

**ADVANCED SUBSIDIARY GCE
 ECONOMICS**

2882/AB

Market Failure and Government Intervention

WEDNESDAY 4 JUNE 2008

Afternoon
 Time: 1 hour

Candidates answer on the Answer Booklet

Additional materials (enclosed): Question Paper 2882

Additional materials (required):
 None



Candidate Forename

Candidate Surname

Centre Number

Candidate Number

INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use blue or 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 spaces provided in this separate answer booklet.
- The space should be sufficient for your answers but if you require more space use the lined pages at the end of this answer booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

- The number of marks for each question 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 (*).

FOR EXAMINER'S USE	
TOTAL MARK	<input type="text"/>

This document consists of **6** printed pages and **2** lined pages.

(a) (i) Explain what is meant by the term 'social cost'.

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.....[2]

(ii) Identify **one** example of a private cost arising from smoking.
Explain why this is a private cost.

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.....[3]

(b) (i) Identify **one** example of a negative externality arising from smoking.
Explain why this is a negative externality.

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.....[3]

(c) "Governments around the world accept that cigarettes are a demerit good" (line 1).

(i) Explain what is meant by the term 'demerit good'.

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(ii) Using an example, explain how the provision of greater information can correct the market failure arising from demerit goods.

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.....[3]

(d) Regulation and minimum price controls are possible solutions to the market failure arising from negative externalities.

(i) State and explain **two** advantages of using regulation to correct market failure.

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(ii) Comment on the effectiveness of introducing a minimum price control as a solution to the negative externalities resulting from smoking.

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