



Please write clearly in block capitals.

Centre number

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Candidate number

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Surname

StemUp Model Solution

Forename(s)

Candidate signature

I declare this is my own work.

AS ECONOMICS

Paper 1 The Operation of Markets and Market Failure

Monday 13 May 2024

Morning

Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:

- the Insert
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the Insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 70.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	



J U N 2 4 7 1 3 5 1 0 1

Section A

Answer **all** questions in this section.Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

**0 1**

Which one of the following is a function of prices in a market economy?

[1 mark]**A** Allocating resources to the production of public goods☐**B** Ensuring that the distribution of goods and services is fair☐**C** Incentivising firms to produce the goods consumers want☒**D** Providing a measurement of positive and negative externalities☐**0 2**

Which one of the following is a normative statement?

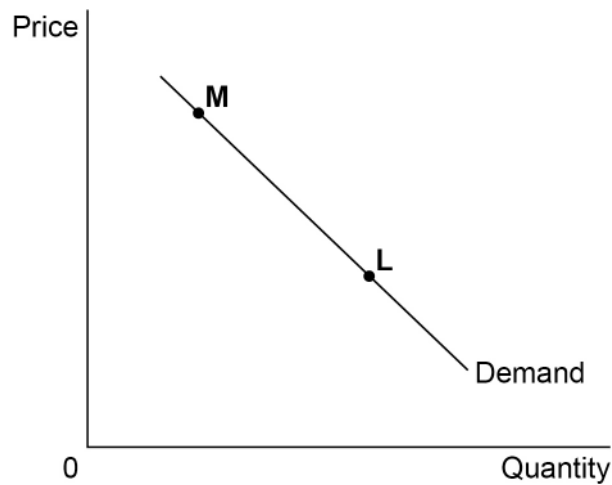
The price of petrol

[1 mark]**A** fell in real terms last year.☐**B** is affected by supply.☐**C** is now too high.☒**D** will rise next year.☐

0 3

Figure 1 shows the demand curve for Economics textbooks.

Figure 1



Which one of the following could have caused the movement along the demand curve from **L** to **M**?

[1 mark]

- A** A fall in the number of people studying Economics
- B** A fall in the price of Economics textbooks
- C** An increase in consumer incomes
- D** An increase in the price of paper

☐
☐
☐
☒

0 4

Partial market failure occurs when

[1 mark]

- A** prices fall causing firms to make losses.
- B** there are no positive externalities in consumption.
- C** there is a missing market for the product.
- D** there is immobility of factors of production.

☐
☐
☐
☒

Turn over ►



0 5

The price of carrots falls from 60p to 54p per kilo. As a result of this fall in price, the quantity supplied falls by a quarter.

What is the price elasticity of supply?

[1 mark]**A** 0.25☐**B** 0.4☐**C** 2.5☒**D** 4☐**0 6**

In a perfectly competitive market, a firm is most likely to

[1 mark]**A** charge the same price as other firms.☒**B** earn large profits in the long run.☐**C** produce the same output as its competitors.☐**D** spend large amounts of money on advertising.☐

0 7

A firm aims to make as much profit as possible.

This means the firm should aim to

[1 mark]

A maximise the difference between its total revenue and total cost.

☒

B maximise the total revenue it receives from selling its output.

☐

C minimise the average total cost of each unit it produces.

☐

D minimise the total cost of producing its output.

☐**0 8**

The market for barley is no longer in equilibrium due to an increase in demand for barley.

This is most likely to lead to

[1 mark]

A a fall in the price of barley and a leftward shift of the supply curve.

☐

B a fall in the price of barley and a movement along the supply curve to the left.

☐

C a rise in the price of barley and a movement along the supply curve to the right.

☒

D a rise in the price of barley and a rightward shift of the supply curve.

☐

Turn over for the next question

Turn over ►

0 9

Which one of the following is most likely to be used to help identify the market structure of an industry?

[1 mark]

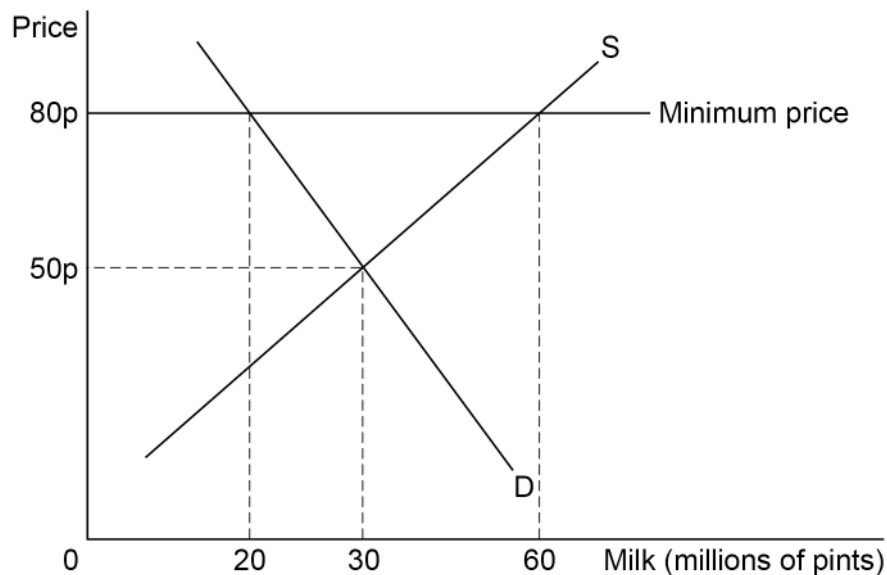
- A** The extent to which barriers to entry exist
- B** The number of workers employed in the industry
- C** The shape of a typical firm's average cost curve
- D** Whether firms sell luxury goods or necessities

☒
☐
☐
☐

1 0

Figure 2 shows the original demand (D) and supply (S) curves for pints of milk. To help farmers, the government introduces a minimum price of 80p for a pint of milk.

Figure 2



Which one of the following is most likely to result from the imposition of this minimum price?

[1 mark]

- A** Profits of farmers from selling milk will increase by £1 million
- B** The revenue received by farmers will increase by 30p per pint
- C** There will be excess demand of 40 million pints
- D** Total revenue from the sales of milk will increase by £100 million

☐
☒
☐
☐


1 1

An inequitable distribution of income may result in market failure because

[1 mark]

- A** government action to reduce inequality may lead to government failure.
- B** it affects an individual's ability to consume goods and services.
- C** it provides the incentive for people to work hard.
- D** the government will not be able to provide as many merit goods.

☐☒☐☐**1 2**

Kim has £100 to spend and is considering three options. She would rather spend the money on clothes than shoes but believes she would gain most benefit from spending £100 on an evening out.

Assuming that she spends the money to gain the most benefit, what is the opportunity cost of her decision?

[1 mark]

- A** The clothes
- B** The clothes and the shoes
- C** The evening out
- D** The shoes

☒☐☐☐

Turn over for the next question

Turn over ►

1 3

Table 1 shows the private benefit, private cost, social benefit and social cost of four different redevelopment projects.

Table 1

	Grants to new retailers	Marketing campaign	New bus station	Pedestrianisation
Private benefit	£5m	£3m	£2m	£4m
Private cost	£15m	£4m	£20m	£12m
Social benefit	£10m	£5m	£50m	£30m
Social cost	£15m	£4m	£30m	£14m

A local authority has a maximum of £15 million to spend on the redevelopment.

Which one of the projects in **Table 1** should the local authority choose to maximise social welfare, given the limited funding available?

[1 mark]**A** Grants to new retailers
☐
B Marketing campaign
☐
C New bus station
☐
D Pedestrianisation
☒


1 4

Over time, one of the firms in the market for electric scooters acquires some monopoly power. The firm decides to restrict output below the competitive market level. The most likely consequence of this decision will be

[1 mark]

- A** a decrease in the barriers to entry into the market.
- B** a rightward shift of the demand curve for electric scooters.
- C** additional economies of scale experienced by the dominant firm.
- D** an increase in the price paid by consumers for electric scooters.

☐☐☐☒**1 5**

The cross elasticity of demand for Good R is -0.5 with respect to the price of Good S. If the price of Good S falls by 20%, demand for Good R will

[1 mark]

- A** fall by 10%.
- B** fall by 40%.
- C** rise by 10%.
- D** rise by 40%.

☐☐☒☐

Turn over for the next question

Turn over ►



1 6

A firm sets up in an area where a local college provides training courses for the workers in that industry.

This shows the firm taking advantage of

[1 mark]

A external economies of scale.

☒

B internal economies of scale.

☐

C the provision of a public good.

☐

D the provision of perfect information.

☐
1 7

Table 2 shows an index of labour productivity per hour for a large car manufacturer.

Table 2

Year	Index of labour productivity per hour
2017	97.8
2018	98.6
2019	100.0
2020	89.5
2021	95.4

Which one of the following statements must be true?

[1 mark]

A Output per hour of labour was higher in 2017 than in 2021

☒

B Production of cars was higher in 2019 than in 2018

☐

C The firm was operating at full capacity in 2019

☐

D There were fewer workers employed in 2020 than in 2018

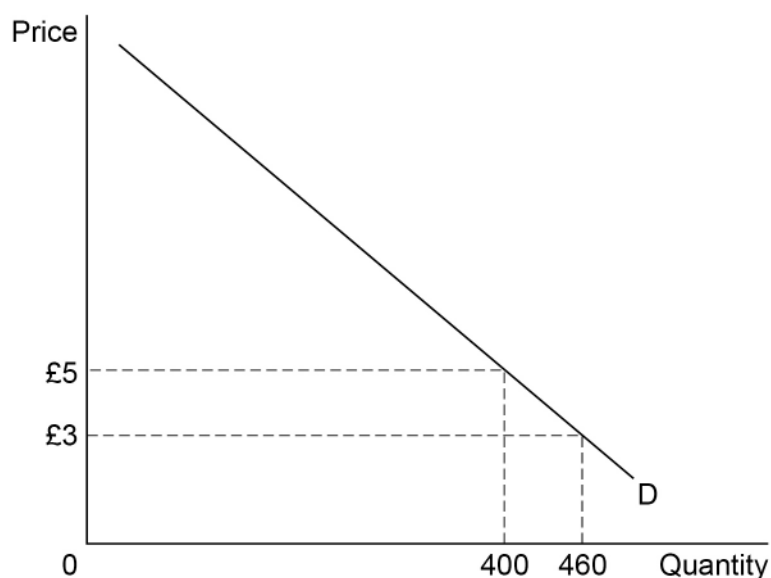
☐


1 8

Derived demand is when

[1 mark]

- A** a good is used for a variety of different purposes.
- B** the demand for a good depends on the sales of what it produces.
- C** the willingness to buy the good is backed by the ability to pay.
- D** two goods have a positive cross elasticity of demand.

☐☒☐☐**1 9****Figure 3** shows a firm's demand curve (D).**Figure 3**

If the firm raises its price from £3 to £5, demand is

[1 mark]

- A** price elastic and total revenue will fall.
- B** price elastic and total revenue will rise.
- C** price inelastic and total revenue will fall.
- D** price inelastic and total revenue will rise.

☐☐☐☒**Turn over ►**

2 0

Technological change has made it easier to charge for road use, including charging road users different prices according to demand at different times of the day.

Which one of the following would be the most likely outcome if the government introduced variable charges, according to the time of day, for using motorways in the UK?

[1 mark]

A Fewer people will use trains to go to work.

☐

B More vehicles will use motorways at busy times.

☐

C Motorways would become a public good.

☐

D The costs of many businesses will increase.

☒**20****END OF SECTION A**

Section B

Look at the Insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below.

OR

Questions 27 to 32 on pages 24 to 33 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context **0 1** ☐

Context **0 2** ☐

CORRECT METHOD



WRONG METHOD



EITHER

Context 1

Total for this context: 50 marks

TOURISM IN THE UK

Use the Insert provided to study **Questions 21 to 26** and **Extracts A, B and C**, and then answer the questions in the spaces which follow.

2 1 Define 'scarce resource' **Extract B** (line 11).

[3 marks]

A scarce resource is a factor of production, such as land, labour, capital or enterprise, that is finite (limited in supply) relative to the unlimited wants it could be used to satisfy, so using it for one purpose has an opportunity cost. For example, the environment at popular tourist sites.

Turn over ►



2 2

Extract C (lines 4–7) states: ‘Since 2011, tourists staying in a five-star hotel in the peak season have been taxed €5 for each night. However, they are only charged for five nights, even if they stay longer. They pay 50% less in the off-peak season.’

Calculate the total amount of tax paid by two people staying for seven nights in a five-star hotel in the off-peak season.

[4 marks]

Off-peak tax per person per night = €5 × 50% = €2.50

Tourists are only charged for 5 of the 7 nights.

Tax per person = 5 nights × €2.50 = €12.50

Total for two people = 2 × €12.50 = €25

Total tax paid = €25



2 3

Use **Extract A** to identify **two** significant features of the number of visits to the UK by overseas residents over the period shown.

[4 marks]

Feature 1 *The number of visits fell dramatically between 2020 Q1 and 2020 Q2, from 7000 thousand to 400 thousand, a fall of 6600 thousand visits (6.6 million). This was the largest change over the whole period.*

Extra space

Feature 2 *The number of visits was highest in 2019 Q3 at 11 900 thousand and lowest in 2021 Q1 at only 200 thousand, a range of 11 700 thousand visits.*

Extra space

Turn over for the next question

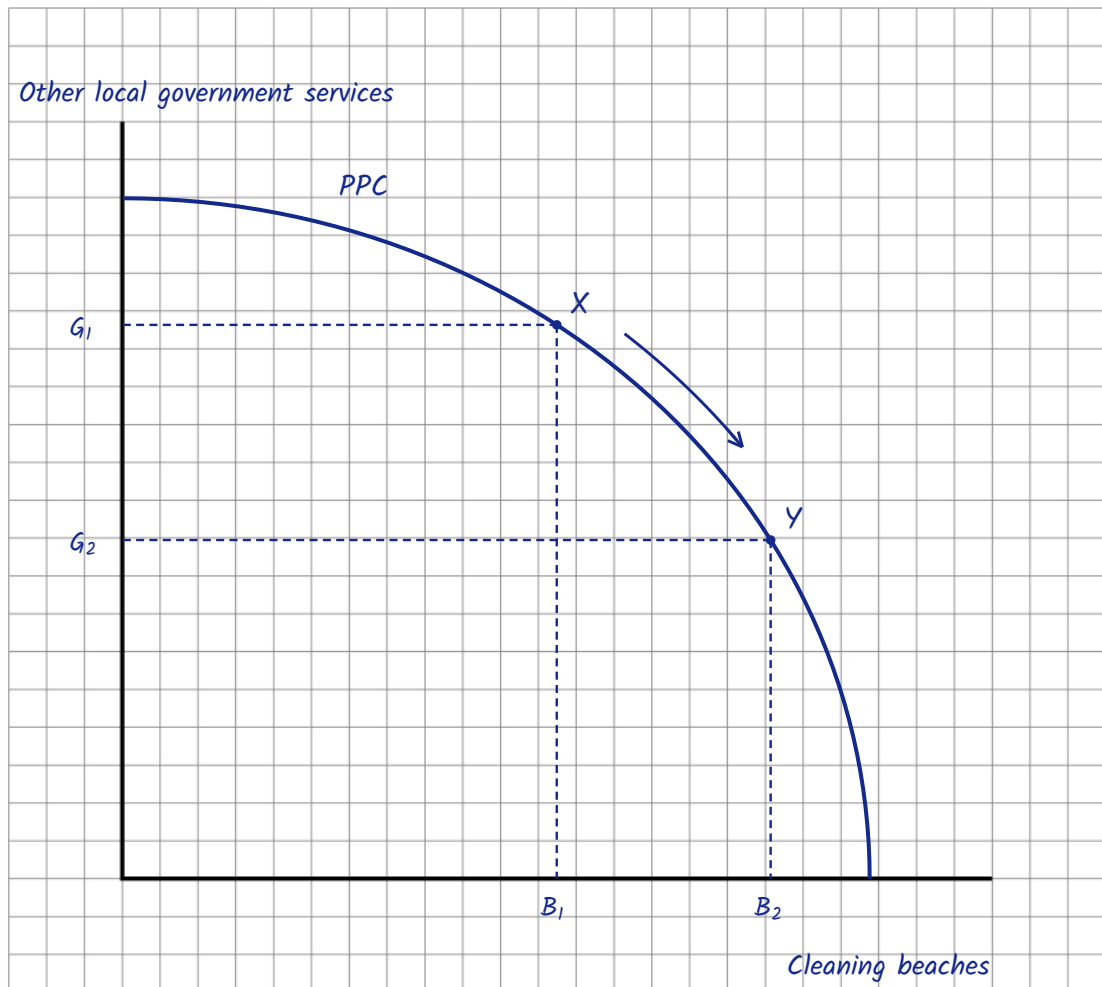
Turn over ►



2 4

A local authority has limited resources to allocate to two services, 'cleaning beaches' and 'other local government services'.

Draw a production possibility diagram showing the potential provision of these two services. Assuming these resources remain fully employed, show on this diagram the effect of allocating more resources to cleaning beaches.

[4 marks]

Moving along the PPC from X to Y, more resources are used to clean beaches (B_1 to B_2), so fewer other local government services can be provided (G_1 to G_2): the opportunity cost.



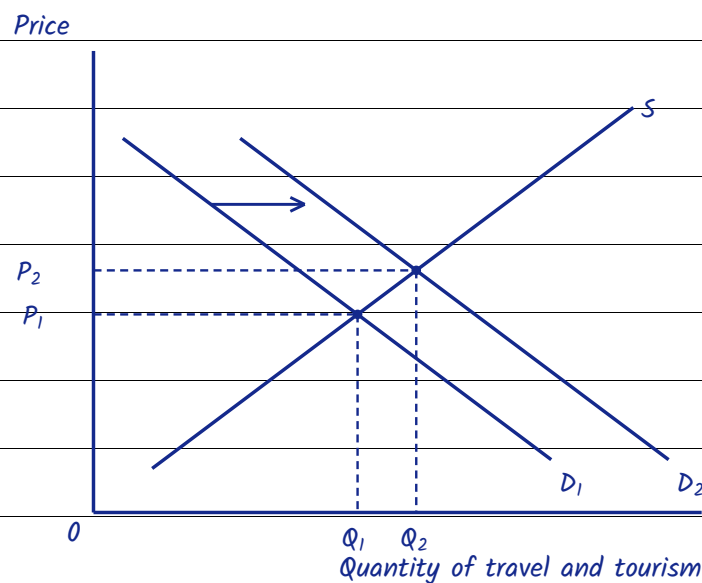
2 5

Extract B (lines 1–2) states: ‘As the world recovered from the recession of 2008, there was more demand for travel and tourism.’

Explain possible reasons for an increase in the demand for travel and tourism.

[10 marks]

Demand is the quantity of a good or service that consumers are willing and able to buy at each price over a given time period. An increase in demand means that more travel and tourism is demanded at every price, so the demand curve shifts to the right, from D_1 to D_2 in the diagram, raising price from P_1 to P_2 and quantity from Q_1 to Q_2 .



The most important reason is likely to be rising real incomes. As the world recovered from the 2008 recession, economic growth meant that employment and real incomes rose. Travel and tourism, especially overseas holidays, are normal goods and are usually luxuries with an income elasticity of demand greater than 1, so a given percentage rise in income leads to a proportionately larger rise in demand. Rising wealth, for example from higher house and share prices, and greater consumer confidence also make households more willing to spend on holidays. Extract B shows how large this spending is: in Q1 2019 overseas residents made 8.3 million visits and spent £4.8 billion.

Turn over ►



Extra space *Second, a fall in the price of complements, such as flights, because of competition from low-cost airlines, or cheaper fuel, increases the demand for tourism, since the cross elasticity of demand between complements is negative. If the pound depreciates, holidays in the UK become cheaper for overseas residents than holidays in other countries, which are substitutes, so demand for UK tourism rises. Lower indirect taxes on travel, or subsidies, would have a similar effect. A fall in the price of tourism itself would only cause an extension of demand, a movement along the curve.*

Third, tastes and preferences may change. Successful advertising and promotion by tourist boards, social media, and online booking sites, which give consumers better information and make booking easier, all increase the desire to travel. A growing population, especially the rising number of retired people with savings and leisure time, also increases demand. More recently, the easing of pandemic travel restrictions released pent-up demand, which explains the sharp recovery in visits to about 8000 thousand by 2022 Q2 (Extract A). Seasonal factors matter too, with demand highest in Q3 during the summer holidays.

The effect on the market depends on elasticities. With a high YED, rising incomes as the economy recovers cause a large increase in demand, and because the supply of hotel rooms is price inelastic in the short run, much of the increase in demand will be reflected in higher prices rather than more visits.



2 6

Extract C (lines 13–14) states: 'In recent years, with more people holidaying in the UK, some tourist sites have been overwhelmed by visitors.'

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box

Use the extracts and your knowledge of economics to discuss whether there should be more state intervention to limit tourism in the UK.

[25 marks]

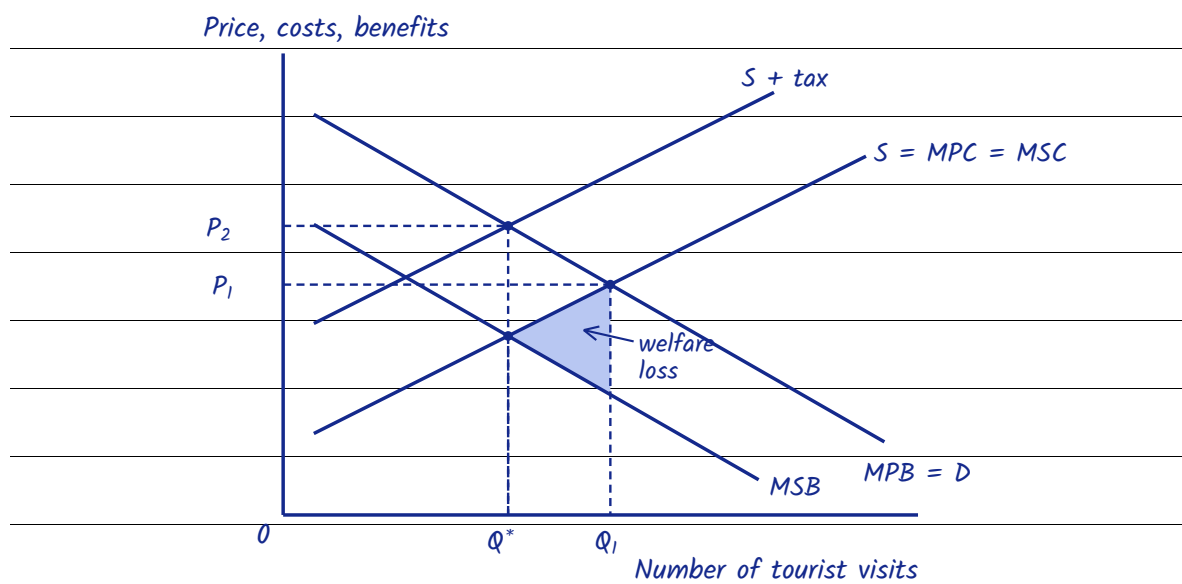
State intervention means central or local government using policies such as taxes, regulation, spending or direct provision to change the outcome of the free market. Tourism is very important to the UK economy: by 2019 the sector accounted for 4.3 million jobs, and overseas visitors spent £4.8 billion in Q1 2019 alone (Extract B). However, Extract C suggests that some tourist sites are now overwhelmed, so the question is whether market failure is serious enough to justify intervention to limit tourism.

The main case for intervention is that tourism creates negative externalities. When tourists decide where and when to travel they consider only their private costs, such as travel and accommodation, and their private benefits, not the external costs imposed on third parties. These include litter (volunteers collected 200 bags near Mount Snowdon in just two months in 2020), pollution from transport, traffic congestion which delays the emergency services, damage to the environment, and higher costs for local councils, such as maintaining Venice. As shown in the diagram, the marginal social benefit (MSB) of visits is below the marginal private benefit (MPB). The free market equilibrium is at Q_1 , where $MPB = MPC$, but the socially optimal number of visits is Q^* , where $MSB = MSC$. There are too many visits and the shaded triangle shows the welfare loss. The environment is a scarce resource (Extract B), and because access to it is largely unpriced, it tends to be overused. Overuse could damage sites so badly that they become less attractive in future, harming the tourist industry itself.

The most direct policy is a tax on tourists, such as the Venice charge of €5 a night in five-star hotels, or the overnight charge for Edinburgh supported

Turn over ►





by 85% of people surveyed, which could raise £15 million a year. Making tourists pay for the external cost internalises the externality: supply shifts from S to $S + \text{tax}$, the price rises from P_1 to P_2 , and the number of visits falls from Q_1 to the social optimum Q^* . The revenue can also pay for the damage, as with the proposed Isle of Wight green levy of £1.50 to keep beaches clean. A variable charge, like the Venice day-tourist tax set according to how busy the city is expected to be, is better targeted, because congestion is worst at peak times.

However, the effectiveness of a tax depends on the price elasticity of demand. A small charge such as £1.50 is a tiny proportion of the total cost of a holiday, so demand is likely to be price inelastic and visits will hardly fall; Extract C admits that people may not notice the extra charge. The tax would then raise revenue rather than limit tourism. To make a real difference the tax would have to be large, which could damage local businesses and encourage tourists to go elsewhere, causing jobs and incomes to be lost. It is also very difficult to put a money value on the external cost, so the tax may be set too high or too low, causing government failure.



There are administration and enforcement costs (Venice needs fines of €50 to €300 for those who do not pay), and the tax could be regressive, pricing low-income families out of holidays.

Alternatives include regulation, such as limits on visitor numbers, permits or the pre-booked parking used near Snowdon, and better public transport, such as more regular bus services. Regulation gives more certainty about the number of visitors, but it needs enforcement and raises no revenue. Better public transport reduces congestion and pollution per visitor without limiting tourism, but it has a financial cost and an opportunity cost, since the money cannot then be spent on schools or health care. Promotion could spread visitors to less crowded areas and to the off-peak season, as the 50% off-peak discount in Venice does, easing pressure at peak times without reducing total tourism.

There are also strong arguments against more intervention to limit tourism. Tourism brings large benefits: jobs, incomes, tax revenue and spending that supports local businesses, with positive multiplier effects. Extract A shows that visits fell from 11 900 thousand in 2019 Q3 to only 200 thousand in 2021 Q1 and had only recovered to about 8000 thousand by 2022 Q2, while employment in the sector in 2021 was still 200 000 below its 2019 level (Extract B). With the industry recovering and prices rising generally, critics argue that this is the wrong time for a tourist tax (Extract C). The problems are also local rather than national. Most of the UK is not overwhelmed, and nowhere faces anything like Venice, where around 24 million people a year visit a city of 50 000.

In conclusion, I think there should be more state intervention, but it should be local and targeted at specific sites and peak times where the external costs are clearly significant, such as Snowdon, Edinburgh or popular beaches,

Turn over ►



Extra space *rather than a national policy to limit tourism in the UK as a whole, which would sacrifice valuable jobs and income. Local authorities have better information about local problems, which reduces the risk of government failure. The best approach is probably a modest overnight or variable charge, with the revenue spent on cleaning and public transport, combined with regulation such as pre-booked parking at hotspots. As the industry is still recovering, charges should be introduced gradually. In the long run, protecting the environment is in the interest of the tourist industry itself, because damaged sites attract fewer visitors.*



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Lined area for writing, consisting of 25 horizontal lines.

50

Turn over ►



Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 50 marks

EYE CARE IN THE UK

Use the Insert provided to study **Questions 27 to 32** and **Extracts D, E and F**, and then answer the questions in the spaces which follow.

2 7 Define 'variable costs' **Extract E** (line 13).

[3 marks]

Variable costs are costs of production that change directly with the level of output, because they are the costs of paying for variable factors of production, for example the lenses and frames used by an optician. If output is zero, variable costs are zero.

2 8 **Extract E** (lines 2–3) states: 'Between 2004 and 2019, the number of optometrists... in England rose from 7 734 to 14 087'. During this time, the population of England increased from 50.2 million to 56.3 million.

Calculate the percentage change, between 2004 and 2019, in the number of people in England for each optometrist. Give your answer to **one** decimal place.

[4 marks]

People per optometrist in 2004 = $50\,200\,000 \div 7\,734 = 6\,490.82$

People per optometrist in 2019 = $56\,300\,000 \div 14\,087 = 3\,996.59$

% change = $(3\,996.59 - 6\,490.82) \div 6\,490.82 \times 100 = -38.43\%$

Answer: -38.4% (a fall of 38.4%)



2 9

Use **Extract D** to identify **two** significant features of the number of National Health Service (NHS) sight tests in England over the period shown.

[4 marks]

Feature 1 *The number of NHS sight tests rose over the period, from 12 340 thousand in 2012/13 to 13 360 thousand in 2019/20, an increase of 1020 thousand. 2019/20 was the highest year.*

Extra space

Feature 2 *Sight tests rose every year except one, between 2013/14 and 2014/15, when they fell slightly from 12 790 thousand to 12 760 thousand, a fall of 30 thousand.*

Extra space

Turn over for the next question

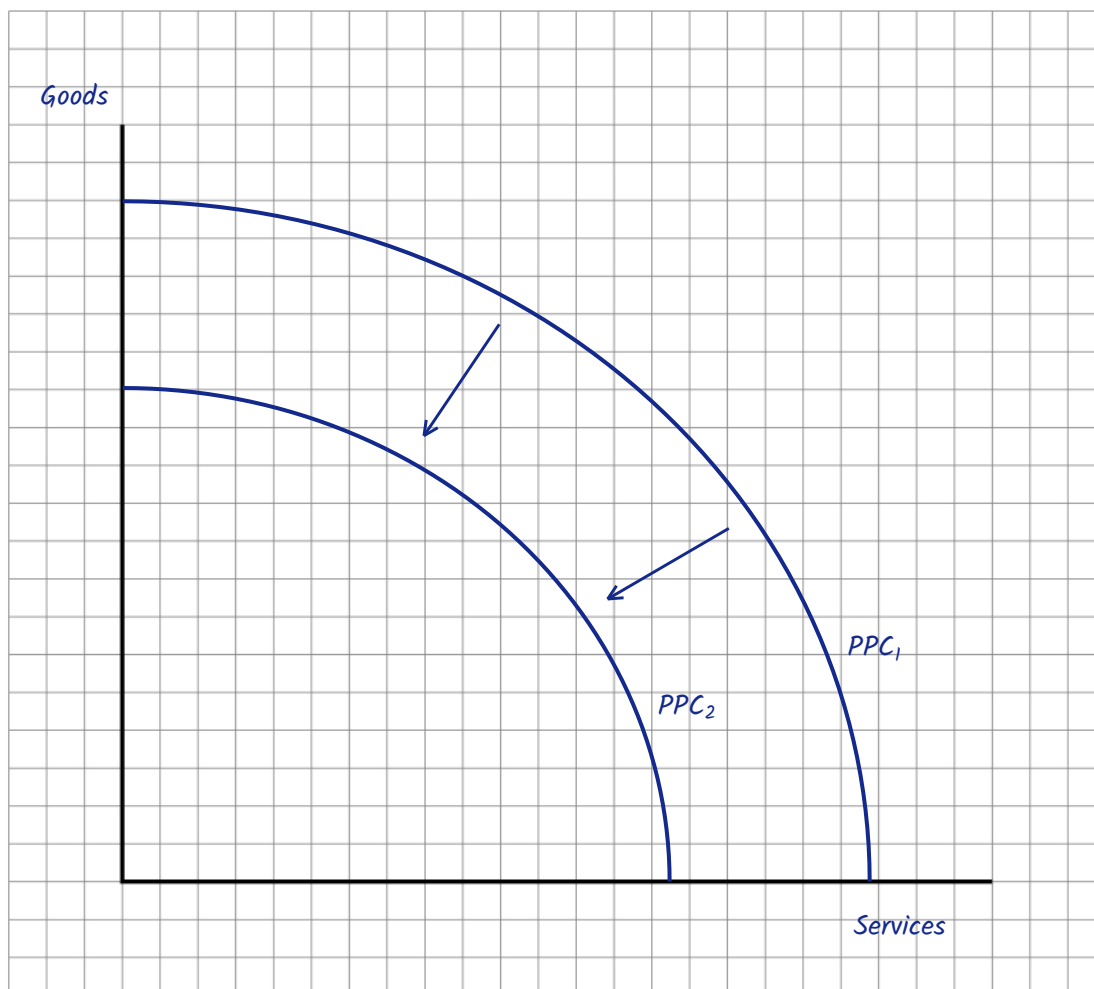
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3 0

Extract F (lines 9–10) states: ‘As well as affecting a person’s quality of life and adding to health care costs, eyesight problems can lead to lower productivity.’

Draw a production possibility diagram showing the output of two products, ‘goods’ and ‘services’. Show on this diagram the effect of a fall in productivity due to more people having eyesight problems.

[4 marks]

Lower productivity reduces the maximum output of goods and services that can be produced with the economy's resources, so the PPC shifts inwards from PPC_1 to PPC_2 .



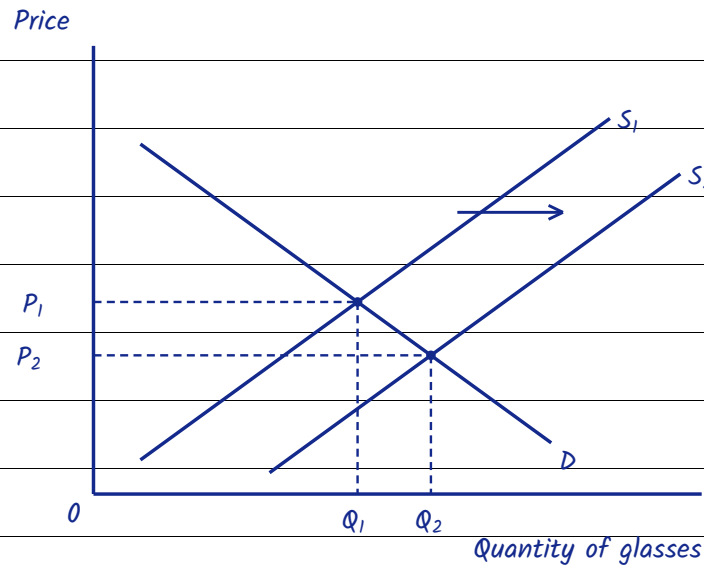
3 1

Extract E (lines 15–17) states: ‘Increased competition and easier access to the internet have helped to bring down the price of some basic glasses to £25 or less.’

Explain factors that could lead to a fall in the price of glasses.

[10 marks]

The price of glasses is determined by demand and supply, so a fall in price can be caused by an increase in supply, a decrease in demand, or both.



The main factor in Extract E is increased competition and easier access to the internet. Online sellers can supply basic glasses without the high fixed costs of a high-street shop, such as rent, so their costs are lower. As more firms enter the market, supply increases and the supply curve shifts to the right from S_1 to S_2 , as shown in the diagram. At the original price P_1 there is excess supply, so firms cut their prices to sell their stock and demand extends until the new equilibrium is reached at a lower price P_2 and a higher quantity Q_2 . Competition also reduces the market power of high-street opticians, who could charge several hundred pounds, and the internet lowers search costs, as consumers can compare prices easily, forcing firms to cut prices or lose customers. Some basic glasses now cost £25 or less.

Other factors that increase supply include a fall in the cost of factors of

Turn over ►



Extra space *production, such as cheaper materials for frames and lenses or cheaper labour if glasses are made abroad, and improvements in technology which raise productivity and reduce the cost per unit. Economies of scale for large chains and online sellers, government subsidies or lower indirect taxes would also shift supply to the right.*

Price could also fall because demand decreases, shifting the demand curve to the left. Extract F says many people put off routine eye tests during the pandemic, with 23% fewer tests in 2020 than in 2019. Eye tests and glasses are complements, so fewer tests mean fewer prescriptions and lower demand for glasses. A fall in the price of substitutes, such as contact lenses or laser eye surgery, would also reduce demand for glasses, by more if the cross elasticity of demand between them is high. A fall in real incomes, as glasses (especially designer frames) are a normal good, or a change in tastes would also reduce demand.

How far the price falls depends on elasticities. Demand for glasses is likely to be price inelastic, since they are a necessity for people who need them and have few close substitutes, so an increase in supply causes a relatively large fall in price. Overall, the increase in supply due to competition and online selling seems the most significant factor, particularly as demand is likely to be rising with an ageing population.



3 2

Extract F (lines 18–19) states: ‘Should the government prioritise reducing the waiting list of people who need urgent eye treatment or are there more important issues?’

Use the extracts and your knowledge of economics to discuss whether the government should increase its spending to improve eye health in the UK.

[25 marks]

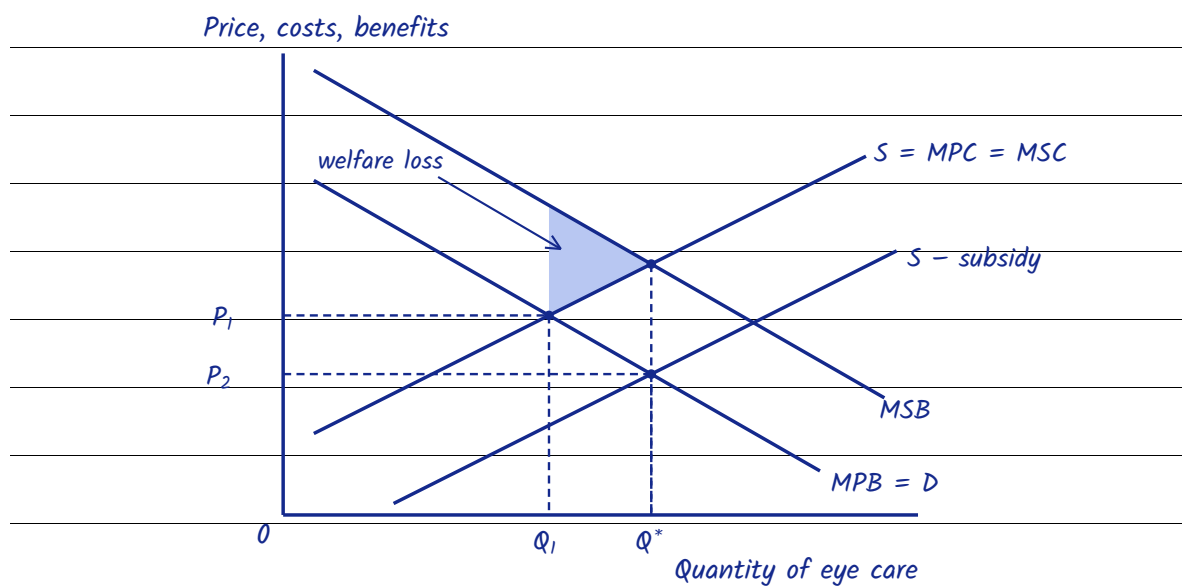
Eye care, such as regular eye tests and treatment, is a merit good: a good that is under-consumed in a free market because consumers have imperfect information about its benefits and because it creates positive externalities. More government spending could mean making eye tests free, subsidising glasses, reducing waiting lists for urgent treatment, or information campaigns.

Many people underestimate the private benefits of regular eye tests. Many eye diseases have no early symptoms, so people put off tests, especially when they are worried about the cost of a test (around £25) and of glasses (often several hundred pounds). According to Extract F, 8% of the population has never had an eye test, and the number of tests in 2020 was 23% lower than in 2019. As a result, nearly 3000 people lost their vision because their eye disease was not treated, at an estimated cost of £2.5 billion.

Good eye health also creates positive externalities in consumption, benefits to third parties. People with good eyesight are less likely to fall (around 270 000 over-65s fall each year because of poor eyesight), reducing hospital stays and NHS costs. They are more productive at work, benefiting firms and the economy, and drivers with good eyesight cause fewer accidents. As Extract F says, the costs of poor eyesight fall on families, businesses and society as a whole. As shown in the diagram, MSB is above MPB, so the free market quantity Q_1 , where $MPB = MPC$, is below the social optimum Q^* , where $MSB = MSC$. There is under-consumption and a welfare loss, the shaded triangle. A subsidy equal to the marginal external benefit shifts

Turn over ►





supply from S to $S - \text{subsidy}$, lowering the price paid by consumers from P_1 to P_2 and raising consumption to Q^* , which removes the welfare loss.

There is also an equity argument. People on low incomes may be unable to afford tests and glasses, which affects their quality of life and ability to work, so poor eyesight can trap them in poverty. Free tests for everyone, as in Scotland, would make access fairer. Reducing waiting lists for urgent treatment would stop people losing their sight, and since many sight problems can be corrected if treated early, prevention is often cheaper than dealing with the consequences later, so the spending may partly pay for itself. Since eyesight problems lower productivity (Extract F), better eye health would raise output and tax revenue, shifting the economy's PPC outwards.

However, there are arguments against more spending. First, there is an opportunity cost. Government funds are limited, and money spent on eye health cannot be spent on other priorities, such as cancer treatment, mental health or education, which may give greater benefits per pound; Extract F asks whether there are more important issues. The spending must also be



financed by higher taxes, as in Scotland, where median earners pay a higher rate of income tax than in the rest of the UK, or by more borrowing.

Second, much is already being done and the market is working better. People over 60 and those on certain benefits already get free NHS tests and vouchers for glasses, and the number of NHS sight tests in England rose from 12 340 thousand in 2012/13 to 13 360 thousand in 2019/20 (Extract D). The number of optometrists in England almost doubled from 7 734 to 14 087 between 2004 and 2019, and competition and the internet have brought the price of basic glasses down to £25 or less, so the case for extra spending is weaker.

Third, government failure is possible. Making tests free for all would subsidise many people who can afford to pay (Extract F), which is an inefficient use of money; it may be better to target those most at risk, such as the elderly, people on low incomes or drivers. It is hard to value the external benefits, so a subsidy may be set at the wrong level. Free tests may not raise take-up much if people stay away because of a lack of information or time rather than price, that is if demand is price inelastic. In that case advertising, or regulation such as requiring drivers over a certain age to have regular tests, may be more cost-effective, although both also cost money. Extra spending may not cut waiting lists quickly if there is a shortage of trained staff: France has more than five times as many optometrists per 10 000 people as the UK, and training more takes years. Overall, I believe the government should increase its spending on eye health, but in a targeted way. The strongest case is for reducing waiting lists for urgent treatment, because the costs of not treating people are large and irreversible (around £2.5 billion and lost sight for nearly 3000 people), and early treatment reduces future NHS costs, so the net cost is likely to be

Turn over ►



Extra space *small. Information campaigns to reach the 8% who have never had a test are also likely to be good value. Free tests for everyone are harder to justify given the opportunity cost and the fact that many can afford to pay, so extending free tests to more at-risk groups, such as older drivers, is a better use of limited funds. The final judgement depends on how large the external benefits are compared with alternative uses of the money, which should be assessed using cost benefit analysis.*



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