



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2011

Economics

Assessment Unit AS 1

Markets and Prices

[AE111]



WEDNESDAY 12 JANUARY, AFTERNOON

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in **all** questions.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following passage was written in **February 2010**.

Study it carefully and answer the questions which follow.

The NHS – A service in need of reform

| Year | Total NHS Spending (£bn) | Total UK Government Expenditure (£bn) |
|------|--------------------------|---------------------------------------|
| 2001 | 65.6 | 389.2 |
| 2002 | 68.1 | 421.1 |
| 2003 | 74.8 | 455.6 |
| 2004 | 82.2 | 492.5 |
| 2005 | 90.5 | 524.2 |
| 2006 | 99.4 | 550.1 |
| 2007 | 109.2 | 582.7 |
| 2008 | 115.6 | 620.7 |
| 2009 | 117.2 | 671.4 |
| 2010 | 119.4 (projected) | 701.7 (projected) |

© Crown Copyright HM Treasury

Fig. 1: NHS and total government spending 2002–2010

The National Health Service (NHS) prides itself on being the best and most equitable health system in the world, but the reality is much less impressive. A report published recently showed that the quality of care provided by the NHS falls way below most of our EU partners. The report also pointed out that patients in deprived areas of the UK are less likely to get treatments, such as hip replacements or heart operations, than those in more affluent areas. Indeed the report suggested that the gap in life expectancy between men in the most and least deprived areas is almost 10 years!

1

All of this is despite the huge increases in resources devoted to health care over the last 10 years, with health spending per head in the UK now approaching the EU average. The report stated that “the demand for NHS services will continue to grow over the next 10 years as a result of medical advances, rapidly rising obesity levels and an ageing population. Unless the government looks carefully at how the NHS is funded and managed we will continue to fall further behind the rest of the developed world in terms of the quality of our health service.”

2

The problem is that, despite the recent increases, the NHS has a finite budget which must be allocated between competing demands – a problem which forces it to ration treatments. In the past this has been done via queuing or priority setting. In addition it has been alleged that some doctors and medical staff have accepted unofficial payments to allow patients to jump queues. However, tighter government controls and targets on waiting times have forced NHS trusts to look at other methods of rationing. One increasingly popular option is to deny treatments to people with unhealthy lifestyles, with one in 10 hospitals refusing to carry out orthopaedic surgery on smokers. A senior NHS manager stated recently that “unless we deny access to groups such as smokers, heavy drinkers and the obese, we will not be able to provide quality care to those who really deserve it.”

3

However, one left-wing MP disagreed, claiming that “it is immoral and unjust for bureaucratic pen-pushers in NHS trusts to deny treatment to someone on the grounds that they enjoy the odd cigarette or pint of beer. Denying access to people with unhealthy lifestyles will impact upon the poor disproportionately as they are more likely to smoke or be obese.”

4

- (a) Compare the trend in NHS spending with that of total government spending between 2001 and 2010, as shown in **Fig 1**. [6]
- (b) Explain why the demand for NHS services is expected to grow over the next 10 years. (Paragraph 2) [6]
- (c) With the aid of an appropriate diagram, explain why merit goods such as health care are often under-consumed in a free market economy. [8]
- (d) Analyse some of the methods by which scarce NHS resources could be allocated between competing demands. [8]
- (e) Evaluate the view that it is wrong for the NHS to deny treatments to people with unhealthy lifestyles. [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4**.

2 “Government car scrappage scheme leads to increase in new car sales”

- (a) Explain what is meant by price elasticity of demand. [10]
- (b) Analyse what determines the price elasticity of demand for new cars. [15]
- (c) Evaluate the economic impact of the government car scrappage scheme which subsidises the purchase of new cars. [15]

3 “Government fails to meet pollution targets”

- (a) Explain what is meant by productive and allocative efficiency. [10]
- (b) Explain how negative externalities may cause firms in free markets to produce at levels which are not economically efficient. [15]
- (c) Critically examine some of the policies which a government could implement to reduce the negative externalities associated with such production. [15]

4 “The theory of demand and supply is flawed”

- (a) Explain what is meant by the market clearing (equilibrium) price. [10]
- (b) Analyse how a change in demand or supply in one market may have effects on other markets. [15]
- (c) Economic theory assumes that consumers will buy more of a product when price falls and less when price rises. Evaluate the view that this assumption is unrealistic. [15]