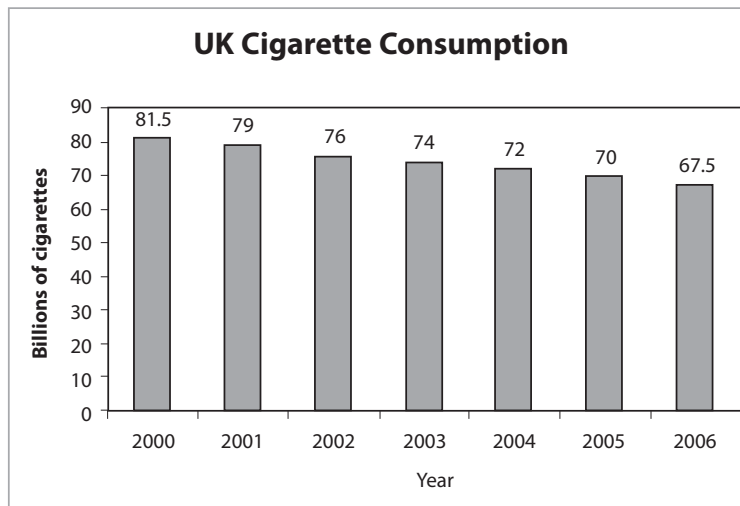


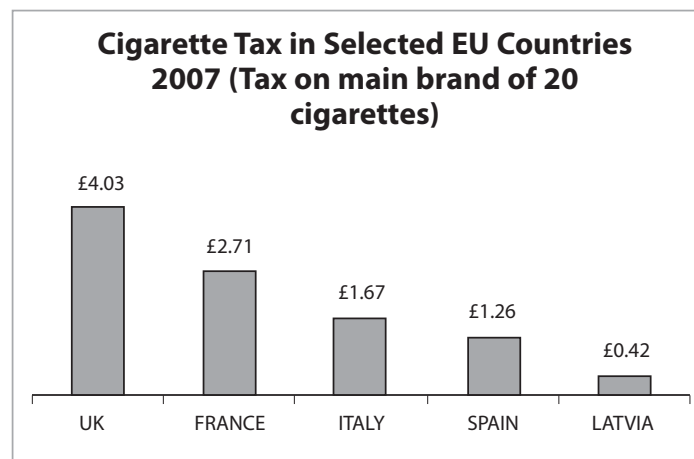
## 10 The UK Tobacco Market

Figure 1: UK Cigarette Consumption (2000 – 2006)



(Source: [www.the-tma.org.uk](http://www.the-tma.org.uk))

Figure 2: Cigarette Tax in selected EU countries (2000 – 2006)



(Source: [www.the-tma.org.uk](http://www.the-tma.org.uk))



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### Extract One

#### Tobacco smoking in decline

The government can be proud of its achievements in implementing strong tobacco control measures over recent years. The ban on tobacco advertising in 2003 and effective public health campaigns have helped smokers to give up. The ban on smoking in pubs, clubs and restaurants in July 2007 means the decline is set to continue.

However, smoking is hardly declining among socially disadvantaged groups. Currently, the government is unlikely to reduce health inequalities and in fact the gap is set to widen.

It is vitally important that the government increases measures to help poorer smokers to quit by widening access to 'stop smoking' treatments and maintaining funding of its mass media educational campaigns. The use of nicotine patches and gum, which are intended to reduce dependency on cigarettes, has helped many smokers give up. The government should also renew its efforts to reduce the illegal practice of tobacco smuggling which has encouraged smoking.

(Source: Adapted from Deborah Arnott, Director of the health campaigning charity ASH)

### Extract Two

#### Tobacco taxes too high

The UK has a higher tax rate on cigarettes than any other European Union country and according to figures from Her Majesty's Revenue and Customs, as much as £25 billion in revenue has been lost since 2000 due to smuggling and cross-border shopping. The Tobacco Manufacturer's Association estimate that UK tax was not paid on 27 per cent of cigarettes consumed in 2006.

Despite the introduction of a smoking ban in pubs, clubs and restaurants in England in July 2007 more than twenty-five per cent of the adult population continue to smoke. Many pubs, clubs and restaurants have invested in comfortable outdoor smoking areas in order to keep as many customers as possible.

The minimum legal age of sale for tobacco was increased from 16 to 18 years of age in October 2007 but this seems to have had little impact on reducing the numbers of young people who smoke, according to a Trading Standards survey in North West England. It found that many young people are still able to obtain tobacco from the informal economy, for example, street markets or neighbours.

(Source: The Tobacco Manufacturer's Association)



If you answer Question 10 put a cross in this box ☐ .

- (a) (i) With reference to Figure 1, calculate the percentage change in cigarette consumption in the UK between 2000 and 2006. (2)
- (ii) Analyse **two** likely effects on cigarette retailers of the change in cigarette consumption. (6)
- (iii) Using the concept of cross-elasticity of demand, assess the likely relationship between the demand for cigarettes and the price of nicotine replacement products. (10)
- \* (b) Examine the effectiveness of indirect taxation as a means of reducing cigarette and tobacco consumption. Use a demand and supply diagram in your answer. (12)
- \* (c) Examine the economic benefits of a reduction in cigarette and tobacco consumption. (12)
- (d) To what extent might asymmetric information exist in the tobacco market? (6)



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