

[Student explained the negative externalities associated with the over-consumption of alcohol in detail and explained in detail the policy of implementing a sales tax on alcohol in terms of efficiency and equity, using the SMC/SMB model to support the explanations.]

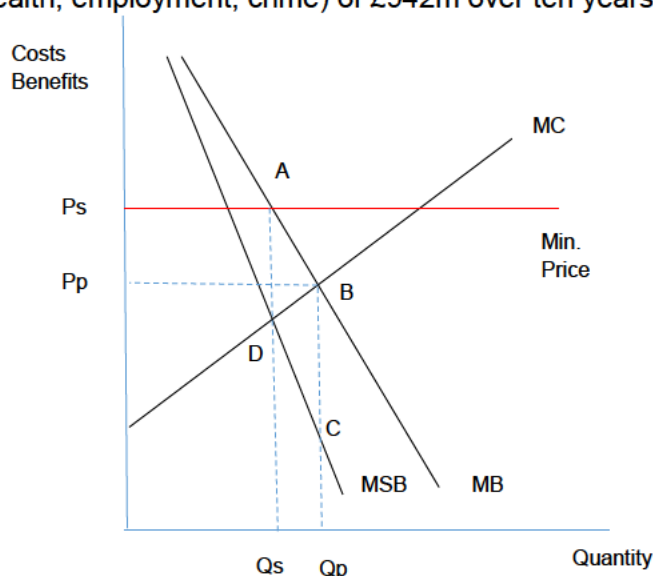
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Policy 2: Imposing a minimum price

Another policy used to reduce the consumption of alcohol is a minimum price. A minimum price is a floor price that a good cannot be sold for less than. The government sets the minimum price at a price that will cover the externalities of consuming alcohol.

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Scotland introduced a minimum price of 50p per unit in 2012, which means that a bottle of wine containing 10 units of alcohol will cost at least £5. The minimum pricing in Scotland is expected to reduce alcohol related deaths by 60 in the first year, reduce the hospital admissions by 1,600 in year one, reduce the crime from alcohol related incidences by around 3,500 offences per year, and cause a large financial saving from harm reduction (health, employment, crime) of £942m over ten years¹.



This will make the market for alcohol more efficient as it helps to reduce the negative externalities of consumption. The minimum price causes the price to increase from P_p to P_s , which causes the quantity demanded to decrease from Q_p to Q_s . This means alcohol is no longer under-priced and over consumed.

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However, due to alcohol's inelastic nature the increase in price may cause a less than proportionate decrease in the quantity demanded and therefore the socially desirable quantity and price may not be reached. The minimum price

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causes the PS to increase as some of the CS has been transferred to the producers, and some has been lost to the market, so the difference between what producers are willing to sell alcohol for and what they actually sell alcohol for has increased. This means the producer's revenue will increase because even though the quantity has decreased the price has increased by a more than proportionate amount.

The government is not receiving any revenue from the sale of alcohol whereas the producers are. This will encourage the production of alcohol as they are receiving a higher price, but the government is not receiving any revenue, which could be used to pay for health treatment and education about alcohol. The minimum price internalises the spillover costs because the price has increased to P_s for consumers.

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The minimum price has a regressive effect because households on lower incomes will be affected by the minimum pricing more than those on higher incomes are. This is because the minimum pricing will cause the price of the cheaper types of alcohol to increase from P_p to P_s , whereas the higher priced types of alcohol will already be more expensive than the minimum price of P_s so will not cause a change in the price of these types of alcohol.

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¹ <http://www.alcohol-focus-scotland.org.uk/campaigns/minimum-pricing/>

This means that the households who earn higher incomes will be able to afford the higher priced alcohol so will not notice a change in the price of their alcohol purchases, but the lower income households that bought cheap alcohol will now have to pay more.

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However, the minimum price is fair because the people that are more likely to cause the negative externalities of consumption are students. The students who bought cheaper alcohol as they are unable to buy more expensive types of alcohol will now pay more, as P_p moves to P_s and this will cause the amount they consume to decrease from Q_p to Q_s , because...