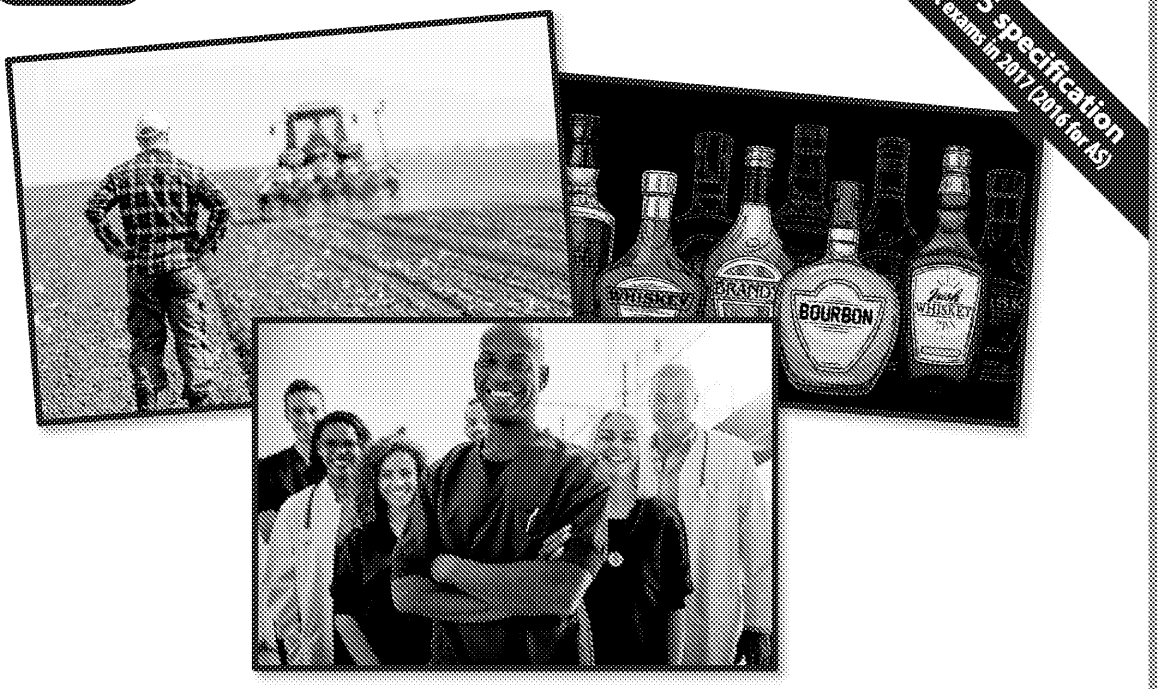
Zig Zag Education

Economics AS / A Level | Edexcel A | 8EC0/9EC0

2015 Specification
first exams in 2017 (2016 for AS)



Data Response Case Studies Volume 2 (2022)

Theme 1: Introduction to Markets and Market Failure

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Contents

Teacher's Introduction

The case studies in this series are designed to support students as they study the Edexcel module *Theme 1: Introduction to markets and market failure*. These case studies cover the Edexcel specification perfectly, and are designed as real-world contexts to complement the theoretical content of the module.

Remember!
Always check the exam board website for new information, including changes to the specification and sample assessment material.

Each case study contains:

- **Contextual information:** this is the body text of the case studies, providing the relevant information, facts and figures.
- **Data:** each case study contains data presented in a graphical format.
- **Data response questions:** for each case study, students are presented with two questions set in response to the data presented. Answers are included.
- **Test your knowledge questions:** for each case study, students are presented with two questions designed to mimic short-answer examination questions. Answers are included.
- **Extended-response question:** for each case study, students are presented with one question designed to mimic long-answer examination questions. Possible answers are included in summary form.

This resource is designed to be useful to students of all abilities. Students of the highest ability require up-to-date contextual information for use in examination, while for lower-ability students these case studies may complement class activity and help to ground theoretical content in real-world contexts.

These case studies are designed to be up to date for 2022 and provide as contemporary a snapshot of economic discussion as possible. However, it is likely that some themes which are relevant and topical at the time of teaching may not be included. It is therefore advised that these examples are used in tandem with the study of the most recent themes.

I hope this resource can contribute towards an engaging and rewarding learning environment. Best of luck with your teaching!

D Glover, November 2022

Elite specialisation: Toyota's taku

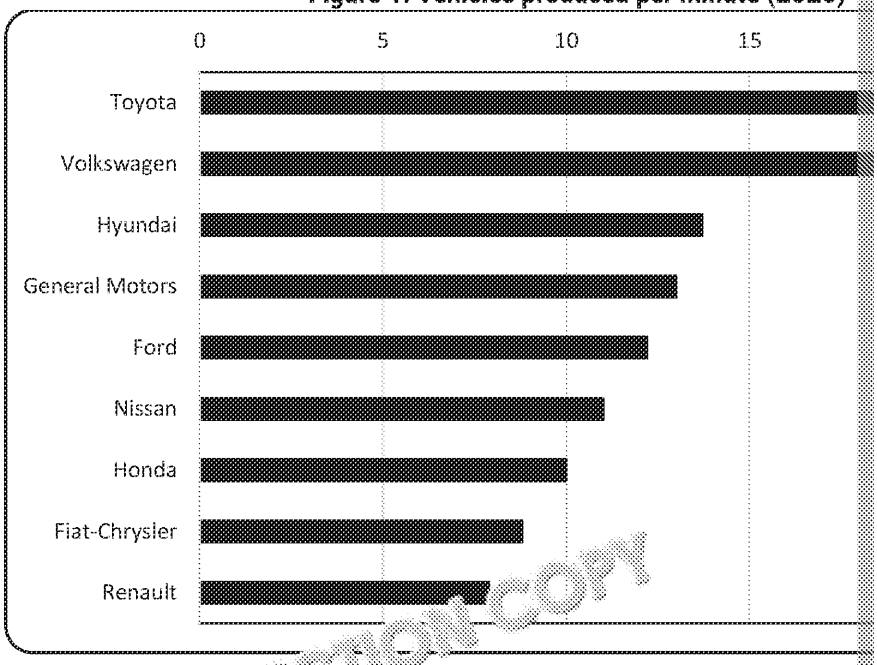
This case study requires knowledge of Section 1.1 – nature o

In the 2010s, Toyota definitively became the world's largest car company, overtaking US rival General Motors and German competitor Volkswagen. Like most car companies, Toyota operates a strict division of labour on its assembly lines to ensure each stage of production is conducted as expertly as possible. This helps to increase output while also reducing costs.

However, more unique to Toyota's approach is its investment in around 500 elite workers known as takumis. In Japan, a takumi – literally translated as an artisan – is a worker that has spent at least 60,000 hours refining their specialised skill.

The work of takumis has led to efficiency gains which are seen as critical to cutting productivity. The highly skilled employees are sent around the world to train staff an manufacturing inefficiencies. Many of Toyota's takumis are experts in robotics and methods of automation. Robots deployed on the production line are trained to perfe specialised workers, such as takumis.

Figure 1: Vehicles produced per minute (2020)[1]



Toyota's approach to s... is also pioneering: when workers are replaced on t... they are ret... and reallocated elsewhere in the company. Some may become sup... and are expe... take over from a malfunctioning machine to ensure there is no d... reallocation of workers ensures the company's sunk costs on employee training are ... to drive up productivity and output.

Toyota's emphasis on a highly specialised workforce, with an elite class of workers ... in the production process and driven down costs. Figure 1 highlights how Toyota ca... minute than any other car company in the world.

[1] Source: https://www.moneyshake.com/shaking-news/miscellaneous/minute-of-motor-manufacturin...

Use the data

1. Using Figure 1, explain the likely price elasticity of demand for Toyota's prod
2. Toyota sold 10.7 million cars in 2021. How many days would it take them to cars, and what does this tell us about Toyota's production levels?

Test your knowledge...

1. Show the effect of Toyota's strict specialisation, relative to a carmaker with of labour, using a production possibility frontier.
2. Show the effect of high worker productivity on a demand and supply diagra

Extended response question

1. Assess the costs and benefits of a firm introducing specialisation.

Inequity in free markets: UK housin

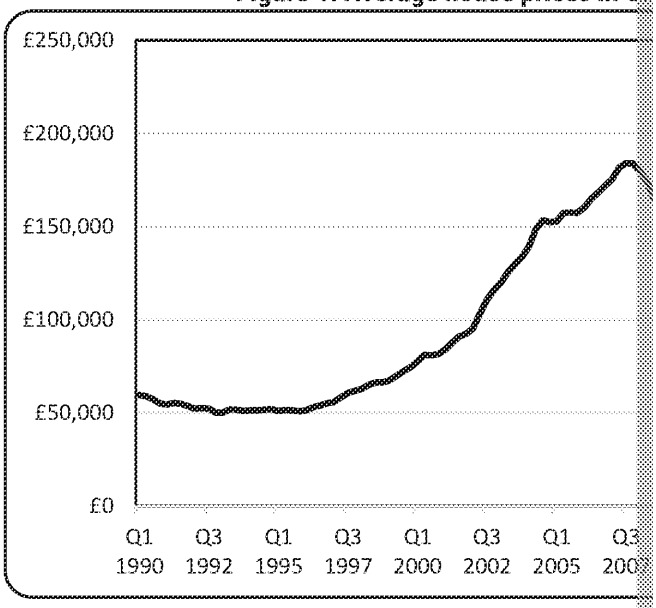
This case study requires knowledge of Section 1.1 – nature o

Rising house prices have been among the defining characteristics of the UK econom
1990 and 2020 house prices grew by almost 350%, compared to inflation of 130% a
over the same period. As a result, the average house is now worth 7.8 times the ave
leaving first-time buyers often saving for more than a decade before being able to a

There is a notable generational divide
In 1990, 67% of 25–34-year-olds own
declined t by 2014. For the 16–2
ha re luc rom 36% to 9% over the
82% of the UK's property wealth,
second home. Second home ownershi
with one in 10 people owning more tha
5.5 million houses are 'buy-to-let' pro
and mortgage costs pushing up the pr

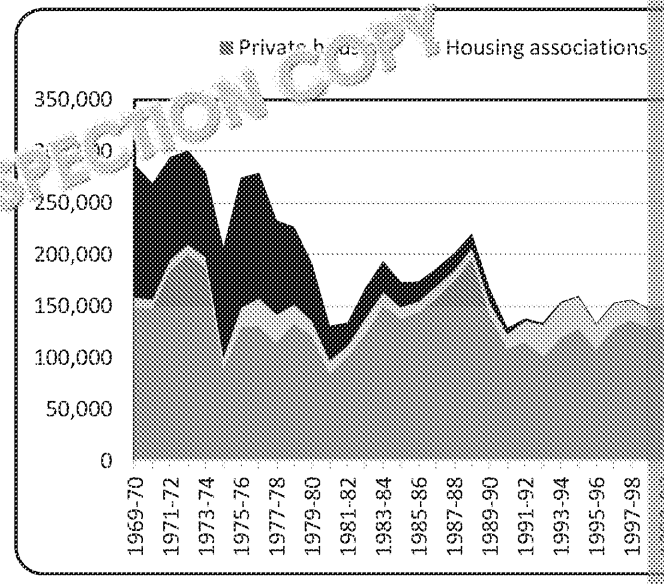
The rapidly rising prices can be attributed to a lack of housing supply. Figure 2 demonstrates that the supply of new housing has fallen since the marketplace has largely taken over the role of property construction. In the 1970s, when housing was built jointly by the market and the state (through local government), the supply of new yearly houses was almost double the level it is now.

Figure 1: Average house prices in U



The housing market in the UK could thus be seen as an example of the marketplace delivering an inefficient allocation of resources, and also failing to ensure equity among the population. Lack of access to pr creates a gr ocio-economic div between asset owners receiving rental income and workers reliant on wages to pay their rents. This can be seen as an example of market failure which produces a range of negative externalities.

Figure 2: New houses built in UK



Use the data

1. Using Figure 1 and information in the text, calculate the average income at
2. Figure 2 shows that in 1969 almost half of all housing built was council hous
   the impact of council housing construction on a supply and demand diagra

Test your knowledge...

1. Identify the positive statement and the normative statement, and explain th
2. Explain how housing might be managed differently in a command economy

Extended-response question

1. Assess whether free mar[illegible] are always the most allocatively efficient mea
   resource allocati[illegible]

Irrational consumers: financial mana

This case study requires knowledge of Section 1.2 – how m

Orthodox economics tells us that individuals are fundamentally rational and will ma
their own self-interest.

This basic tenet of economics is challenged by a more recent field of study: behavio
findings from psychology in their research, the behavioural economists argue that c
economic decisions lacking any rational basis due to inherent emotional responses

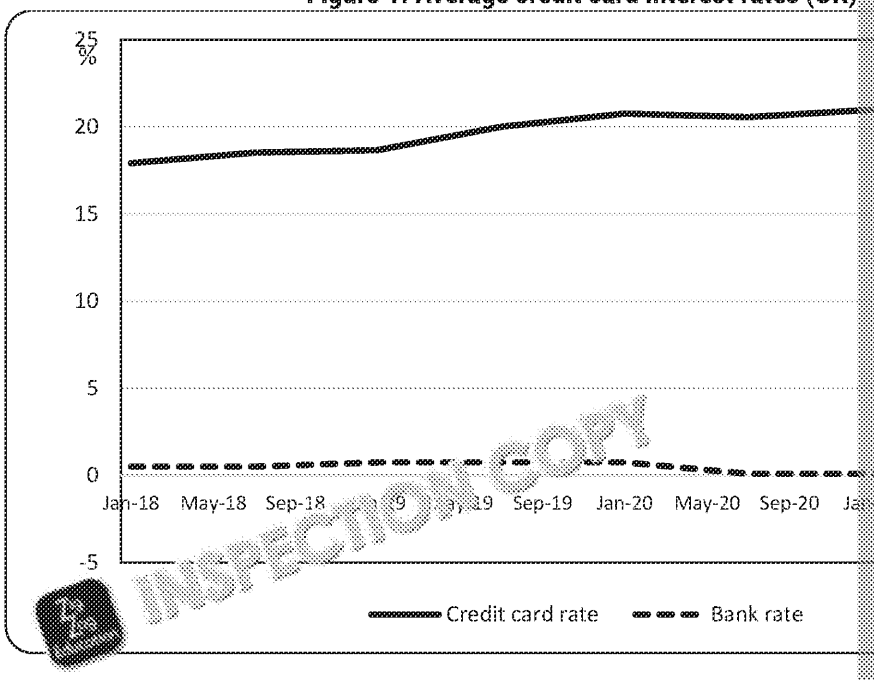
One area in which consumers often make poor or irratio[illegible]ons is banking. Many consumers struggle with unmanageable personal debts as a result of engaging in excessive spending or unsustainable borrowing – activity triggered by emotional impulses rather than rational choices.

Consumers tend to be more averse to losses than enticed by gains, meaning they favour saving over investing even when returns on savings are tiny and investments carry minimal risks.

Moreover, consumers frequently make financial decisions based on incomplete info
misunderstanding of how financial markets work, which further contributes to poor

Figure 1 shows how the average interest rate on credit cards has been at historic hi
that the Bank of England's base interest rate has seen historic lows. Rational consu
choose to finance their spending through much cheaper forms of borrowing, yet the
number of credit cards issued in the UK over the same period.

Figure 1: Average credit card interest rates (UK)



In recent years, the Financial Conduct Authority (FCA) has encouraged the use of so
among retail banks to improve consumers' financial decisions. By presenting inform
banks can bypass the hardwired cognitive biases of their customers and instead en
financially beneficial to them.

There are signs that some new online-only competitors, such as Monzo and Starling
such an approach. Customers of the new competitors credit them with improving th
reduce their debts, and as a result the online banks tend to score much more highly

Use the data

1. Calculate the average interest on a credit card bill of £1,300 in September 2
2. Give **one** possible reason why credit card interest rates might be so high.

Test your knowledge...

1. What other action could the FCA take to reduce personal financial mismana
2. Explain **two** types of 'choice architecture' advocated by behavioural econon

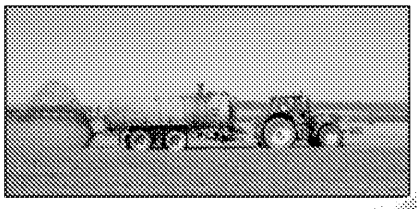
Extended-response question

1. Assess the merits of rational choice theory.

Supply-side shocks: rising fertiliser

This case study requires knowledge of Section 1.2 – how m

Perhaps the most important goods that are traded in global supply chains are crops. Cerea themselves both staple ingredients for human consumption and integral to the feeding of the overall food supply, and any kind of disruption to the production of crops can easily ca skyrocket. Rising food prices are frequently a key cause of social unrest and political insta



Fertilisers play a key role in the production of cr demand or prices begin to rise, and thus ensurin are, therefore, a fundam[illegible] input in the agricul half of humanity's food supplies are reliant on sy produc[illegible] a process that is highly gas intensiv

In 2021, following the coronavirus pandemic crisis, the price of natural gas began to rise changes in the global economy. This drove up the price of synthetic fertilisers dramatica synthetic fe[illegible]on the scale demonstrated in Figure 1 is – for many farmers – unsu producers ha[illegible] they will simply use less fertiliser, which in turn will reduce their cr of food. Of course, we can then expect reduced crop production to drive up food prices.

Some farmers are also concerned that reduced use of fertilisers will lower the quality of content. Less fertiliser use may also expose crops to greater vulnerability during periods help crops to survive dry spells.

Figure 2 shows the proportion of the global population who are now reliant on synthetic fertilisers for the production of their food supply, which has grown rapidly since 1950. It also shows the number of people whose food supply is produced using non-synthetic fertilisers, which has remained relatively static given the overall increase in food production. Non-synthetic fertilisers are natural products derived from plants or animals and are often waste products from food production. As a result of their diffuse sources, they are far less exposed to supply-side shocks and thus less likely to trigger price [illegible] natural fertil[illegible] difficult to scale up quickly, and also carry significant environmental costs, such as water pollution.

Figure 1: Global fertiliser price inde

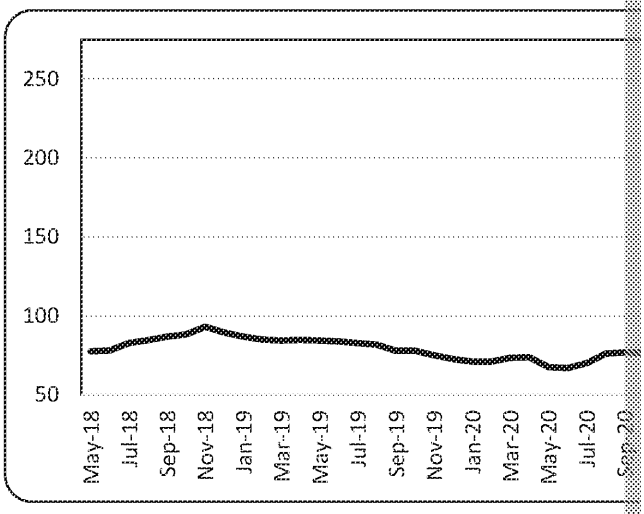
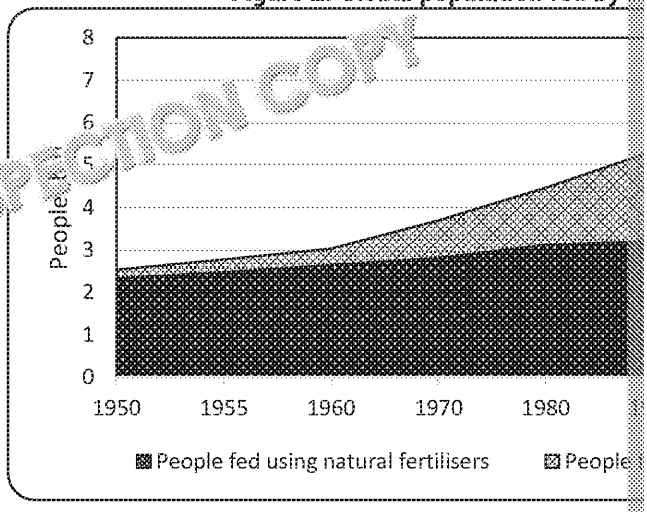


Figure 2: Global population fed by



[2] Source: https://ycharts.com/indicators/fertilizers_index_world_bank#:~:text=Fertilizers%20Price%20Index%20is%

[3] Source: https://ourworldindata.org/fertilizers

Use the data

1. Using Figure 2, explain why abandoning synthetic fertilisers might be difficu
2. Draw the impact of the trend in Figure 1 on the supply curve.

Test your knowledge...

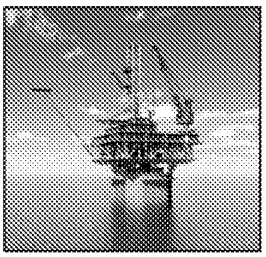
1. Explain the likely elasticity of supply for fertilisers.
2. Explain whether fertilisers are a consumer good or a capital good.

Extended-response question

1. Using a suitable diagram, assess whether a price ceiling could be introduced

Volatile prices: negative oil

This case study requires knowledge of Section 1.2 – how m



In the middle of April 2020, at the height of the coronavirus
Europe and North America, something very odd happened t
markets: it turned negative. On 20th April 2020, a barrel of o
of -$36.98. In other words, anyone wishing to sell oil on fut
expected to pay the buyer an additional $37 simply to take

In practice, not many exchanges happened quite like that –
day to a still historically low but positive, $8.91. So
unsurprisingly, the negative valuation related to the ongoing reverberations of the ex
coronavirus had created: the closure of large parts of the economy.

One side of the story i
demand. Hu o
millions of p ho would
ordinarily be working or
travelling were staying at
home, foregoing billions of
oil-consuming car journeys.
In addition, most commercial
premises had been closed by
the pandemic, which
suddenly reduced the
demand for energy. And most
significantly, with borders
being closed to prevent the
global spread of the virus,
international flights had been
grounded. Aviation is a huge
consumer of oil, and faced
with such a massive collapse
in demand the price of crude
went tumbling.

Figure 1: WTI crude oil p

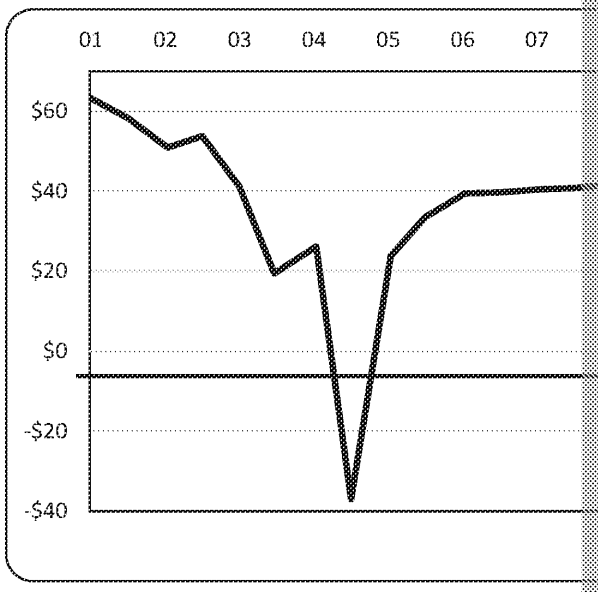
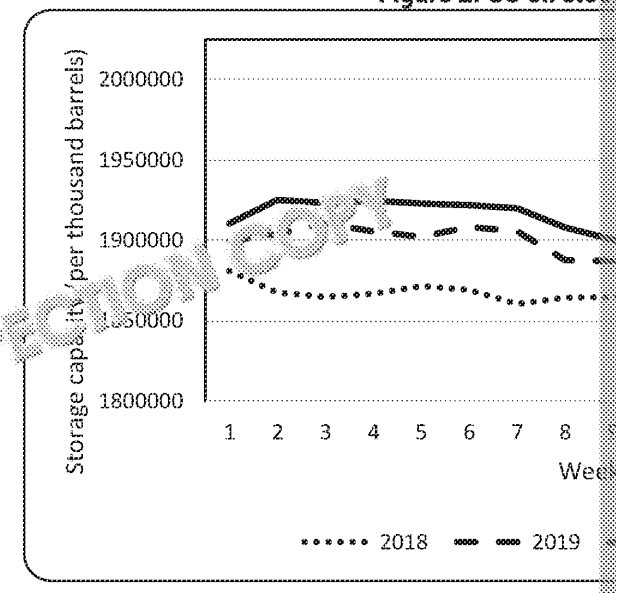


Figure 2: US oil sto



So that's the demand side –
but that doesn't on its own
explain the negative price.
For this we need to look at
supply. At the outset of the
pandemic, we can identify
what economists might call a
'glut' (an abundance, or
overproducti o
excess oil n be stored
somewhere w it is not
being consumed, but storage
capacity for crude is limited
and under these
circumstances was running
out quickly.

[4] Source: https://fred.stlouisfed.org/series/DCOILWTICO
[5] Source: https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WTTSTUS1&f=W

On top of that, the specificities of the coronavirus pandemic crisis meant that there
when demand might start to pick up. For oil traders in possession of a good for whic
and reducing storage, their asset was quickly becoming a liability.

And as they tried to offload their product at ever cheaper prices, they realised that th
Thus the market determined – on the basis of the day's interaction of supply and de
failing to store unwanted crude was greater than the value of the good itself.

Spooked by the market crash, the major oil producers quickly slashed their producti
global supply of crude oil and end the glut. The move successfully restored the price
pandemic levels by June. But the collapse into negative prices remains a memorable
development, even for a famously volatile market like crude oil.

Use the da

1. Calcula e percentage decrease in the value of crude oil between January
   lowest point in April 2020 (give your answer to the nearest whole percenta
2. What does Figure 1 indicate about the elasticity of oil?

Test your knowledge...

1. Demonstrate the events of 20th April 2020 on a demand and supply diagram
2. Explain why commodity markets are so volatile.

Extended-response question

1. Discuss the likely impact of the renewable energy sector on the oil market.

Indirect taxation: Hospitality's VAT

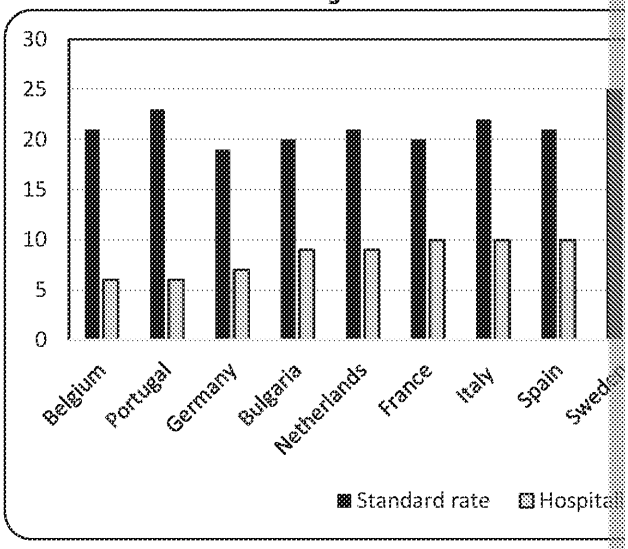
This case study requires knowledge of Section 1.4 – governme

At the height of the coronavirus pandemic crisis in July 2020, the UK government made the decision to give the hospitality and tourism sector a 15% cut in value added tax (VAT), a duty on goods. Whereas the standard rate of VAT is 20%, government would reduce this rate to just 5%. This would be to help support a sector that was particularly hard hit by the closure of large parts of the consumer economy. A lower rate of VAT remained in place for the industry until March 2022.

The VAT cut enabled providers to choose either lowering their prices or retaining the extra 15% of sales for themselves. Some pubs chose to reduce the price of their alcoh did not apply, and recoup those losses by raising their food prices, in the hope th

While these measures were temporary, many in the hospitality and tourism sector be should be lowered permanently. One reason for this is that many other European co domestic hospitality sectors, as seen in Figure 1. In addition, the industry is highly p large employer.

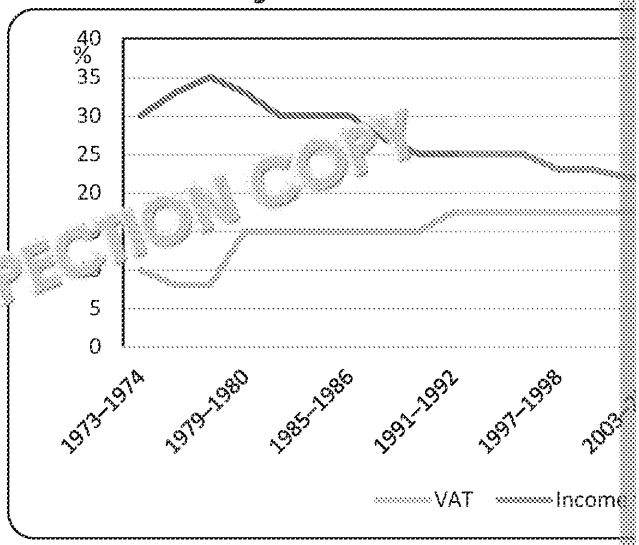
Figure 1: VAT rates across



However, VAT exemptions are controversial and their economic benefits contested. Critics point to the increased administrative costs of such schemes, and argue that instead of offering a range of special reduced rates, the economy would be better off with a lower standard rate.

VAT was first introduced in the UK in 1973 at a rate of 10%. In 1978, VAT generated 7% of the UK's revenue – this figure had more than doubled by the 2000s, making it a key source of government revenue. But higher prices also suppress consumer demand, which in turn can mean less employment and lower profits, which reduce government revenue in the long run. Figure 2 shows how income tax has fallen as VAT has increased.

Figure 2: Historic UK rates of VAT



[6] Source: https://www.ukhospitality.org.uk/blogpost/1721400/392803/VAT-Rates-for-Hospitality--Leisur

Use the data

1. What is the median VAT rate of the 14 European countries in Figure 1, and h compare to the UK?
2. Give **two** reasons for trends of taxation displayed in Figure 2.

Test your knowledge...

1. Explain why the hospitality and tourism sector is price sensitive.
2. Using a diagram, explain the welfare loss associated with VAT on hospitality

Extended-response questi

1. Assess the benefits of indirect taxation.

Public or private goods: COVID-19 v

This case study requires knowledge of Section 1.3 – mark

The coronavirus pandemic crisis was brought under control, predominantly, as a res development of vaccines against the virus. Thus in one sense we can argue that the public good: its benefits – the eradication of a contagious virus – are shared by eve

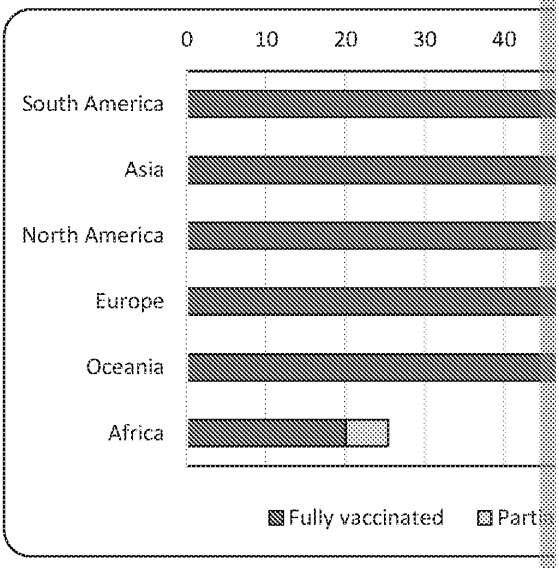
However, the vaccine itself was not globally distributed in the way economists woul with a public good. It was not available to everyone, and its benefits have not been s equally. Doses of coronavirus vaccines differed significantly in price, while some we limited and required specific and expensive storage faci

In 2021, United Nations Secretary Ge Antonio Guterres argued in favour of trea public good, as the vaccine ro org ased in developed countries but stalled ac

'It's been clear since the beginning that vaccines should be considere Guterres said. That they need to be available and affordable to all and that is no justice but also a question of efficiency. There is no way to defeat a virus that spreads in the developing countries like wildfire and that can risk to mutate.'

Guterres sought to highlight the extensive positive externalities associated with an equitable rollout of COVID-19 vaccines, as well as the uneven distribution of the good highlighted by Figure 1.

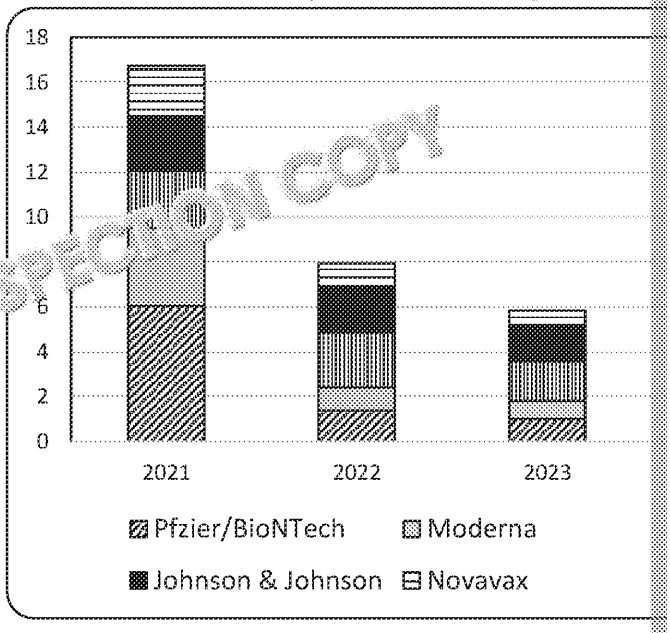
Figure 1: % of population vaccin



A large proportion of funding for the development of COVID-19 vaccines came from public sources, with the initial development of the UK-based Oxford/ AstraZeneca vaccine almost entirely publicly funded. However, large private firms with greater experience in the manufacture and distribution of pharmaceuticals are incentivised to ensu that goods are commercially viable.

Figure 2 demonstrates the expected revenue for each major COVID-19 vaccine producer over a projected five-year period.

Figure 2: Forecasted global reve



[7] Source: https://www.wsj.com/articles/covid-19-vaccine-makers-to-face-challenges-when-recognizing-re

Use the data

1. Based on figures 1 and 2, give **two** reasons why pharmaceutical companies are incentivised to produce vaccines.

Test your knowledge...

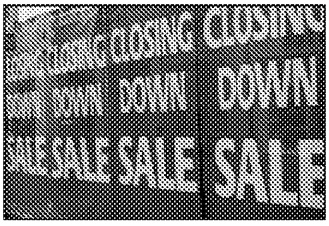
1. Define a 'public good'.
2. Explain the free rider problem.
3. Identify **four** positive externalities associated with vaccines.

Extended-response question

1. Assess whether vaccines are a public good.

Falling demand: decline of the high

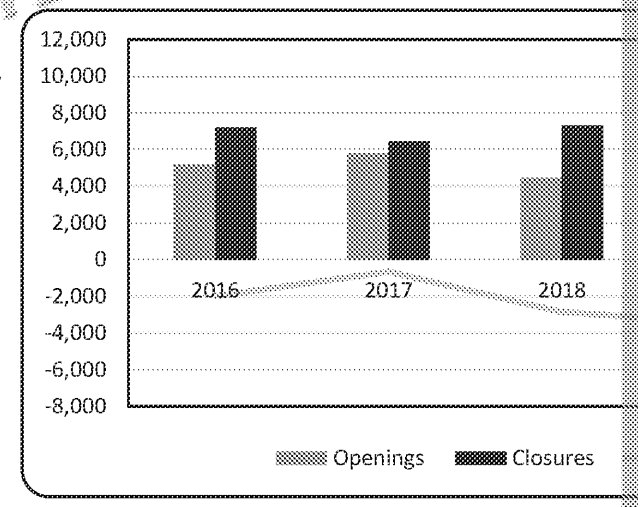
This case study requires knowledge of Section 1.2 – how m



High-street shops in the UK have long been viewed a consumer habits changing in response to new techno of the consumer economy in 2020, in response to the accelerated this trend. In that year alone, major brand *Dorothy Perkins, Peacocks, Harveys, Monsoon, Debe* and *Oasis* fell into administration.

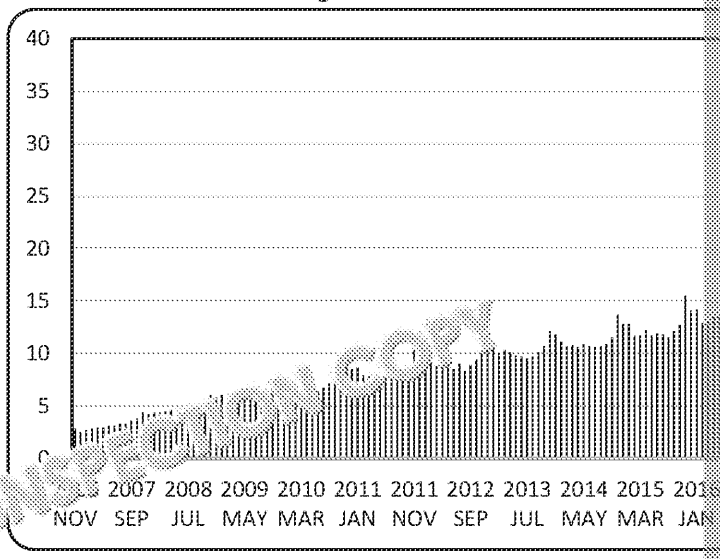
These big firms are just the tip of a larger iceberg. Store in the first six mon 11,000, and are taking place disproportionately within deprived regions of the extent to which high-street retailers ha ad worst year in recent history.

Figure 1: UK store openings



The other side of the online retail has grown dram in the UK. From barely registering a presence in the retail market at the start of the new millennium, online sales in 2020 had shot up to a third of market share, with no sign of the trend being temporary. As **Figure 2** demonstrates, even before the coronavirus pandemic, online retail was growing at a consistent rate. Moreover, since the UK has reduced coronavirus restrictions on retail, online sales remain stable at a significantly higher level than the historic trend rate.

Figure 2: Online sales as a % of UK



High-street stores have struggled to adapt to these rapidly changing consumer trends, though some have embraced online retail more successfully than others. The retailer *Next*, for example, was an industry pioneer and has built a strong and competitive online pres finances of its high-street operations. This was evident during the pandemic, in whic despite the forced closure of its 498 high-street stores.

Online retail offers a range of non-price competitive advantages for consumers; how advantage remains lower prices. Online retailers can charge less due to low product street competitors.

Use the data

1. Calculate the percentage increase in online sales according to Figure 2 betw
   2006 and January 2021.
2. Draw and annotate a demand curve demonstrating the trend in Figure 2.

Test your knowledge...

1. Identify **two** non-price competitive advantages online retail has over high-st
2. Explain why the production costs for online retailers are lower.

Extended-response questi

1. Assess whether online retail reduces asymmetric information.

Reforming subsidies: agriculture afte

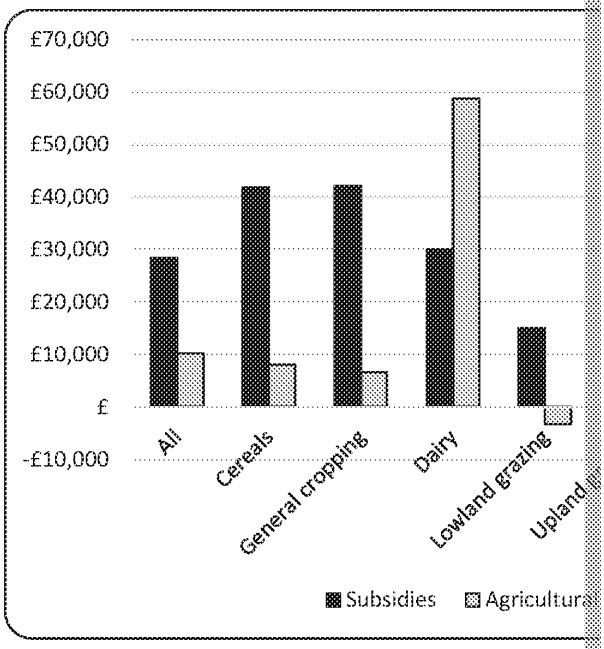
This case study requires knowledge of Section 1.2 – how m

The European Union's Common Agricultural P the institution's budget, handing out more tha across Europe. The UK's agricultural producer programme, receiving a total of £3 billion betw is to safeguard Europe's food supply and prote whims of market forces.

As the UK left the Eu[illegible]n Union in 2020, the farmers. Th[illegible] Government has introduced a Payment Scheme – while a longer-term sol[illegible]ound. Without replacement, many o will struggle to make their operation[illegible]ally viable. Figure 1 indicates how depen on subsidies.

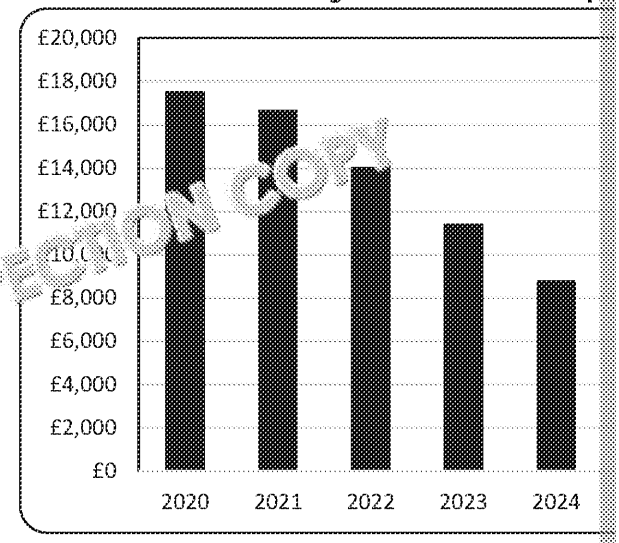
The CAP is c[illegible]icised for having a dest[illegible]ve environmental impact by encouraging unsustainable forms of land use on an excessive scale, and for producing excess supply leading to food waste. The UK's proposed replacement comprises a number of schemes designed to encourage more sustainable forms of land use. These include a Landscape Recovery Scheme, in which farmers are paid to reforest their land, and a Sustainable Farming Initiative, which remunerates farmers for environmentally friendly agricultural practices.

Figure 1: Average UK farmers income by fa



The Basic Payment Scheme is scheduled to be phased out over a period of eight years as part of the transition towards the new, more sustainable schemes. Figure 2 shows the phasing out process for an agricultural producer currently receiving £17,500 in subsidies. Farmers complain that there is not enough clari[illegible] th[illegible] schemes, an[illegible]e subsidies available to th[illegible]after the transition will be less valuable.

Figure 2: BPS subsidies p



In addition, according to a parliamentary committee, the government has 'not explained how the Scheme's changes in land use will not simply result in more food being importe food production being "exported" to countries with lower environmental standards.'

[8] Source: https://www.natwest.com/business/insights/sector-trends/agriculture/farm-business-management-i

Use the data

1. Calculate the percentage of an average UK farmer's total income that come
(give your answer to the nearest whole percentage).
2. Draw and annotate a diagram demonstrating the impact of the phaseout in

Test your knowledge...

1. Identify consumer and producer surplus on the diagram you have drawn.
2. Explain **two** reasons why subsidies can increase cost

Extended-response questi

1. Assess er the UK government should subsidise certain types of land u

Imperfect information: healthcare p

This case study requires knowledge of Section 1.3 – mark

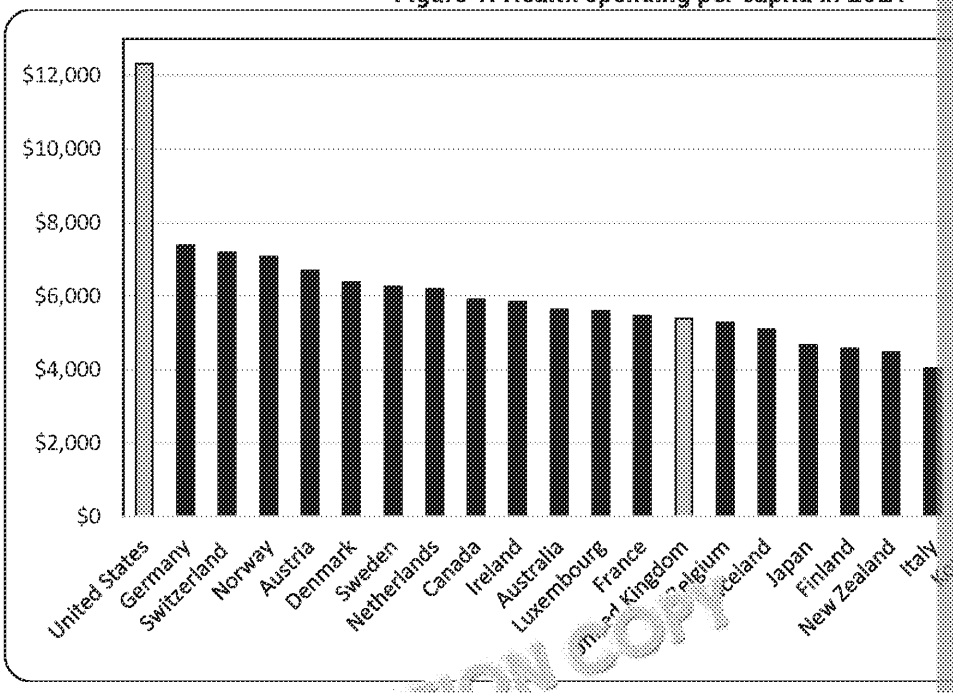
The content of this case study is adapted from the UK Parliament's Scrutiny Unit in accordance w

Healthcare provision is an area in which imperfect information presents a consistent problem. Regardless of the economic model that is followed for healthcare provision, there is a problem of asymmetric information: the healthcare professional is almost certain to have significantly greater knowledge of the service being provided than a patient. In particular, the patient is not well placed to judge the quality of the service they are being provided with.

In the USA, healthcare is provided as a private good, accessible through health insurance schemes. This creates a number of additional information problems. The patient often already unable to judge the quality of the s the value for money of the service being provided. In a private market, the incentive not necessarily to provide the highest quality service, but rather may be to minimise

This dynamic can result in a misallocation of resources. Figure 1 demonstrates how per capita, is far greater than in comparable OECD countries. One reason for the incr healthcare professionals in the USA to overprescribe medications in order to boost

Figure 1: Health spending per capita in 2021[10]



Other information issues with insurance-based private healthcare system are mo Moral hazard is when there is an incentive to take greater risks, knowing that protection is another form of information imbalance referring to consumers prone to poor health insurance policies.

These are among the reasons why healthcare is treated as a public good in the UK. UK healthcare provision is free from information failure. One problem for an organis Health Service is limited resources: decisions may be influenced by the availability reduce the quality of care offered.

[9] Source: https://www.parliament.uk/globalassets/documents/commons/Scrutiny/SU-Economics-in-prac

[10] Source: https://www.kingsfund.org.uk/publications/public-satisfaction-nhs-social-care-2021

Determining the quality of care being offered is equally difficult. Without a simple wa
which the market mechanism provides, investment decisions on the part of the gove
Unlike private providers, the NHS must also consider the marginal social benefit of h
These decisions are far more complex than simply allowing market forces to determ

Figure 2: NHS public satisfaction[11]

Use the data

1. Explain why information gaps may have led to inflated cost of US healthcare
2. Give a possible reason for the collapse of NHS public satisfaction since 2019

Test your knowledge...

1. Using a suitable diagram, explain the relationship between healthcare provi
and productivity.
2. Explain why adverse selection in the insuran[illegible] is an unusual form of
asymmetric information.

Extended-response question

1. With th[illegible] of a diagram, discuss the benefits and costs of information gap

[11] Source: **https://stats.oecd.org/Index.aspx?DataSetCode=SHA**

Keeping up with demand: university a

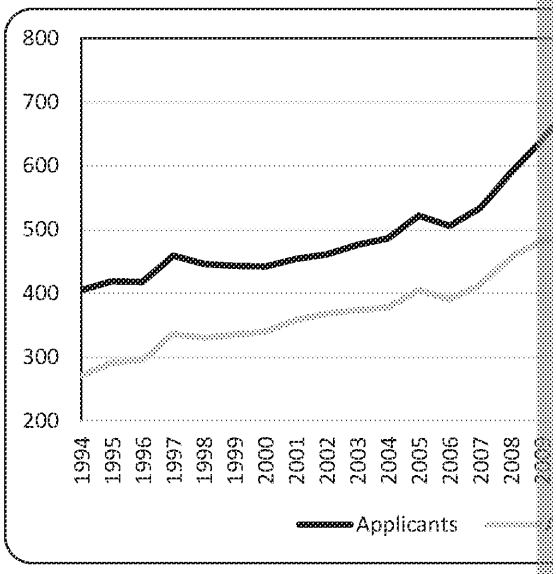
This case study requires knowledge of Section 1.2 – how markets work – and

University admissions among British scho
320,000 18-year-olds applying for a place
UK 18-year-olds – a figure that has risen
with only 33% of 18-year-olds applying in
in all applications and admissions to UK u

The increases in admissions come despi
promote alte[illegible]es to university educa
further education colleges, and also desp
g[illegible] and the introduction of the highes

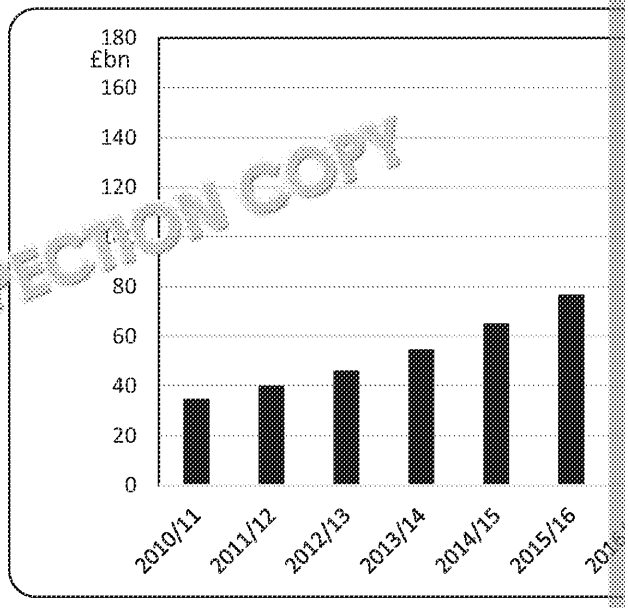
A number of new refor[illegible]
university a[illegible]ons have been
announced, [illegible]g a lowering
of the income threshold at which
students must make repayments,
an increase of a decade in the
period before student debt is
written off, and a proposal to
withhold student finance from
applicants without GCSEs in
English and Maths. A requirement
for prospectuses to include the
percentage of graduates who
enter employment after receiving
their degree has also been
suggested.

Figure 1: UK university appli



The government estimates
that 70% of students will fail
to repay their debts as they
will not earn above the
threshold for a long enough
period. Figure 2 highlights
the rising levels of student
debt in England since the cap
on tuition fees was trebled.

Figure 2: Outstanding student de



At the same time, the labour
market for graduate jobs
continues to be highly
competitive. It is est[illegible]
that in 202[illegible]ve 40
graduates fo[illegible]y graduate
job available. This limited
supply of graduate jobs
means that many graduates
end up retraining or simply
remaining in lower paid,
insecure work.

[12] Source: https://www.statista.com/statistics/284230/university-applicants-in-the-united-kingdom-uk/
[13] Source: https://www.statista.com/statistics/750679/outstanding-amount-in-student-loans-uk/

Use the data

1. Draw the trend demonstrated in Figure 1 on the demand curve.
2. Calculate the percentage increase in university applicants between 1994 an

Test your knowledge...

1. Why might demand for university education have increased, relative to othe higher education?
2. Explain the elasticity of demand for university educa

Extended-response questi

1. Assess ... increased costs for students represent government failure.

Minimum unit pricing: alcohol in Sc

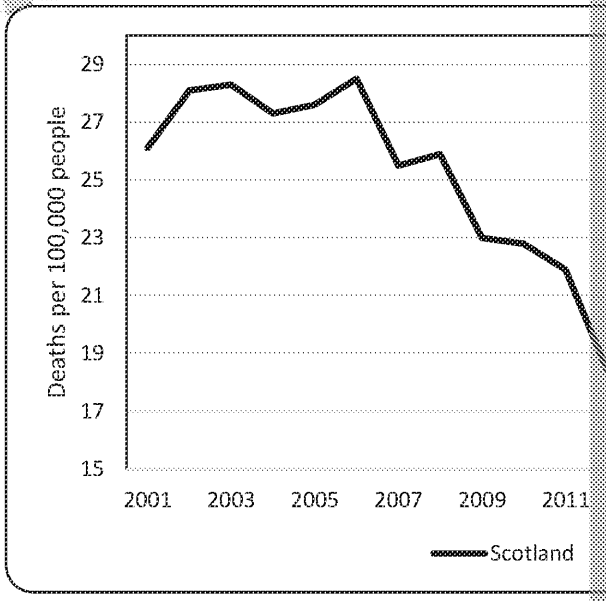
This case study requires knowledge of Section 1.4 – governm

In 2018, the Scottish government introduced mi
years-long legal battle with the Scotch Whisky A
drink producers. Legislation passed back in 201
minimum price of 50 pence per unit of alcohol s
high duties on all sales, and the minimum prices

The Scottish government argues that prior to the
pricing, or MUP, alcohol in Scotland was sold at an exce[illegible]y low price, which did
good. Between 1987 and 2018, alcohol became 64% m[illegible] affordable across the Un
overtook pub drinking in popularity, and [illegible] kets drove down the price of alcoh

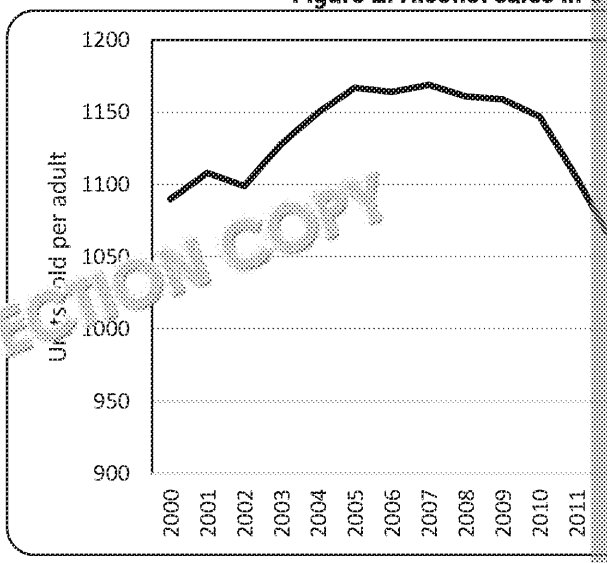
The drink-related death[illegible]
Scotland is [illegible]ig[illegible] than
the rest of th[illegible]he
government estimates that
after five years of the minimum
pricing policy, there will be 400
fewer alcohol-related deaths,
and 8,000 fewer alcohol-
related hospitalisations.
However, a report released in
June 2022 by Public Health
Scotland found that there is no
evidence to suggest that
minimum unit pricing is
changing the behaviour of
heavy drinkers in a uniform
way. Figure 1 shows a small
increase in alcohol-specific
deaths since 2018.

Figure 1: Alcohol-specific deat[illegible]



The Scottish government
argues that the minimum price
needs to be set at a higher rate
in order to shift the habits of
heavier drinkers, favouring
pricing of 65p per unit. And it
argues that alcohol sales
overall have reduced since
MUP was introduced, as shown
by Figure 2. However, criti[illegible]s
argue that M[illegible]sh[illegible]y
drinkers int[illegible]y and
undermines economic
growth.

Figure 2: Alcohol sales in [illegible]



Following the policy being introduced in Scotland, Wales introduced MUP in 2020, and Ireland also adopted the policy in 2022.

[14] Source: https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/causesofdeath/intheunitedkingdom/registeredin2020#alcohol-specific-deaths-by-uk-constituent-country

[15] Source: https://publichealthscotland.scot/publications/mesas-monitoring-report-2022/

Use the data

1. Using figures 1 and 2, look at the trends in alcohol-specific deaths and sales think MUP is having an impact?
2. Calculate the percentage decrease in Scottish alcohol sales between 2002 a sales were at 935 units per adult.

Test your knowledge...

1. Using a diagram, demonstrate the impact of minimum pricing on supply and
2. Explain **two** costs and **two** benefits of minimum pricing.

Extended-response question

1. Assess the likely consequences of an increase of the MUP to 65p per unit fo and for heavy drinkers.

Answers

Elite specialisation: Toyota's takumis

Data response questions

1. Toyota's cars are likely to have a high price elasticity of demand as there are so ma car makes). Figure 1 highlights how 116.3 cars are produced every minute by just ni to have a high price elasticity of demand if they are a large proportion of a consume expect buying a new car.

2. Toyota produces 20 cars per minute × 60 = 1,200 cars per hour × 24 = 28,800 cars p Toyota's production of cars to exceed 10.7 million at a pa 28,800 cars per day. the most cars of any carmaker, Toyota sold more th t produced in 2021.

Test your knowledge

1. Your PPF should show a ards of the PPF as shown. Award 1 mark for corre d diagram, 1 mark for drawing an initial and an exp PF, and a further 2 marks for drawing the pivot.

Cars produced by competitor

2. You should show a shift to the right in supply, resulting in a lower market price and higher quantity supplied. Award 1 mark for correct labelling, 1 mark for showing shift correctly, 1 mark for identifying initial equilibrium and 1 mark for identifying new equilibrium.

Pr

P_1

P_2

Extended-response question

1. The primary benefit, as established, is that the production process should increase in efficiency. Workers will become more proficient in their craft, and able to perform it at faster speeds. There should be less wastage during production and sunk costs in training will provide a better return on investment. In the long run, it may also encourage capital investment, which will save on labour costs.

   Costs may include worker boredom and alienation leading to low motivation and dragging down productivity. Firms may also become very reliant on specialised workers, and incur greater costs if they decide to leave. Specialisation may also increase the risk of structural unemployment as workers have not diversified their skill base.

Preview of Answers Ends Here