

# Economics consumption

[Economics](#), [Tax](#)



Discuss the likely effectiveness of two methods, including taxation, that are available to the government seeking to reduce the consumption of demerit goods. Taxation is a payment that many people pay to the government. This is money from the producers and the consumers. It is one of the best solutions for lowering the consumption of demerit goods. Taxation is paid by consumers and producers for things like the NHS and also council homes and education. There are many methods available to the government to use to reduce the consumption of demerit goods. Demerit goods are goods that are worse for us than we think, causing them to be overly consumed which is very bad. These methods include indirect taxes, subsidies, provision of information, rules and regulations, tradable pollution permits and finally government funded production. All of these methods have both advantages and disadvantages and two of them will be explained below. Indirect taxes are one of the methods that are available to the government to reduce the consumption of demerit goods. Indirect taxes cause goods to become more expensive. An example of a demerit good that is over consumed could be tobacco. Adding indirect taxes for a good like Tobacco would be very simple and it would easily work, but a good like Tobacco is inelastic, the demand of the good would only reduce by a small amount. Elasticity is a big factor in which determines the effectiveness of the method used to decrease the consumption of demerit goods. P S2 Tax paid P2 S1 P1 D Q2 Q1 Q This graph above shows what difference indirect taxes would create. By using indirect taxes, the supply curve is most likely to shift to the left which is from S1, to S2, as there will be a smaller decrease in quantity but an increase in price. In the gap between S1 and S2 there is a gap which shows how much tax is

paid. The tax paid is what causes the price to go up, leading to the quantity going down. Therefore the quantity bought would be from  $Q_2$  and the price would be from  $P_2$ . The larger the gap between  $S_1$  and  $S_2$ , the higher the price of the indirect tax. Rules and regulations is also a good method which can affect the consumption of demerit good. This is because it generates limits which apply to the good. These limitations can sometimes be hard to control. For example, there can be underage tobacco buyers who buy them secretly; this is something very difficult to control. Rules can be added to this to help. If there was a law put in place saying underage buyers of tobacco will be fined a big amount if caught then many people would stop buying as they would be scared to face the consequences. This is a way in which the method will be very effective as it lowers the consumption of the demerit good. In this graph you can see that there is a solid line which shows the limited amount of quantity there is for a good. For example, there would be a limited amount for what age people can buy cigarettes and/or how many can be bought. When this gets put in to place, the demand curve would shift upwards, causing the price to become higher. This is a good way in causing the demerit goods to be consumed less as the quantity would be fixed.  $P_2$   $P_1$   $D_2$   $D_1$   $Q_1$   $Q$  In conclusion I think that there are many ways in which demerit goods consumption can be reduced but it can be a very difficult job. Demerit goods will never be goods that consumers would stop consuming such as the tobacco example. Finally, out of both of the methods I have explained I think indirect tax would be the best way to decrease the consumption of the demerit good. This is because it is more likely to have a bigger and better affect than the rules and regulation due to the price

becoming more expensive than before. If the government uses indirect taxes everyone will have to pay, for goods like tobacco or things that are even worse. On the other hand, tobacco is very addictive causing people not to care whether the price has changed for the good or for the bad. The advantage of using an indirect tax to reduce consumption of demerit goods is that everyone pays them. Whether they are constant tobacco buyers or not. This could put off the new comers of smoking. As for rules and regulations, it is a harder way to keep track of the consumption and not many people would get caught if simple rules were put in. it would also be really expensive to hire police and guards up 24/7 in each road checking if the rules are being followed.