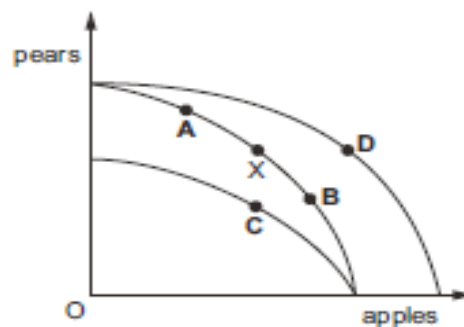


## BASIC ECONOMIC PROBLEM

(MARKING KEY AT THE END)

- 1 Which outcome depends upon the division of labour?
  - A a decrease in boredom at work
  - B a decrease in comparative advantage
  - C a decrease in efficiency
  - D a decrease in opportunity cost
  
- 2 'An increase in consumption by one person leaves the benefits available to others undiminished'.  
Which good does this statement define?
  - A a demerit good
  - B a merit good
  - C a private good
  - D a public good
  
- 3 The diagram shows a production possibility curve for a farmer. The original position is X.  
If the farmer switches some of his land from producing pears to producing apples, which point represents his new position?
 

If the farmer switches some of his land from producing pears to producing apples, which point represents his new position?



- 4 A student buys a flute for \$80 but then is unable to learn to play it. It has a resale value of \$50, while the shop retail price of the same type of flute has risen to \$95.  
What is the present opportunity cost to the student of keeping the flute?
 

A \$30	B \$50	C \$80	D \$95
--------	--------	--------	--------

- 5 India is failing to reach its full economic potential because of poor rail, road and electricity infrastructure, and a lack of skilled civil engineers.

Which factors of production need to be increased?

- A capital and land
- B enterprise and capital
- C labour and capital
- D land and enterprise

- 6 The fundamental economic question is how to meet unlimited wants with limited resources.

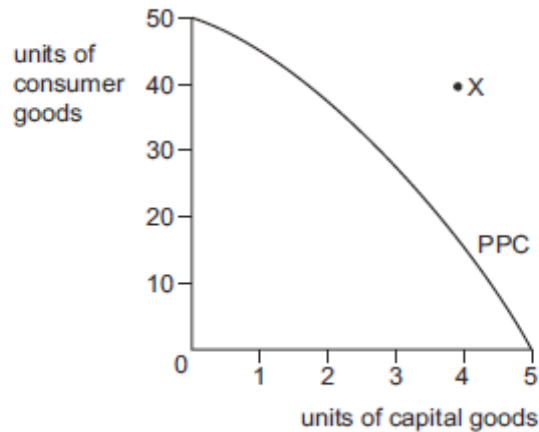
What is an example of limited resources?

- A insufficient consumer goods in the local shops
- B insufficient jobs to allow full employment
- C insufficient machinery to produce electrical goods
- D insufficient tax revenue to finance building a school

- 7 Which statement is not a positive economic statement?

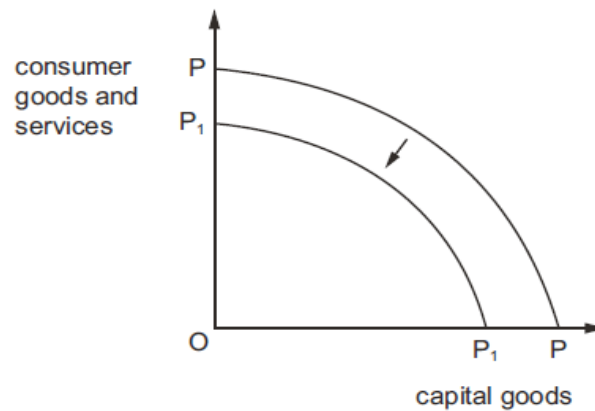
- A An increase in the rate of income tax decreases the wish to save.
- B An increase in the rate of income tax has a greater impact the greater the level of income.
- C An increase in the rate of income tax causes more hours of work to be supplied.
- D An increase in the rate of income tax is the fairest way to finance the national health service.

- 8 The diagram shows a production possibility curve (PPC). It indicates the combinations of consumer goods and capital goods produced by an economy using all its available resources.



What does position X indicate?

- A a lower ratio of capital to consumer goods is necessary to achieve economic growth
  - B increasing levels of unemployment
  - C insufficient factors of production are available
  - D too many consumer goods are causing a fall in economic growth
- 9 A production possibility curve for a country is shown.



What would cause the shift from PP to P<sub>1</sub>P<sub>1</sub>?

- A application of more machinery used in manufacturing
- B productivity decreases
- C scientific methods applied to farming
- D switch from production of consumer goods to capital goods

- 10 A government wants to move its economy away from central planning towards a market economy.

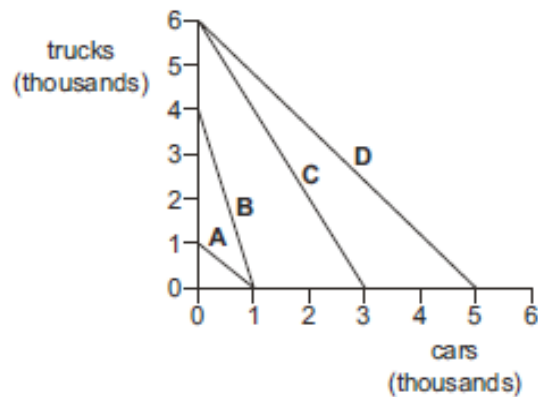
Which policy would be consistent with this aim?

- A introduce tariffs on imported goods
  - B privatise the ownership of electricity generation
  - C provide free education for primary school pupils
  - D reduce prices of foods such as wheat and rice
- 11 What would be a determinant of a country's production possibility curve boundary?
- A the capital invested in infrastructure
  - B the level of price and wage inflation
  - C the level of unemployed labour
  - D the volume of imports and exports

- 12 What justifies government intervention in the provision of a merit good such as education?
- A People who pay for education value it more than those who cannot pay.  
 B Private schools have more merit than state schools.  
 C Social costs of providing education outweigh social benefits of education.  
 D Some consumers do not fully recognise the value of education.
- 13 What is the opportunity cost to a person of spending \$20 on a new pair of sports shoes?
- A all the other things the person could have bought  
 B the cost of getting to the sports shop  
 C the current value of his old pair of shoes  
 D the next best thing that could have been bought with the \$20
- 14 Which statement is correct?
- A In the short run all factors of production are fixed; in the long run all factors are varied.  
 B In the short run at least one factor is fixed; in the long run all factors can be varied.  
 C In the short run at least one factor is varied; in the long run all factors are fixed.  
 D In the short run at least one factor is varied; in the long run at least one factor is fixed.
- 15 What is correct at any point along an economy's production possibility curve?

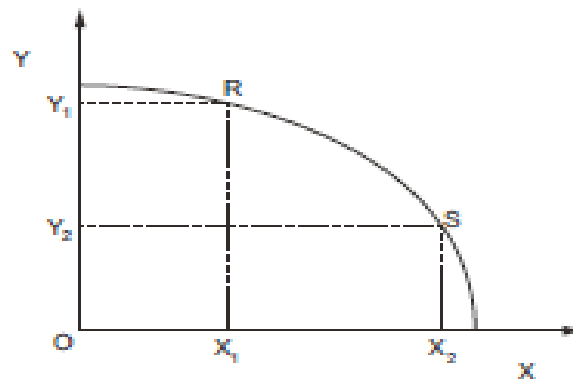
	existing resources are fully employed	existing technology is fully used
A	correct	correct
B	correct	false
C	false	correct
D	false	false

- 16 What is not an example of the role of the factor enterprise in a modern economy?
- A deciding on new export markets for the company's goods and services
  - B making payments to suppliers for raw materials and capital goods
  - C reducing costs through the introduction of a new shift system for employees
  - D transforming the production process with the introduction of robots
- 17 The production possibility curves show the abilities of four economies to produce trucks and cars. In which economy is the opportunity cost of producing cars lowest?



- 18 John sells cakes for \$10. Aisha offers online tutoring for \$20 per hour. One hour of Aisha's tutoring is worth two of John's cakes. Which function of money is being illustrated?
- A medium of exchange
  - B standard of deferred payment
  - C store of value
  - D unit of account

- 19 Which statement by a company is normative?
- A In the past three years we have carried out the biggest merger acquisition in the group's history.
- B The business has fallen behind competitors and needs to improve its ethical standards.
- C The growth of the business has been in retail and financial services.
- D The structure of the business has been simplified.
- 20 The diagram shows an economy's production possibility curve for goods X and Y.



What is the opportunity cost of moving from point R to point S on the production possibility curve?

- A  $OX_1$       B  $OY_2$       C  $X_1X_2$       D  $Y_1Y_2$
- 21 From 1995 to 2000 each of the countries listed below moved towards a market economy through privatisation programmes.

Which country made the slowest rate of transition?

		private sector share of GDP (ratio of private enterprise earnings to GDP)	
		1995	2000
A	Czechia	70	80
B	Hungary	60	70
C	Romania	45	60
D	Slovakia	60	80

- 22 The statements are from a report by a water company that supplies water to homes and businesses.

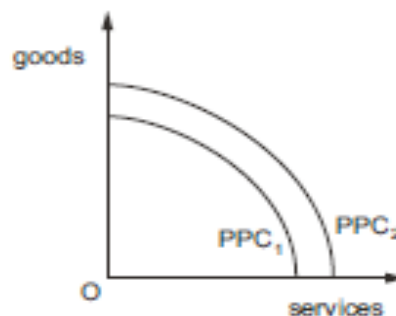
Which statement is normative?

- A It is important that we continue to invest in our infrastructure.  
 B Our investment will have wider benefits, attracting visitors to the region.  
 C We are investing more than ever in the region.  
 D We use local suppliers on construction projects which boosts the local economy.
- 23 The combinations of output of goods X and Y shown in the table could all be produced using the existing resources in a country to their maximum capacity.

	1	2	3	4	5
X	220	200	180	140	90
Y	10	25	40	70	100

Which statement about the opportunity cost of good Y in terms of good X is correct?

- A It decreases as the output of Y increases.  
 B It is always below  $1Y = 1X$ .  
 C It is constant throughout the range of output shown.  
 D It is never above  $1Y = 2X$ .
- 24 The diagram shows two production possibility curves for goods and services in an economy.



What would not cause the economy's production possibility curve to shift from  $PPC_1$  to  $PPC_2$ ?

- A an increase in the level of employment  
 B an increase in the retirement age  
 C an increase in the skills level of employees  
 D an increase in the use of capital by firms

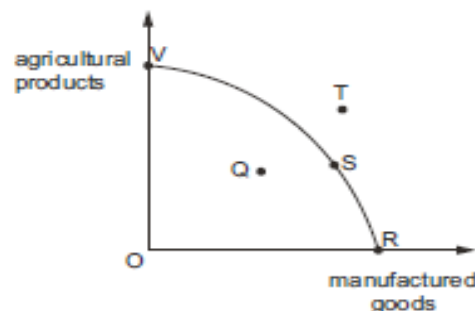


- 25 What would be an opportunity cost of growth in an economy?
- A the faster growth of services than of manufacturing
  - B the need for an increased level of imported raw materials
  - C the need for greater government intervention
  - D the reduction of consumption if growth requires investment
- 26 A .....1..... economic statement is an objective statement that .....2..... be tested using factual evidence, whereas a .....3..... economic statement is a subjective statement that .....4..... be tested using factual evidence.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	normative	can	positive	cannot
B	normative	cannot	positive	can
C	positive	can	normative	cannot
D	positive	cannot	normative	can

- 27 What would most likely be considered an advantage by producers and a disadvantage by consumers of the operation of a planned economy?
- A a bureaucratic system of decision-making
  - B a government emphasis on the production of capital goods
  - C a long response time to changing economic events
  - D an absence of financial incentives to work and to produce
- 28 A country can produce manufactured goods and agricultural products as shown in the diagram.



Given this information, which statement is definitely correct?

- A If the country produces at Q it has unused or inefficiently used resources.
- B The country should produce at T instead of at Q.
- C The country would be better off producing at R than S.
- D The monetary costs are the same to produce at V as they are to produce at R.

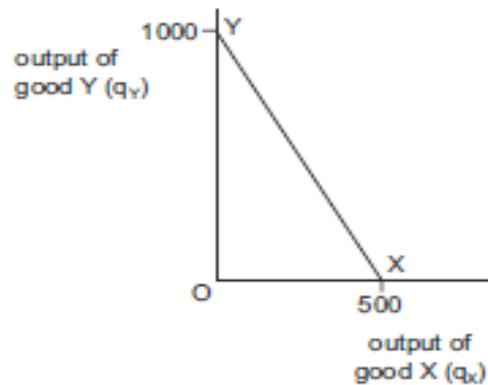
29 The statements refer to the proposal to build another runway at London's Heathrow airport.

Which statement is normative?

- A Heathrow is the UK's busiest airport and has more flights than any other European airport.
- B The airport is highly competitive but there is spare capacity.
- C The potential net benefit of expansion is around £5 billion over 70 years.
- D We should concentrate on improving the use of existing capacity not build another runway.

30 YX is an economy's production possibility curve (PPC).

The equation of the curve is  $q_Y = 1000 - 2q_X$ .

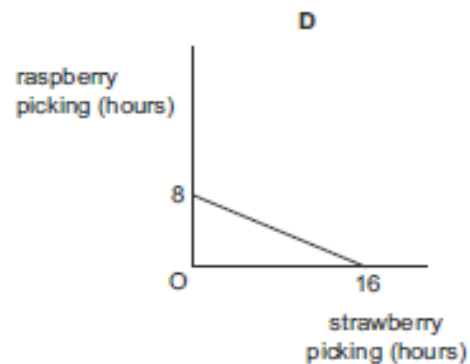
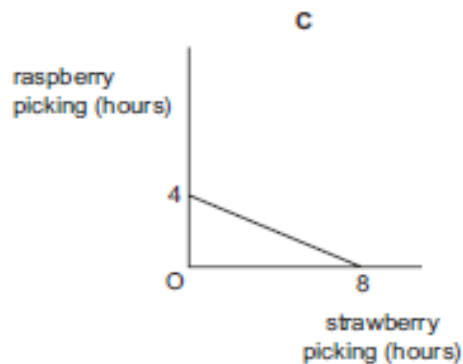
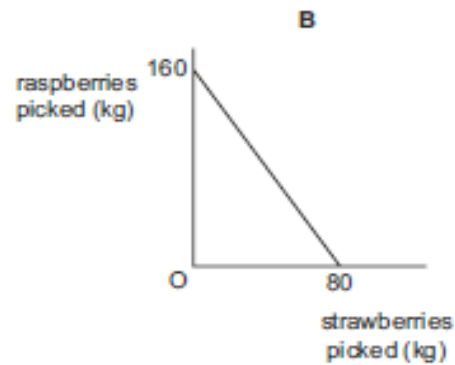
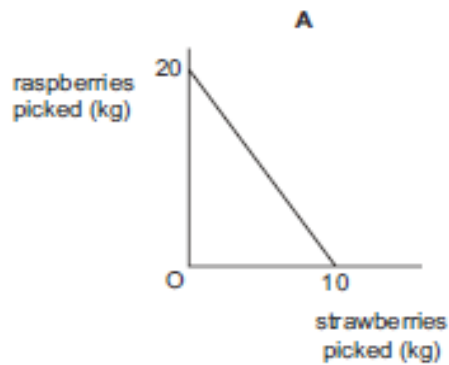


What is the opportunity cost of producing one extra unit of good X?

- A  $\frac{1}{2}$  unit of good Y
- B 2 units of good Y
- C 500 units of good Y
- D 1000 units of good Y

- 31 A farmer picks 10 kg of strawberries in each hour. The farmer is twice as productive at picking raspberries.

Which diagram shows the farmer's daily production possibility curve when working 8 hours a day?

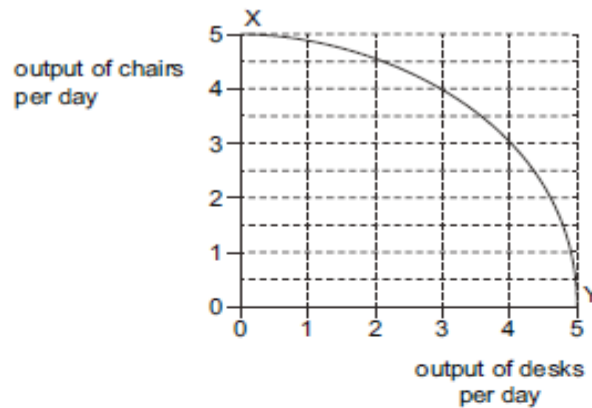


- 32 Governments provide public goods.

What is an example of a public good?

- A the services provided by a defence force
- B the services provided by a hospital
- C the services provided by a leisure centre
- D the services provided by a toll road

- 33 XY is the production possibility curve (PPC) of a firm that produces desks and chairs.



What are the opportunity costs of the 4th and 5th desks produced by the firm?

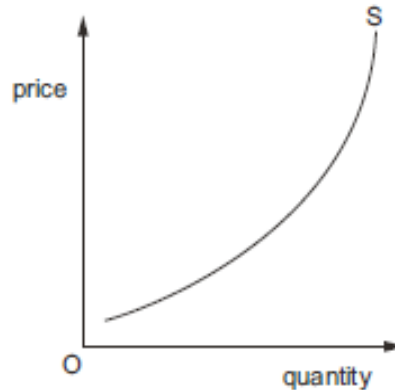
	opportunity cost of 4th desk	opportunity cost of 5th desk
A	1 chair	3 chairs
B	2 chairs	5 chairs
C	3 chairs	0 chairs
D	4 chairs	5 chairs

- 34 A government proposes to introduce a road congestion charge which would require private motorists to pay a toll for road use.
- Which statement relating to the proposal is normative?
- A Bus passengers will benefit at the expense of motorists.
  - B Motorists with higher incomes will be prepared to pay the charge in return for reduced journey times.
  - C Motorists with lower incomes will not be able to afford to use the roads.
  - D The proposal will be unfair to motorists who have no alternative means of transport.
- 35 A firm changes the type of product it produces.
- What might limit the firm's ability to use division of labour?
- A The new production method is more capital intensive.
  - B The new production method is very expensive.
  - C The new product is made to specific customer requirements.
  - D The new product requires specialised labour.
- 36 A group of tourists become stranded on a desert island. They decide to use their own system of money.
- Which statement about their choice of money is correct?
- A Coins in their possession would be suitable if there are enough of them.
  - B Fruit fallen from trees would be suitable because it has intrinsic value as a food.
  - C Pebbles from the seashore would be suitable because they are both durable and plentiful.
  - D Seaweed would be suitable as it is in unlimited supply around the coast.

**THE PRICE SYSTEM AND THE MICRO ECONOMY (AS LEVEL)**

**(DEMAND/SUPPLY/PES/PED/YED/XED/EQUILIBRIUM/SURPLUS)**

- 37 The diagram shows a supply curve for beef.



What explains why the supply curve for beef slopes upwards?

- A An increase in the demand for beef will bring about an increase in supply.
  - B Farmers' productivity rises as the price rises.
  - C Increased production leads to a reduction in costs.
  - D The cost of additional beef production rises as output increases.
- 38 A theatre increases the price of its tickets from \$10 to \$15. As a result, its total receipts decrease from \$10 000 to \$6000.

Within what range does the price elasticity of demand for theatre tickets lie?

- A 0.2 to 0.5
  - B 0.6 to 1.0
  - C 1.1 to 1.4
  - D 1.5 to 2.0
- 39 A taxi firm raises fares at its busiest times by as much as five times the normal fare. Taxi drivers and customers are notified of the changes by mobile (cell) phone.

What will result from this policy?

- A It will be less likely that there is a market equilibrium.
- B Potential customers will have less perfect information.
- C The market surplus will become a shortage.
- D The supply of taxi rides will become more price elastic.

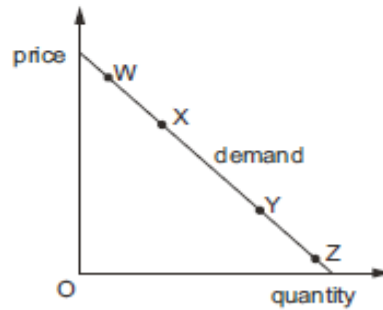
- 40 The table shows Shanaz's and Sunil's price elasticity of demand for restaurant meals and theatre tickets.

	Shanaz	Sunil
restaurant meals	-0.8	-1.2
theatre tickets	-1.3	-0.7

There is a rise in the price of restaurant meals and a fall in the price of theatre tickets.

What can be concluded after these price changes?

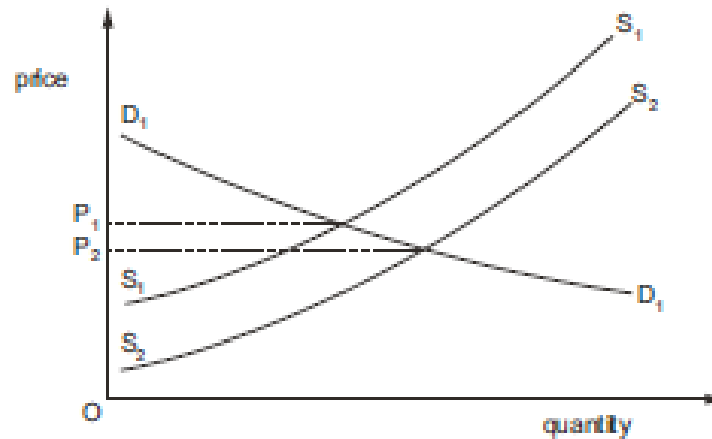
- A Restaurant owners will receive more income.  
 B Shanaz will spend more money on both theatre tickets and restaurant meals.  
 C Sunil will spend more money on both theatre tickets and restaurant meals.  
 D Theatre owners will receive less income.
- 41 The diagram shows the demand curve for a normal product.



Which two points indicates a move from a price inelastic point to a less inelastic point?

- A W to X      B X to W      C Y to Z      D Z to Y

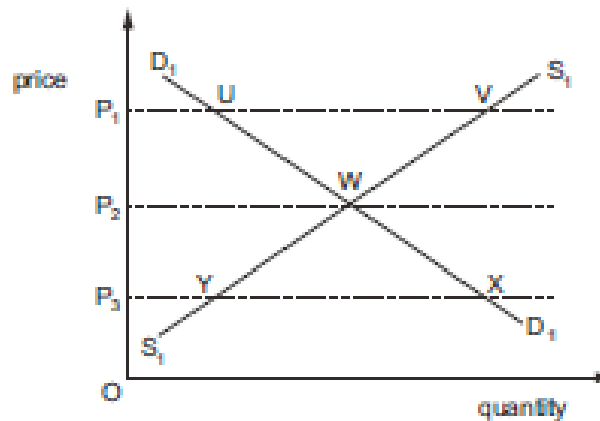
42 In the diagram, the supply of a product increases while the demand curve does not shift.



Which row correctly identifies the resulting impact on consumer and producer surplus?

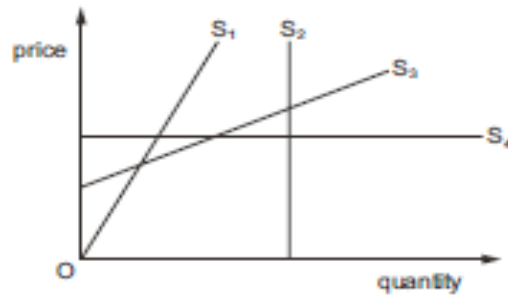
	consumer surplus	producer surplus
A	has fallen	has fallen
B	has fallen	has risen
C	has risen	has fallen
D	has risen	has risen

43 The diagram shows the market demand and supply for a good. Which statement is not valid?



- A At price  $OP_1$ ,  $UV$  represents the market surplus.
- B At price  $OP_3$ ,  $P_3X$  represents the quantity that consumers would like to buy.
- C If price were to fall from  $OP_1$  to  $OP_3$ , the extra quantity demanded would be equal to the extra quantity supplied.
- D Price  $OP_2$  is the market equilibrium price.

- 44 For which supply curve is the value of price elasticity of supply not the same at all points on the curve?



- A  $S_1$                       B  $S_2$                       C  $S_3$                       D  $S_4$

- 45 Producer surplus is the difference between

- A the consumer surplus from the good and the producers' total cost of supplying the good.  
 B the highest price that the consumer would be willing to pay for the good and the price the producer actually sold it for.  
 C the lowest price that the producer would accept for the good and the price the producer actually sold it for.  
 D the quantity that the producers manufacture in a week and the amount sold to consumers in that week.

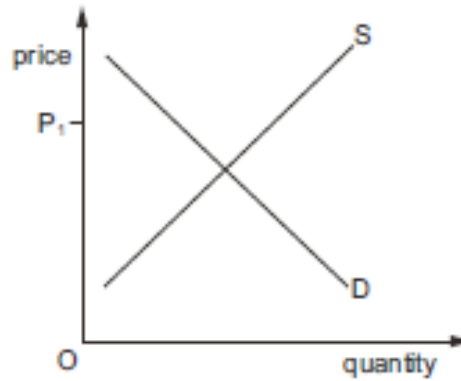
- 46 The tariff on Indian goods entering the US falls from 10% to 5%.

What will be the most likely effect on the producer and consumer surplus in the US?

	US producer surplus	US consumer surplus
A	decrease	increase
B	decrease	no change
C	increase	increase
D	increase	no change



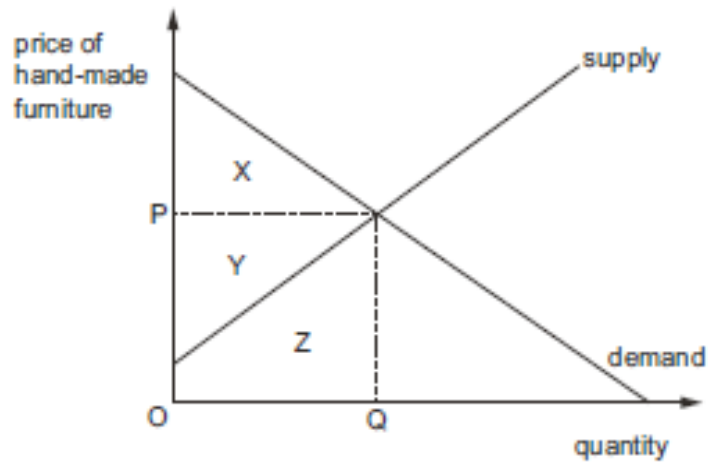
47 The diagram shows the demand for, and supply of, carrots.



What is true at price  $P_1$ ?

- A There will be a shortage of carrots.
- B There will be a surplus of carrots.
- C There will be an increase in the sale of carrots.
- D There will be market clearing of carrots.

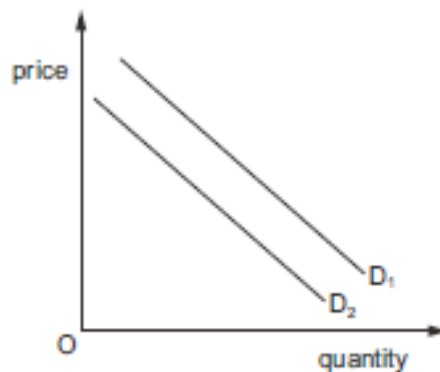
48 The diagram shows the market for hand-made furniture.



Which area of the diagram represents the producer surplus?

- A area X
- B area X + Y
- C area Y
- D area Y + Z

49 The diagram shows the demand curve for luxury cars.



The shift in the demand curve  $D_1$  to  $D_2$  can be explained by

- A a decrease in air travel.
- B an increase in advertising by luxury car manufacturers.
- C an increase in income.
- D an increase in the price of petrol.

50 What is cross elasticity of demand?

- A the responsiveness of price of good X due to a change in demand of good Y
- B the responsiveness of quantity demanded of a good due to a change in its price
- C the responsiveness of quantity demanded of good X due to a change in quantity of good Y
- D the responsiveness of quantity demanded of good X due to a change in the price of good Y

- 51 Consumers receive an increase in their incomes.

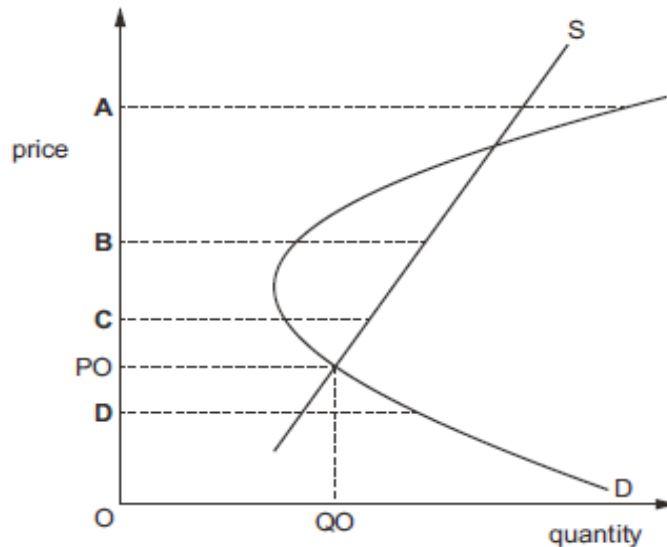
Which circumstances will cause the quantity of the product sold to increase the most?

	nature of the product	price elasticity of supply of the product
A	inferior good	price elastic
B	inferior good	price inelastic
C	normal good	price elastic
D	normal good	price inelastic

- 52 An unstable disequilibrium is when a market does not return to an original equilibrium point from a disequilibrium position. The diagram shows a market with two equilibrium points.

PO/QO is the original market equilibrium.

At which price is the market in an unstable disequilibrium?

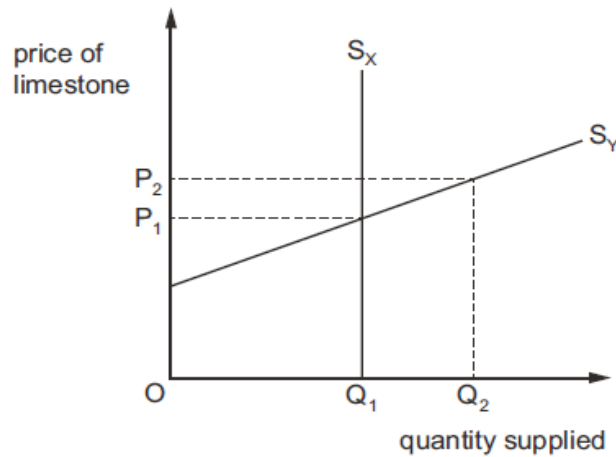


- 53 The table shows the quantity of a product supplied at two different prices by four firms, A, B, C and D.

Which firm has a price elasticity of supply equal to 1 when the price falls from \$10 to \$8?

	price of product (\$)	
	10	8
A	500	300
B	500	350
C	500	400
D	500	450

- 54 The diagram shows the supply of limestone from quarry X and quarry Y at two prices.

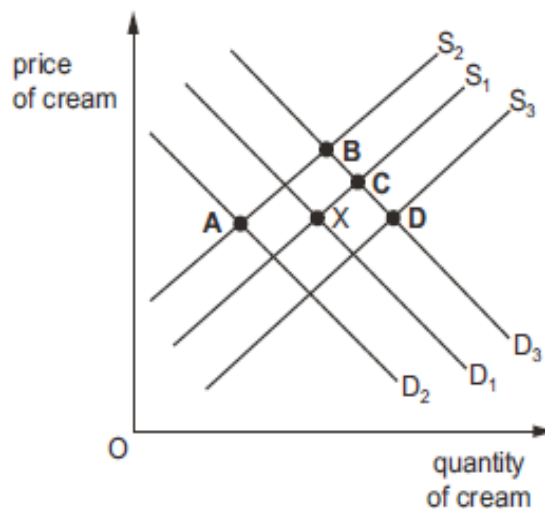


What is the measure of the responsiveness of supply as the price increases from  $P_1$  to  $P_2$ ?

	$S_X$	$S_Y$
A	0	$>1$
B	$<1$	1
C	1	$<1$
D	$>1$	0

- 55 The diagram shows the demand for and supply of cream. The original equilibrium is point X. Strawberries and cream are complementary goods.

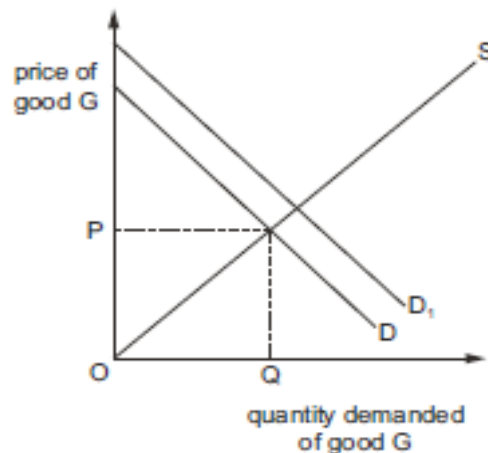
If the price of strawberries falls and the cost of producing cream increases which point represents the new equilibrium?



56 What follows if the income elasticity of demand for a good has a value of  $-0.2$ ?

- A When income rises less of the good is bought.
- B When income rises more of the good is bought.
- C When price falls more of the good is bought.
- D When price rises less of the good is bought.

57 The diagram shows the relationship between price ( $P$ ) and demand ( $D$ ) for a normal good  $G$ .



What would cause a shift to  $D_1$ ?

- A a decrease in the price of a substitute good
  - B a fall in the level of advertising for the good  $G$
  - C a rise in the price of good  $G$
  - D an increase in the incomes of consumers
- 58 What is **most** likely to cause an increase in the consumer surplus in the market for a normal good?
- A an increase in consumer incomes
  - B an increase in the number of substitute goods
  - C an increase in the price of a complementary good
  - D an increase in the price of the good
- 59 The cross elasticity of demand between two products,  $X$  and  $Y$ , is negative. What would be the immediate effect of a rise in the price of product  $Y$ ?
- A Quantity demanded of product  $X$  will fall.
  - B Supply of product  $X$  will rise.
  - C The cross elasticity of demand will rise.
  - D The price of product  $X$  will rise.

- 60 Which combination of events is **most** likely to leave the demand curve for a normal good in the same position?
- A a decrease in consumer incomes and an increase in the price of a substitute good
  - B a decrease in consumer incomes and an increase in the price of the good
  - C an increase in consumer incomes and an increase in the price of a substitute good
  - D an increase in consumer incomes and an increase in the price of the good

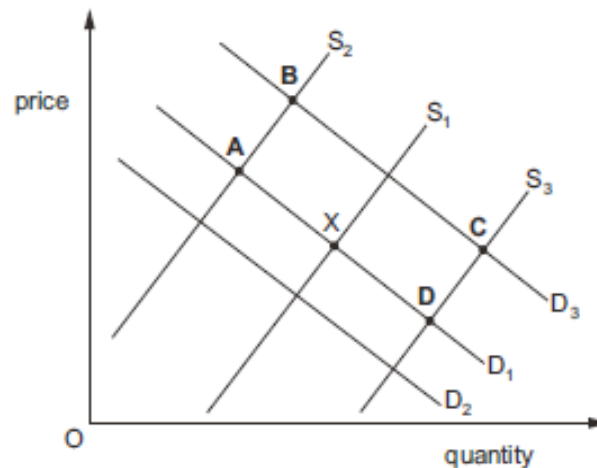
61 Which statement about market disequilibrium is correct?

- A Price is likely to change.
- B Supply is equal to demand.
- C The government must intervene.
- D There must be shortages.

62 In the diagram,  $D_1$  and  $S_1$  represent the demand for and supply of luxury watches. Equilibrium is initially at point X.

The cost of raw materials for manufacturing watches rises. At the same time the incomes of the rich increase.

Which point on the diagram is most likely to represent the new equilibrium?



63 The equation for the quantity demanded (QD) of a product is  $QD = 400 - 20P$  where  $P$  = price in dollars. The quantity supplied (QS) is given by  $QS = 100 + 40P$ .

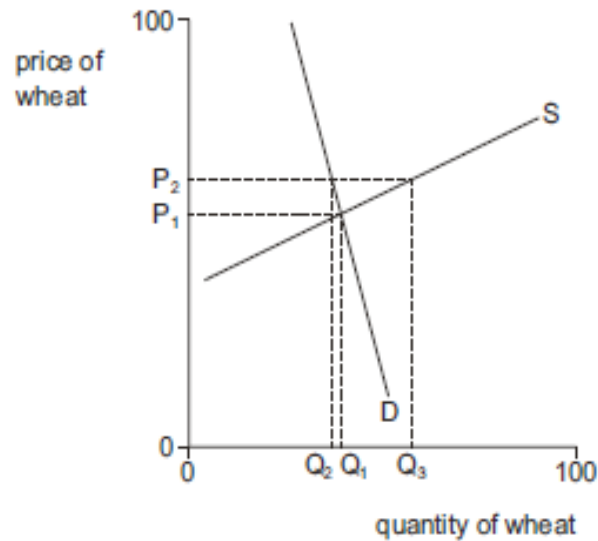
What can be concluded about the market when price is \$5?

- A Consumers will face a shortage.
- B Government will intervene in the market.
- C Producers will have a surplus of the product.
- D The market will be in equilibrium.

64 When is the supply curve for a car manufacturing firm most likely to be price elastic?

- A when the firm finds it difficult to recruit new labour
- B when the firm has a large quantity of stock
- C when the firm is operating in the short run
- D when the firm is operating near to full capacity

65 The diagram shows a market for wheat.

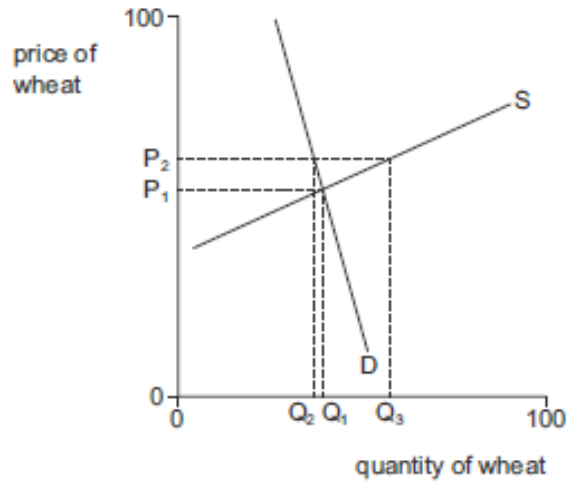


What is the response of demand for and supply of wheat when the price of wheat falls from  $P_2$  to  $P_1$ ?

	demand	supply
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic

- 64 When is the supply curve for a car manufacturing firm most likely to be price elastic?
- A when the firm finds it difficult to recruit new labour
  - B when the firm has a large quantity of stock
  - C when the firm is operating in the short run
  - D when the firm is operating near to full capacity

- 65 The diagram shows a market for wheat.



What is the response of demand for and supply of wheat when the price of wheat falls from  $P_2$  to  $P_1$ ?

	demand	supply
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic



66 The table shows the demand schedule for avocados in a market on a particular day.

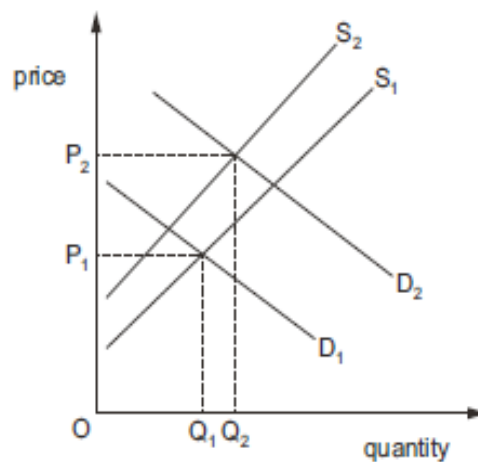
The supply of avocados was fixed on that day.

\$ per avocado	quantity demanded
2.60	500
2.40	640
2.20	740
2.00	820
1.80	900

Which statement is correct?

- A If the supply was 490, at a price of \$2.60 there was an excess demand of 10 avocados.
- B If the supply was 650, at a price of \$2.40 there was an excess demand of 10 avocados.
- C If the supply was 810, at a price of \$2.00 there was an excess supply of 10 avocados.
- D If the supply was 890, at a price of \$1.80 there was an excess supply of 10 avocados.

67 The diagram shows the demand and supply curves of a normal good (X).  $Q_1P_1$  is the initial equilibrium.

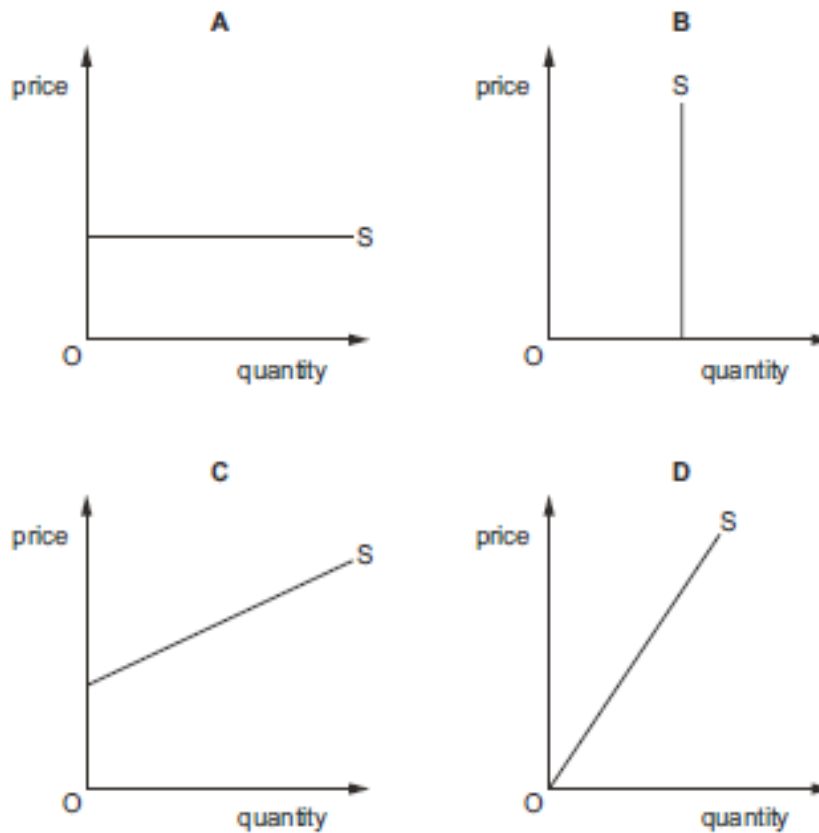


Other things being equal, what may cause the change in the market equilibrium to  $Q_2P_2$ ?

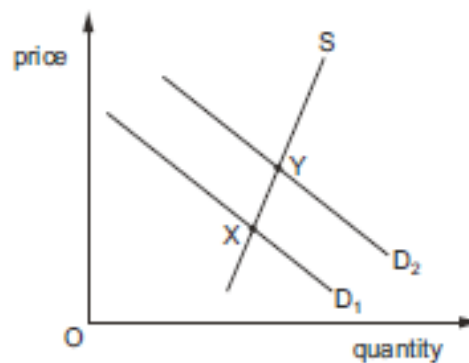
- A a fall in household incomes and an increase in interest rates
- B a rise in workers' real wages in all sectors of the economy
- C an increase in income tax and a rise in the specific tax levied on X
- D an increase in the price of a substitute product for X and a fall in the costs of producing X

68 The diagrams show the supply curves in four different markets.

In which market is the price elasticity of supply always equal to one?



69 The diagram represents the market for electric cookers.



What is **most** likely to explain the change in the equilibrium from point X to point Y?

- A a fall in the price of electric cookers
- B an increase in a specific tax on electric cookers
- C an increase in the number of households
- D an increase in the price of electricity

- 70 A rise in the price of a good is accompanied by an increase in the quantity demanded.

What could explain this?

- A Consumers spend a high proportion of disposable income on the good.
- B The price of a complementary good has also increased.
- C The price of the good is taken to be an indication of the level of quality.
- D The substitute goods are all very much more expensive.

- 71 What causes the demand curve for an inferior good to shift to the right?

- A a decrease in consumer incomes
- B a decrease in income tax
- C a decrease in the price of a substitute good
- D a decrease in the price of the good

- 72 In a town, bus fares fall by 50% and this leads to an increase in bus use by 30%. The effect on car use is very low with only a 1% reduction.

What is the value of the cross-elasticity of demand between car travel and bus travel?

- A  $-0.60$
- B  $-0.02$
- C  $+0.02$
- D  $+0.60$

- 73 The table shows the quantities demanded (Q) of goods X and Y corresponding to different prices (P) of the two goods.

	$P_X = \$8$	$P_X = \$10$
$P_Y = \$3$	$Q_X = 16$ $Q_Y = 20$	$Q_X = 12$ $Q_Y = 30$
$P_Y = \$4$	$Q_X = 20$ $Q_Y = 16$	$Q_X = 16$ $Q_Y = 24$

What is the range of the value of the cross-elasticity of demand for good Y with respect to the price of good X?

- A 0.75 to 1.5
- B 1.50 to 2.4
- C 1.66 to 2.0
- D 1.75 to 2.5

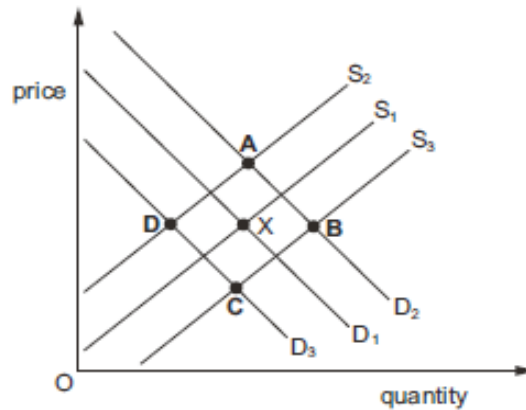
- 74 A firm estimates that the price elasticity of supply of its product is 0.4.

Should the firm be concerned by this figure?

- A No, as it implies that the firm will be able to raise revenue by raising price.
- B No, as it suggests there are few substitutes for the product.
- C Yes, as it means that demand for its product is increasing at a slow rate.
- D Yes, as it shows that the firm is not able to adjust supply easily when demand changes.

- 75 The cross-elasticity of demand between two goods will be higher
- A the greater the difference in price between the two goods.
  - B the greater the income elasticities of demand for the two goods.
  - C the greater the price elasticities of demand for the two goods.
  - D the more they are regarded as similar by consumers.
- 76 The price elasticity of supply of a good is +2. The quantity supplied originally was 200 units.
- The price increases by 30%.
- What will the quantity supplied be after the price increase?
- A 80 units      B 140 units      C 260 units      D 320 units

- 77 The diagram shows  $S_1$  and  $D_1$ , the original supply and demand curves for fast food in an economy. Point X is the original equilibrium. Fast food is an inferior good.
- What would be the new equilibrium position following a tax imposed on fast food and a fall in real income?



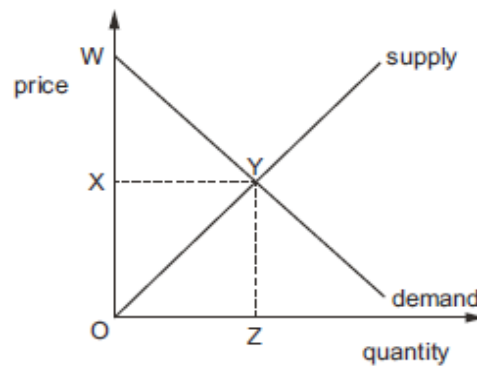
- 78 A supply curve is represented by the equation, quantity supplied =  $10 + 5P$ , where  $P$  = the price of the product.
- Which price rise would cause the quantity supplied to double?
- A \$1 to \$2      B \$1 to \$3      C \$1 to \$4      D \$1 to \$5

- 79 The table shows the price of a good and total expenditure on the good during specific periods when the market is in equilibrium.

period	price (\$)	total expenditure (\$)
1	12	96 000
2	5	40 000
3	8	64 000
4	10	80 000
5	4	32 000

What can be deduced from this data?

- A The good has constant opportunity cost.  
 B The good is an inferior good.  
 C The price elasticity of demand is equal to one.  
 D The price elasticity of supply is equal to zero.
- 80 The diagram shows the market for computers in Pakistan.



Which areas represent consumer surplus and consumer expenditure?

	consumer surplus	consumer expenditure
A	WXY	OXY
B	WXY	OXYZ
C	WYO	OXYZ
D	WYO	OYZ

## GOVERNMENT MARKET FALIURE

- 81 A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

- A a maximum price below the market price for food
- B a minimum price below the market price for food
- C a payment of a subsidy to farmers to produce food
- D a release of government food stocks onto the market

- 82 What describes a regressive tax?

- A low income earners pay a higher proportion of their income in tax than high income earners
- B marginal tax rates exceed average tax rates
- C the cost of collecting the tax exceeds the revenue raised
- D the marginal rate of tax is higher for high income earners than for low income earners

- 83 A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

- 84 Too much sugar causes an increase in a consumer's weight. A government has introduced a 'sugar tax' on the consumption of soft drinks that have a high sugar content.

How might this policy help to reduce the number of overweight people?

- A Consumers switch to cheaper brands of soft drink with a high sugar content.
- B Consumers switch to other high-sugar substitute goods, such as alcohol or sweets.
- C The price elasticity of demand for soft drinks is inelastic.
- D The tax revenue is spent on education about the dangers of soft drink consumption.

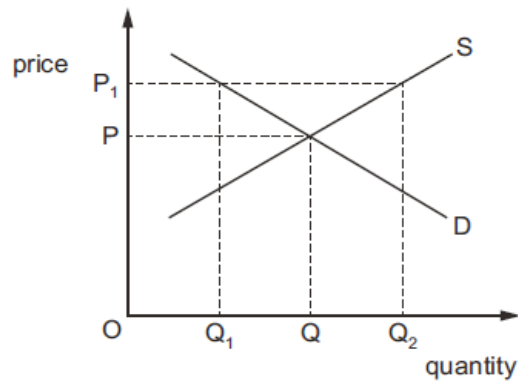
- 85 What describes a regressive tax?
- A All taxpayers pay the same proportion of income in taxes.
  - B High-income earners pay a lower proportion of income in taxes than low-income earners.
  - C High-income earners pay less in taxes than low-income earners.
  - D High-income earners pay more in taxes than low-income earners.
- 86 Which element of a tax and benefits system is regressive?
- A rent subsidies to tenants of publicly owned housing
  - B specific taxes on beer and tobacco
  - C the payment of child benefits to families
  - D the taxation of capital gains
- 87 The demand and supply functions for a product are quantity demanded =  $1500 + 50P$  and quantity supplied =  $300P - 2000$  where  $P$  = price. With government regulation, the current price in the market is \$15.

What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

- 88 Which benefit is most likely to result from a rise in the minimum price of labour (wage rate)?
- A a reduction in costs of production
  - B a reduction in income inequality
  - C a reduction in the level of unemployment
  - D a reduction in the rate of inflation

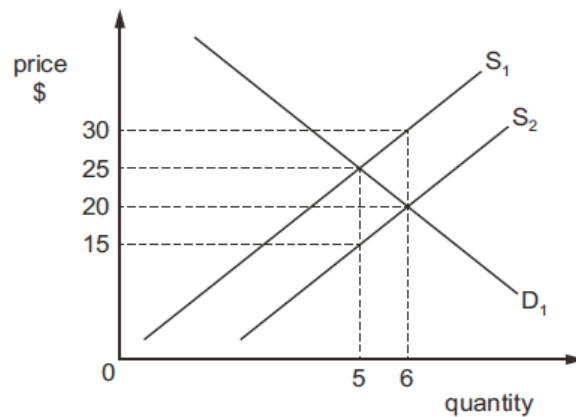
- 89 The diagram shows the demand and supply curves for a good.



The government fixes a maximum price of  $OP_1$ .

What would happen?

- A Consumers would have to be rationed to quantity  $OQ_1$ .
  - B The government would have to introduce a subsidy of  $PP_1$ .
  - C The market equilibrium quantity  $OQ$  would be demanded and supplied.
  - D The supply of quantity  $OQ_2$  would be guaranteed.
- 90 The diagram shows the original demand curve  $D_1$  and original supply curve  $S_1$  for a good.



The government introduces a subsidy.

What will be the total consumer spending after the introduction of the subsidy?

- A \$75
- B \$120
- C \$125
- D \$180



- 91 A .....1..... price set below the market equilibrium will cause a .....2..... of the product, and a .....3..... price set above the market equilibrium will cause a .....4..... of the product.

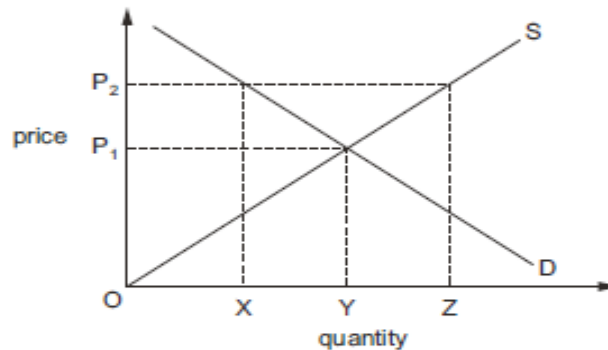
Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	maximum	shortage	minimum	surplus
B	maximum	surplus	minimum	shortage
C	minimum	shortage	maximum	surplus
D	minimum	surplus	maximum	shortage

- 92 In 2009 the Australian government made a payment of \$900 to those who earned less than \$100000 per year.

How would the effect of this transfer payment be described?

- A neutral  
 B progressive  
 C proportional  
 D regressive
- 93 The diagram shows the market for wheat.



If the government wishes to fix the price at  $OP_2$  what quantity of wheat must the government buy?

- A OZ                      B XY                      C XZ                      D YZ
- 94 As part of a privatisation policy, a government deregulates bus services and sells off its public sector bus services to the private sector.
- What is **least** likely to occur following these changes?
- A Bus fares are increased.  
 B Bus service companies invest in new buses.  
 C Extra bus service companies enter the market.  
 D Loss-making bus services are retained.

- 95 Which statement about nationalised and privatised industries is correct?
- A A privatised industry is usually less competitive than a nationalised industry.
  - B A profitable private company cannot be nationalised.
  - C Privatisation is a form of monetary policy.
  - D Privatisation is a way of raising money for the government.
- 96 What is **unlikely** to occur with an increase in the provision of public goods?
- A consumer non-excludability
  - B improved use of resources
  - C opportunity cost
  - D reduction in tax
- 97 Which statement is **not** an argument in support of the process of privatisation?
- A Private companies are motivated to make the best use of their resources.
  - B Privatisation allows more firms to enter an industry, increasing competition in the market.
  - C Privatisation can create companies that exploit the consumer.
  - D Selling state-owned assets to the private sector raises significant revenue for the government.
- 98 Governments are trying to reduce the burden of transfer payments in economies with an ageing population.
- Which policy would help to achieve this aim?
- A introducing financial support for university students
  - B linking pension increases to the consumer price index during inflation
  - C raising the retirement age
  - D reducing state pensions to finance an equal rise in unemployment benefit
- 99 What is **not** a transfer payment?
- A benefit payments by governments to families who have children
  - B disability benefits paid to soldiers who were injured while on military service
  - C loans made by a government to students who are studying at university
  - D payments by a firm to compensate employees for undertaking dangerous work

- 100 A government allows one firm to go out of business, takes over a second firm, and encourages a foreign government to invest heavily in a third firm.

Which government action has occurred?

	nationalisation	privatisation
A	✓	✓
B	✓	X
C	X	✓
D	X	X

key

✓ = occurred

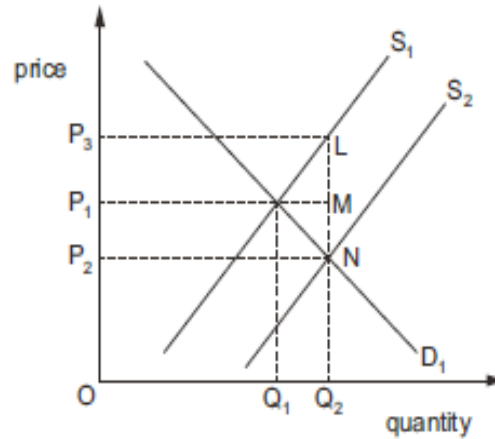
X = not occurred

- 101 A government decreases the tax rate on goods and services and increases the tax rate on incomes.

What is the likely outcome on the distribution of income and the incentive to work?

	distribution of income	incentive to work
A	less equal	decreased
B	less equal	increased
C	more equal	decreased
D	more equal	increased

- 102 The diagram shows the equilibrium price,  $P_1$ , and quantity bought and sold,  $Q_1$ , in a market before a subsidy is granted.



What represents the producer incidence (benefit) after the subsidy is granted and what is government expenditure on the subsidy?

	producer incidence (benefit)	government expenditure
A	$P_1P_2NM$	$P_1P_2NM$
B	$P_1P_2NM$	$P_3P_2NL$
C	$P_1P_3LM$	$P_1P_3LM$
D	$P_1P_3LM$	$P_3P_2NL$

- 103 When is a transfer payment most likely to be an individual's main source of income?

- A when employed
- B when investing
- C when saving
- D when unemployed

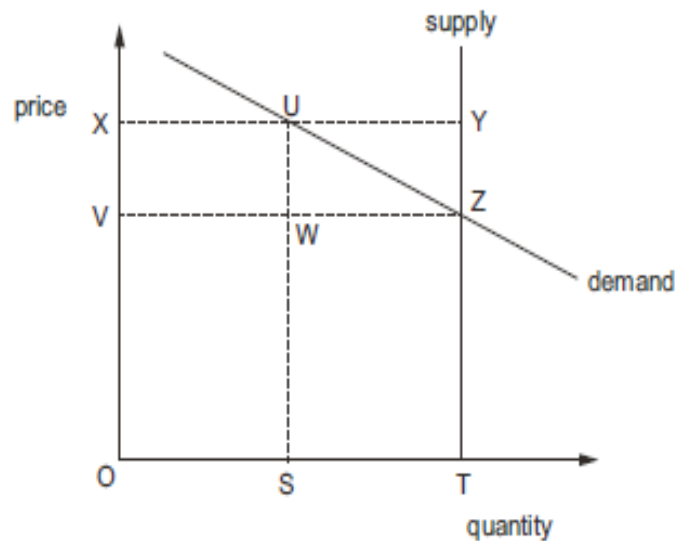
- 104 Which argument is used to justify a policy of nationalization?

- A A firm exposed to market forces is more likely to be efficient.
- B It avoids the wasteful duplication of resources.
- C The stock market can exert effective discipline on the industry.
- D There are benefits from wider share ownership.

105 What is an accurate statement about a production subsidy?

- A It causes demand for the good to increase so the demand curve shifts to the right.
- B It enables firms to supply more so the supply curve shifts to the left.
- C It is financial assistance to firms from the government to help increase output.
- D It is money taken from firms by the government to reduce harmful side effects of production.

106 The diagram shows the market supply and demand curves for an agricultural product. The government guarantees producers a price of at least OX for their output, but allows the market price to be freely determined by demand and supply.



Which area in the diagram represents the total subsidy payments made by the government to producers?

- A UYTS
- B UYZW
- C XUWV
- D XYZV

107 How will transfer payments to low-income families, funded by a mix of direct taxation and indirect taxation, affect the total level of consumption?

- A The change in the level will be uncertain.
- B The level will fall.
- C The level will remain unchanged.
- D The level will rise.

108 The table shows the annual percentage change in the output per worker employed for four nationalised industries before and after privatisation.

nationalised industry	before privatisation	after privatisation
railways	-4%	2%
electricity supply	7%	9%
shipbuilding	4%	-1%
telecommunications	6%	6%

What can be concluded from the table about the effect of privatisation?

- A Employment fell in the railway industry.
- B Employment was unchanged in the telecommunications industry.
- C Output was greatest in the electricity supply industry.
- D Workers became less efficient in the shipbuilding industry.

MARKING KEY(taken from 2019-2016 papers)

1	D	37	D	73	B
2	D	38	C	74	B
3	B	39	D	75	D
4	B	40	B	76	C
5	C	41	D	77	B
6	C	42	D	78	C
7	D	43	C	79	D
8	C	44	C	80	B
9	B	45	C	81	C
10	B	46	A	82	A
11	A	47	B	83	D
12	D	48	C	84	C
13	D	49	D	85	D
14	B	50	D	86	B
15	A	51	C	87	D
16	B	52	A	88	B
17	A	53	C	89	C
18	D	54	A	90	C
19	B	55	B	91	C
20	D	56	A	92	B
21	A	57	D	93	C
22	A	58	A	94	D
23	D	59	A	95	D
24	A	60	A	96	D
25	D	61	A	97	C
26	C	62	B	98	C
27	B	63	D	99	D
28	A	64	B	100	B
29	D	65	C	101	C
30	B	66	A	102	D
31	B	67	B	103	D
32	A	68	D	104	B
33	A	69	C	105	C
34	D	70	C	106	D
35	A	71	A	107	A
36	C	72	C	108	D

If MS seems incorrect, ask teacher or someone else the correct option.

## USEFUL LINKS

Microeconomics yt playlist

<https://www.youtube.com/watch?v=W9IjktFC9Tg&list=PLWeicFreBUYCOFC2A0SIKrpEYgwaSF63t>

Imran Latif notes

<https://drive.google.com/open?id=11j-xR0OgiTWS1oPf4KaKkZ5nBa6chNJ8>

Syllabus

[https://drive.google.com/open?id=1lI\\_Et3BGDwjn8FTmfEPWizxkLPTXm8y-](https://drive.google.com/open?id=1lI_Et3BGDwjn8FTmfEPWizxkLPTXm8y-)

Coursebook

[https://drive.google.com/open?id=1SdbOa3S\\_UIPkUUpe4bpWayu5k-akcqSu](https://drive.google.com/open?id=1SdbOa3S_UIPkUUpe4bpWayu5k-akcqSu)

Past papers yearly

<https://drive.google.com/open?id=1hDyYem6ttIKTdey bqXLwa3UVF0d8iu-X>

Topical past papers

<https://drive.google.com/open?id=1RI1eMYlwaekfEonG7Pq9JKuCH3BdL804>

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