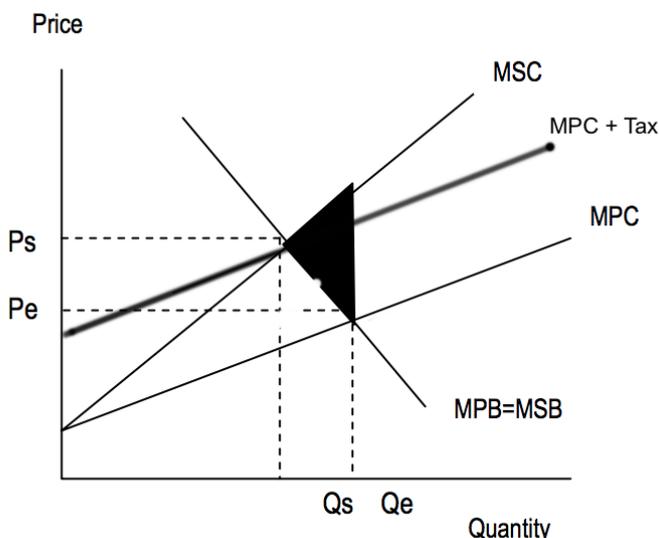
However, there are several issues associated with a minimum price scheme. Firstly, the price of commodities, such as sugar, tends to be quite volatile as they are vulnerable to external shocks such as adverse weather. As such, it is difficult for the government to set an appropriate minimum price. If the price were set below equilibrium, then it would have no effect on the market. This is because there would be excess demand for sugar, which would signal to the producer to raise their price. They would do so until it reaches equilibrium again, so the scheme would be ineffective. Secondly, if demand for sugar is price inelastic, then the scheme would be less effective. This is because consumers would be willing to pay a higher price and thus consumption will not fall substantially.

An alternative approach is to place a specific tax on sugar. An indirect tax is one that is levied on goods and services.



The imposition of an indirect tax causes the supply curve to shift inwards from S_1 to S_2 . As a result, prices rise from P_1 to P_2 and quantity falls from Q_1 to Q_2 . By increasing the costs of production for firms which use sugar, it incentivises them to turn to healthier alternatives or to cut the amount of sugar they use in their ingredients.

Another benefit is the tax internalises the external cost associated with sugar consumption and production.



The tax increases marginal private costs and results in a decrease from the market equilibrium quantity Q_e to the social optimum quantity Q_s . This results in a more efficient allocation of resources and helps to correct the market failure.

Furthermore, the most significant benefit associated with taxation is that the revenue generated can be hypothecated². Unlike a minimum price scheme, the government collects tax revenue, which it can then spend to deal with the obesity crisis. For example, the revenue could be used to subsidise gyms making it more affordable for people to exercise. They could also use the money for an awareness campaign to alter consumer behaviour and reduce the level of asymmetric information.

However, the success of an indirect tax depends how large the tax placed is. If the tax is small, then it may not provide enough incentive for firms to cut out the amount of sugar they use.

Also, such a tax would be regressive, as it would negatively impact low-income households more given that it would represent a larger proportion of their spending. As such, the tax would result in increased income inequality and thus government failure would occur. This is where government intervention results in a net welfare loss compared to the free market solution.

² This basically means it can be spent back on the original problem. For example, if they tax petrol to reduce pollution, they could use the tax revenue to subsidise public transport.

Finally, the impact depends on whether sugar is a large proportion of the ingredients used in unhealthy foods such as chocolate. If other components, such as milk account for a larger proportion of the costs, then an increase in sugar prices may not have a significant impact on the market.³

In conclusion, although a minimum price scheme does have some advantages in helping to deal with the obesity issue in the UK, a tax on sugar would be more effective. This is because, unlike a minimum price scheme, the tax revenue collected could be hypothecated to help deal with the issue. The overconsumption of sugar is only part of the obesity crisis, and so, spending to educate children and adults about healthy eating and subsidising gyms with the tax revenue would better deal with the issue at hand compared to a minimum price scheme.

³ *Extra evaluation: obesity likely to be caused by other factors, not just sugary food. For example, fatty food such as burgers and a lack of exercise are as big a factor as sugary food.*

Other essays in the pack include:

- **Evaluate the microeconomic effects of the government subsidising renewable energy. Use an appropriate diagram in your answer [25]**
- **Evaluate the likely private benefits and external benefits of university education. Use an appropriate diagram in your answer [15] [June 2012]**
- **Evaluate the impact of a guaranteed minimum price in the beef market on consumers and producers. Use an appropriate diagram in your answer [25] [AS Specimen Paper 1]**
- **Evaluate whether the UK government should introduce a maximum price on rent in the housing market [25]**
- **Using the concepts of external costs and market failure, examine the possible economic effects of farmers ‘burning more rainforest to turn land into cattle ranches and into fields for growing crops’. (Extract 2, lines 5–6). Use an appropriate diagram in your answer. [15] [January 2012]**
- **With reference to Extract 2 and your own knowledge, assess the benefits of a system of tradable pollution permits for reducing carbon emissions [15] [January 2013]**

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⁴ We offer block booking discounts for schools – please contact a member of our team for more detail