

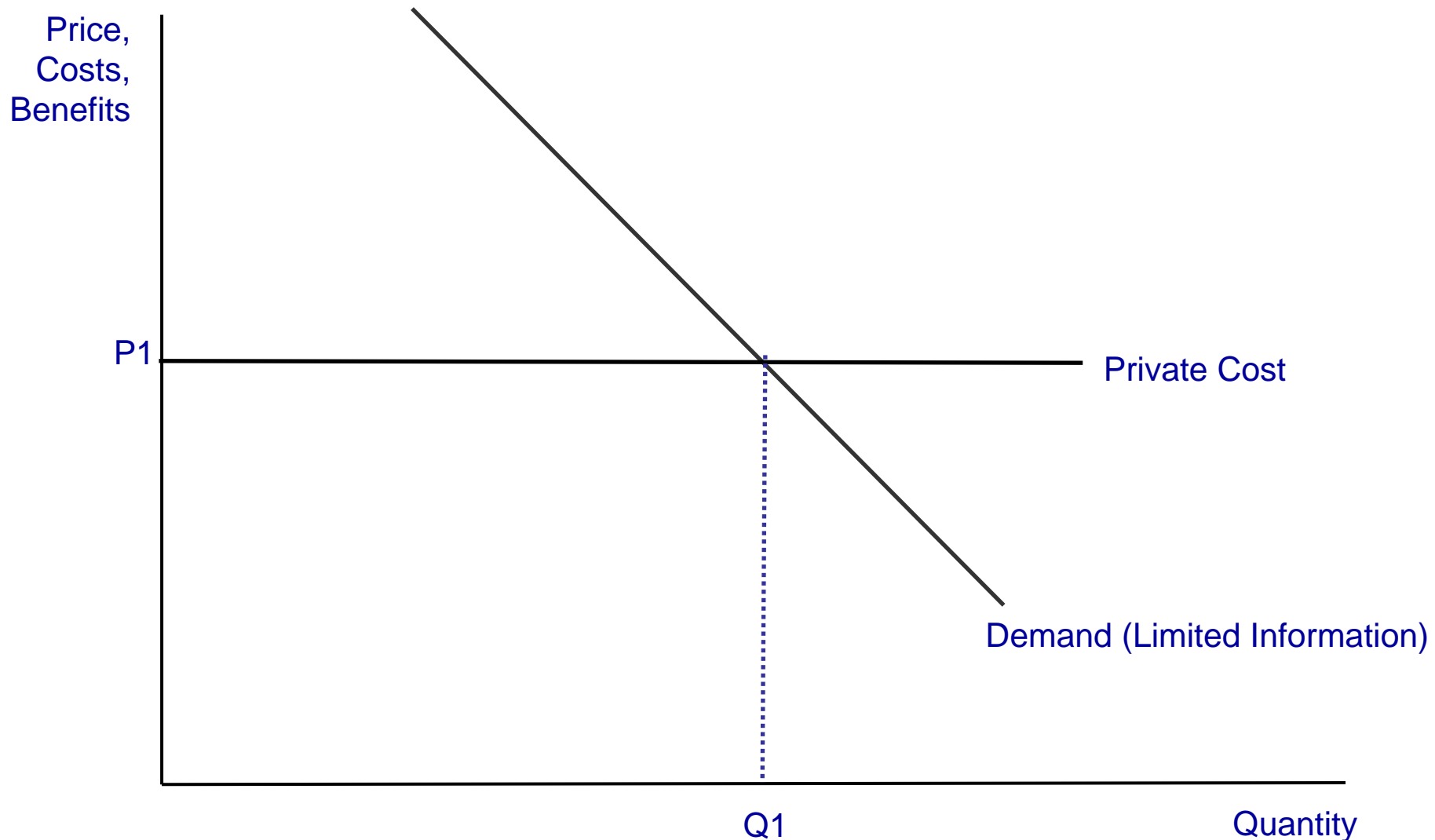
# De-Merit Goods

AS Economics Presentation  
2005

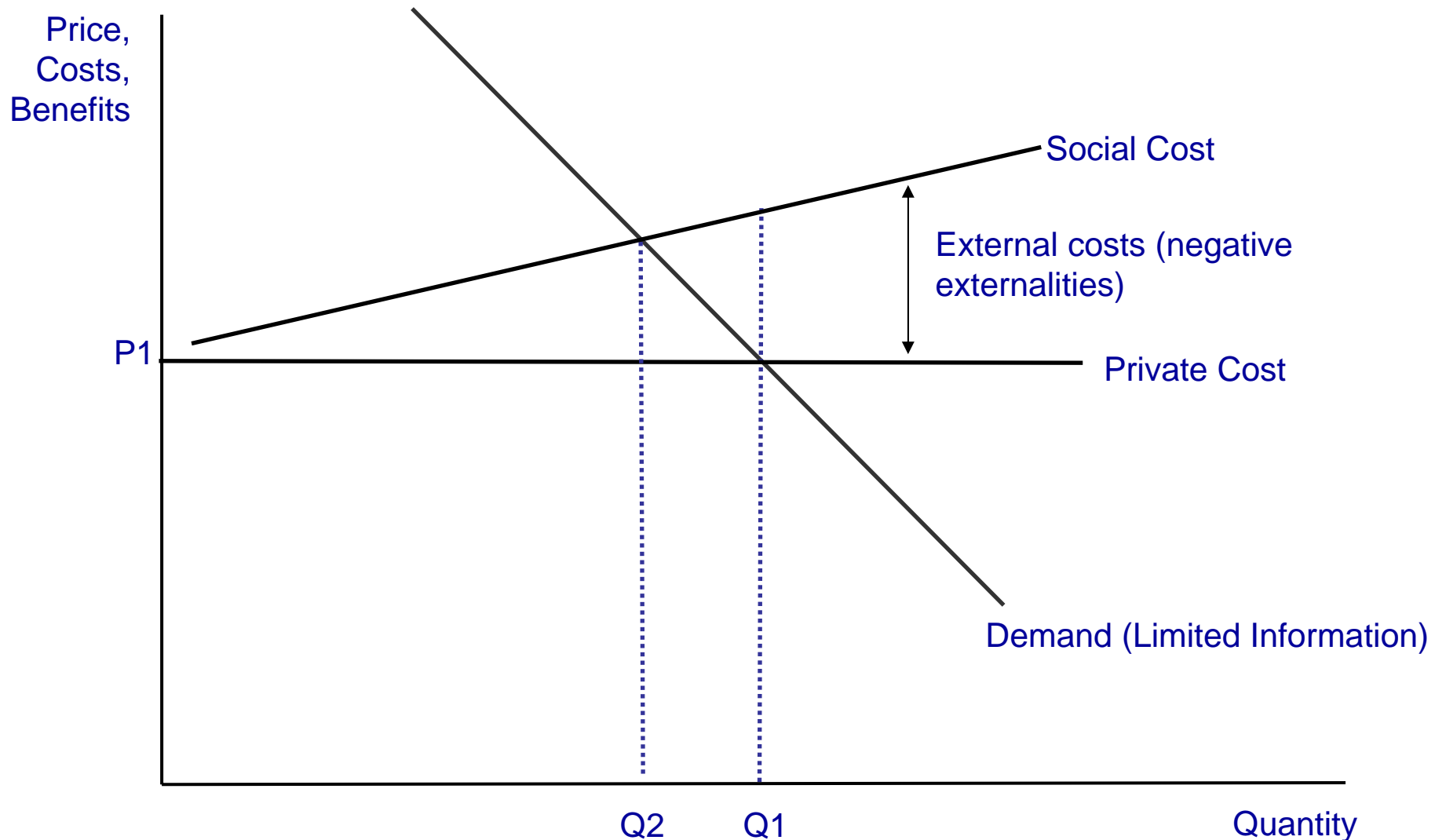
# Introduction

- Merit goods are 'good' for you. De-merit goods are thought to be 'bad' for you
  - Examples include alcohol, cigarettes and various drugs
- The consumption of de-merit goods can lead to negative externalities which causes a fall in social welfare
- The government often seeks to reduce consumption
- Consumers may be unaware of the negative externalities that these goods create – they have imperfect information
- Consumers may also underestimate the long run costs to themselves of consuming de-merit goods

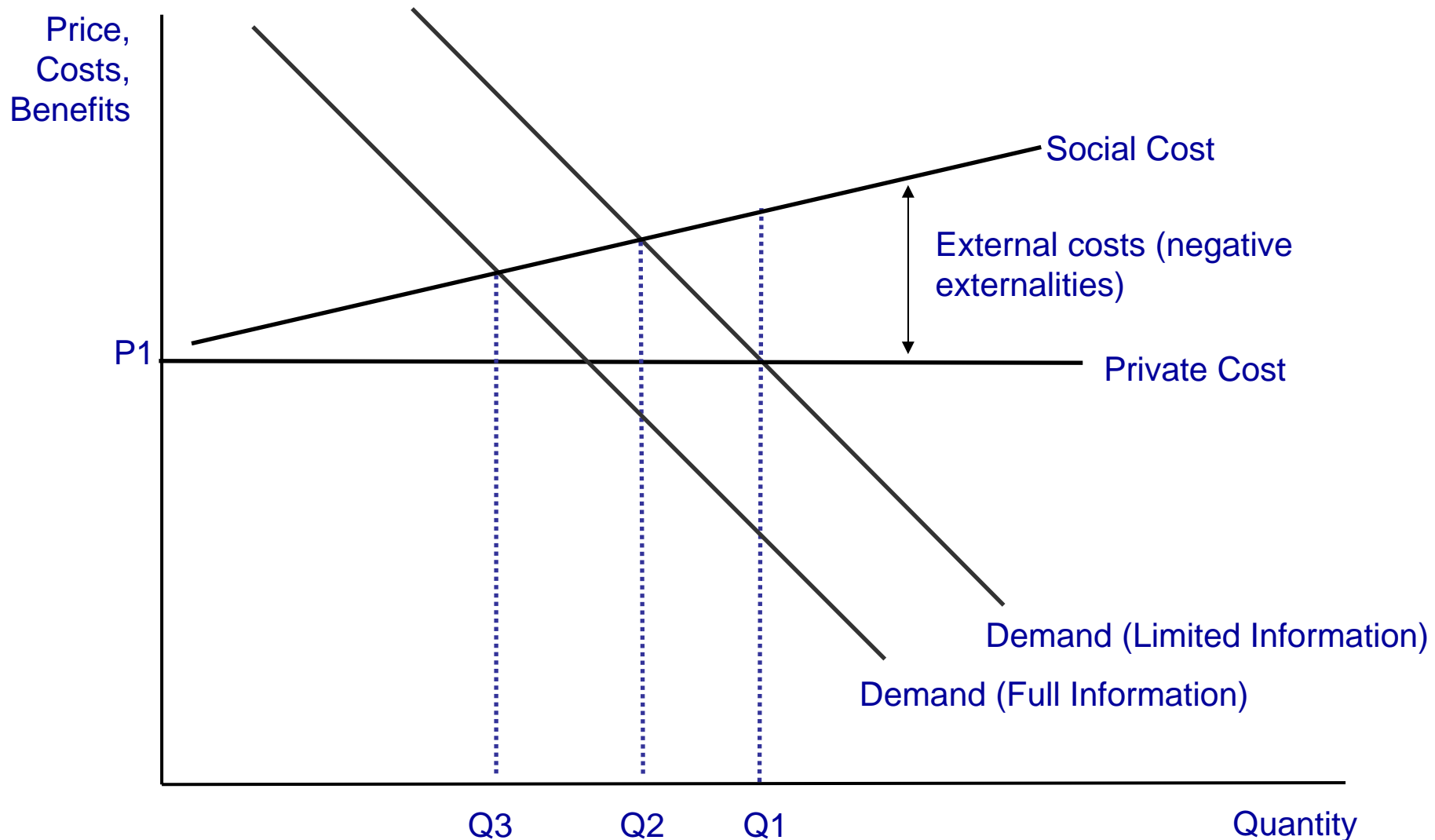
# De-merit goods and market failure (1)



# De-merit goods and market failure (2)



# De-merit goods and market failure (3)



# Information failure – smoking

- Despite health awareness campaigns – many people do not understand the true risks associated with smoking
- But what should be the appropriate government intervention?
- Is this market failure?
- Should individuals be left entirely to their own devices?



# Information failure – gambling

- It is estimated that there are over 300,000 “problem gamblers” in the UK
- Are they suffering from information failure?
- Do they understand the true long term cost for themselves and their families?
- What are the externalities associated with gambling?
- Should society intervene?

# Social cost of obesity (USA)

- A third of US adults are obese, the highest rate in the world, and obesity rates among American children have risen by 50 per cent in the past decade
- The US spent \$75bn on obesity-related illnesses in 2003
- Obesity linked to increased incidence of chronic disease and early death
  - E.g. diabetes, cardiovascular disease, several types of cancer and gallbladder disease



# Strategies to control consumption (1)

- Health awareness programmes
  - An attempt to overcome the problems of imperfect information
  - Make consumers aware of long run costs
  - Emphasis on individual's personal responsibility
- Taxation of de-merit goods to affect consumption decisions
  - Taxation of cigarettes
  - A new tax on high-fat foods?



# Strategies to control consumption (2)

- Regulation
  - e.g. banning some products / limiting consumption by age
  - Curbs on marketing of some products
- Subsidising healthier substitutes

