Zig Zag Education

2015 specification
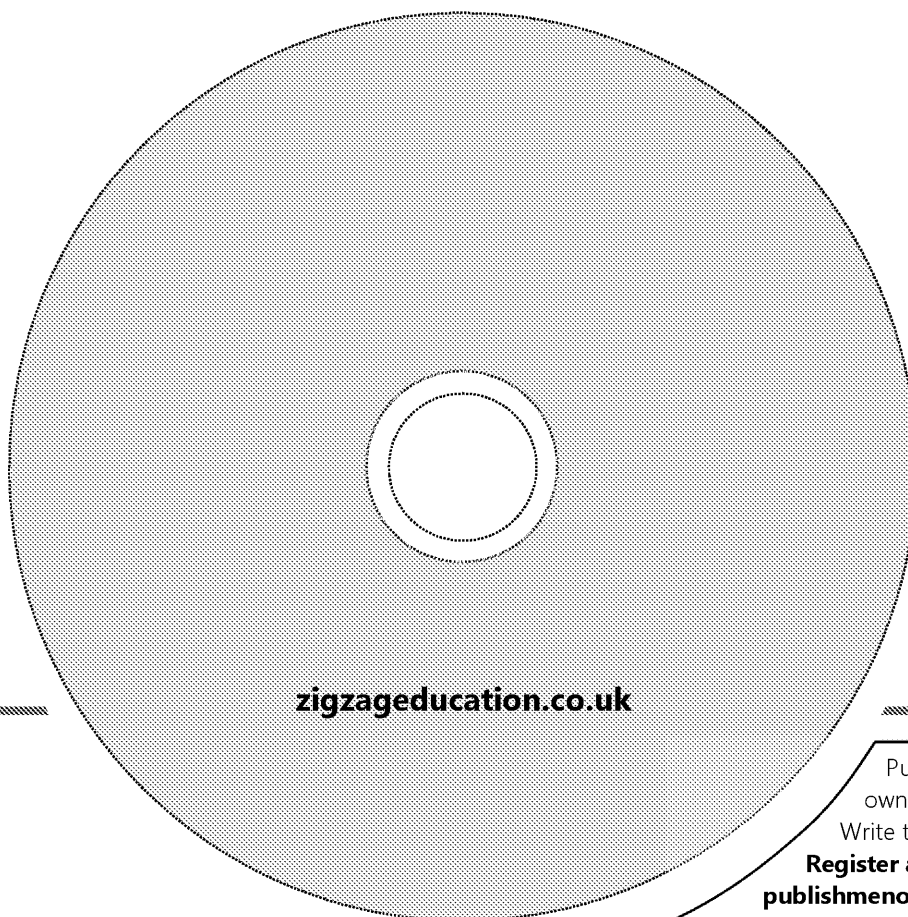first exams in 2017 (2016 for AS)

Tricky Questions with Explanations for AS and A Level Edexcel A

Theme 1: Introduction to Markets and Market Failure

Update v1.2, 4th March 2016

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Contents

Teacher's Introduction

Multiple-choice questions are an integral part of 2015 A Level Economics specifications, and to score highly in this section of the examination the candidate needs knowledge and technique acquired by practice! The aim of this collection of original questions with supported answers is not simply to replicate the style and content of exam questions by thorough coverage of the specification, including 'borderline' issues such as merit and demerit goods – and thus improve examination technique – but also to provide many 'trickier' questions which should stretch the student, enhance understanding and build competence and confidence.

Format

This resource consists of:

- Write-on **worksheets** with space for the answer and explanation for each question. The explanation is a useful way of indicating understanding and should help reduce guessing.
- **Answers:** Each question is supported with the correct answer with detailed discussion of why it is correct. Many of the answers contain advice about technique – how drawing diagrams can help to process the data within the question, how to avoid typical errors, how to apply formulae, and how to remove 'red herrings' from your decision-making.
- The CD includes the same questions in **PowerPoint** format, presented one by one. This format is ideal for starters/plenaries or for a timed test (simply add timings to the slides so they progress at the same speed students would be advised to spend on them in the exam). Each slide has the option to reveal the answer and explanation (this will only reveal if clicked on specifically, not as the slideshow progresses).
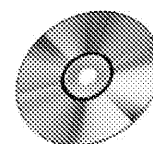
Valuable Exam Preparation

The resource will supply a valuable bank of questions both to the busy teacher wishing to test a given topic, as material for a 'mock' or for end-of-module revision, and to the student seeking to improve their performance on specific topics or preparing for their AS Paper 1. The teacher will find thorough coverage of the specification and the student will find that the 'question and supported answer' format is complementary to their other resources, whether it be their course notes, online facility or textbook.

I personally have used multiple-choice questions for over 30 years in teaching Economics, whether or not they form part of formal assessment. Past papers have been one reliable source; so too are original questions such as these, especially for a new specification.

November 2015

Topic Coverage

Topic	Spec. ref.
1. Economics, Demand and Decision-making	1.1, 1.2, 1.4, 1.5, 1.6, 2.1, 2.2
2. The Economic Problem and PPFs	1.3, 1.4, 1.6
3. Elasticities	2.3
4. Supply	2.3, 2.4, 2.5, 2.6, 3.3

Topic	Spec. ref.
5. Price	2.6, 2.7, 2.8, 2.9
6. Surpluses, Taxes and Subsidies	2.3, 2.5, 2.6, 2.7, 2.8, 2.9
7. Market Failure	3.1, 3.2, 3.3, 4.1
8. Government Intervention	4.1, 4.2

Version 1.1, 28th January 2016
Minor corrections and clarifications:
- Page 7: added label 'O' at the origin for clarity.
- Page 20: clarified labels on diagram: added point 'D' and labelled the demand curve 'D$_1$'.
- Page 29: corrected label from 'D' to 'D$_2$'.
- Page 31: improved question by adding 'at the free market price' to option c).
- Page 45: clarified explanation of question 12.
- Page 47: corrected answer to 'c)' and clarified explanation.

Version 1.2, 4th March 2016
Minor corrections and clarifications:
- Page 9: corrected labels for 17
- Page 10: clarified option d in question 5
- Page 12: corrected error in 19 c
- Page 18: corrected answer for 5
- Page 21: corrected labels for 3
- Page 22: corrected labels for 5
- Page 25: amended 16 to match explanation
- Page 32: clarified wording of question 6
- Page 34: clarified meaning of question 15 option b
- Page 35: added missing answer box
- Page 44: clarified answers 5, 6 and 7 and corrected answers to 11, 12 and 13

Topic 1: Economics, Demand and Decision-making

1) Offering economic opinions within an argument is part of:
   a) Microeconomics
   b) Normative economics
   c) Positive economics
   d) Macroeconomics

   Answer: ☐

2) Advantages of the use of the division of labour in production of goods and services include each of the following with **one exception**:

   a) Greater labour productivity and lower average costs of production.
   b) An increase in productive efficiency.
   c) Correction of market failure.
   d) Workers can focus on tasks to which they are suited to focus on ones to which they are suited.

   Answer: ☐

3) As a system of exchange barter has many limitations. These include which of the following:

   [1] Many goods lack divisibility so are difficult to trade.
   [2] The requirement for a double coincidence of wants for transactions to occur.
   [3] The absence of common measures of value.

   a) 1 only
   b) 2 and 3 only
   c) 1 and 3 only
   d) 1, 2 and 3

   Answer: ☐

4) to 6) inclusive: make use of these options, each of which is a function of money in the economy:

a) Medium of exchange
b) Standard for deferred payment
c) Store of value
d) Measure of value

Which of the above refers to:

4) A means of storing purchasing power for the future.   **Answer:** ☐

5) A means by which credit may be employed.   **Answer:** ☐

6) A means by which the exchange value of goods can be expressed.   **Answer:** ☐

7) Which of the following goods or services would **not** be provided in a free market?

   a) National defence
   b) Train travel
   c) Insurance
   d) Secondary education

   Answer: ☐

8) In a free market the allocation of goods and services between consumers is based upon:

a) Profitability in those markets
b) The desires of consumers
c) The effective demand of consumers
d) The wishes of sellers

Answer: ☐

9) A free market in a product will allocate resources <u>inefficiently</u> if there are:

a) Shortages of that product
b) External costs or benefits generated by production or consumption of that product
c) Surpluses of that product
d) Many buyers and sellers of that product, none with market power.

Answer: ☐

10) Adam Smith observed that working individually in the production of pins, each of 10 workers averaged an output of 10 per day. Once each worker became a specialist, they produced 48,000 per day between them.

Adam thus calculated that:

a) Productivity increased by a factor of 48,000.
b) To calculate the increase in productivity we divide 48,000 by 10.
c) Productivity has increased by a factor of 480.
d) Productivity growth is simply worked out by subtracting 100 from 48,000.

Answer: ☐

11) As more of a good is consumed within a limited time frame satisfaction gained increases, but at a reducing rate. This principle is known as:

a) Consumer rationality
b) Diminishing total utility
c) Diminishing marginal utility
d) The law of diminishing returns

Answer: ☐

12) Consumer rationality means that consumers:

a) Experience diminishing marginal utility
b) Spend on a good until its marginal utility is zero
c) Attempt to maximise marginal utility
d) Attempt to maximise total utility within their current budget

Answer: ☐

13) Consider this demand schedule for portions of chicken nuggets:

Price (£s)	Quantity Demanded per period
5	0
4	10
3	20
2	30
1	40
0	50

Only one of these combinations of statements about the data above, reflecting this demand curve, is **correct**. Which one?

a) Total revenue would be zero if price charged is either £5 or 0 but revenue is maximised at a price of £1

b) Many people do not want the good even if it is 'free' and revenue would be constant if either £3 or £2 is charged

c) Revenue would rise by £20 if price is lowered from £4 to £3 but fall by £30 if price is raised from £4 to £5

d) At a price of 20 pence, 48 units would sell and at a price of £4.50, 7 units would sell

Answer: ☐

14) One of these statements about **the position** of a product's demand curve is <u>false</u>. Which one?

a) It will be unaffected if the price of a weak complement falls.

b) It will shift to the right if incomes rise and it is a normal good.

c) It would shift further to the left if the price of a strong substitute fell than if a weak substitute had become cheaper.

d) If the price of an unrelated good rises it will not move.

Answer: ☐

15) Which one of the following will cause an extension or expansion of demand (movement along the curve)?

a) A successful advertising campaign

b) A fall in incomes and the good is inferior

c) A government subsidy to producers

d) Good reviews of the product in *Which* magazine

Answer: ☐

16) The term 'enterprise', as used in Economics, has only one characteristic. Which of the following is it?

   a) Developing new products for a market.
   b) Deciding how a product should be produced.
   c) Choosing an introductory price for a new product.
   d) Bearing the risks of production.   **Answer:** ☐

17) The theory that consumers are rational beings bent on maximising their satisfaction from allocating their income is undermined by each of the following **except**:

   a) Buying an identical list of goods in one 'big shop' at the supermarket.
   b) 'Keeping up with the Joneses'.
   c) Calculating marginal utility per pound spent across a choice of
   d) Higher-priced products are perceived to generate more utility than cheaper ones.   **Answer:** ☐

18) When a demand curve for a consumer product is drawn, all of the following are assumed constant **except**:

   a) Consumer tastes
   b) The season of the year
   c) The price of the good
   d) The price of complementary goods   **Answer:** ☐

19) Three of these statements are **positive**; the other is a **value judgement**. Which one is the value judgement?

   a) Unemployment in the North is higher than in the South.
   b) In 2013 the UK economy was growing but output was still below the pre-crash level of 2008.
   c) In August 2013 the value of the pound against the US dollar was an average of £1 = $1.55.
   d) Raising tax-free allowances is the best way to improve the incentive to work in the economy.   **Answer:** ☐

20) to 22) inclusive; match these economists to the brief summary of one of their key contributions to the subject:

a) The 'invisible hand' of the market reconciles the self-interests of producer and consumer alike.
b) Cutting taxes can cause a multiple expansion of national income as households increase their spending.
c) Profits in free market economies accrue from the exploitation of workers.
d) Cheap credit induces poor investment and bust tends to follow boom.

20) Karl Marx   **Answer:** ☐

21) Adam Smith   **Answer:** ☐

22) Friedrich Hayek   **Answer:** ☐

Topic 2: The Economic Problem and PPFs

1) Only one of the following is <u>incorrectly</u> included as an example of **capital**. Which one?

   a) Eddie Stobart lorries
   b) NHS hospitals
   c) Stocks of unsold tablet computers
   d) Money saved in a building society account   **Answer:** ☐

2) A teenager spends £500 on repairing his/her car after a crash. As a result he/she misses out on a holiday to Ibiza. The opportunity cost of the car repair is:

   a) The depreciation of the car
   b) £500
   c) The holiday
   d) The resources used to carry out the car repair   **Answer:** ☐

3) One of the examples of the factors of production is <u>incorrect</u>. Which one?

   a) Land: fish in the sea
   b) Labour: economics teacher
   c) Capital: pizza oven in Domino's
   d) Enterprise: manager of a branch of McDonald's   **Answer:** ☐

4) On a production possibility frontier the rate at which the output of one good has to be sacrificed in order to expand output of the other is:

   a) The substitution effect
   b) The income effect
   c) The opportunity cost
   d) The marginal utility   **Answer:** ☐

5) Consider the production possibility frontier (PPF) diagram below:
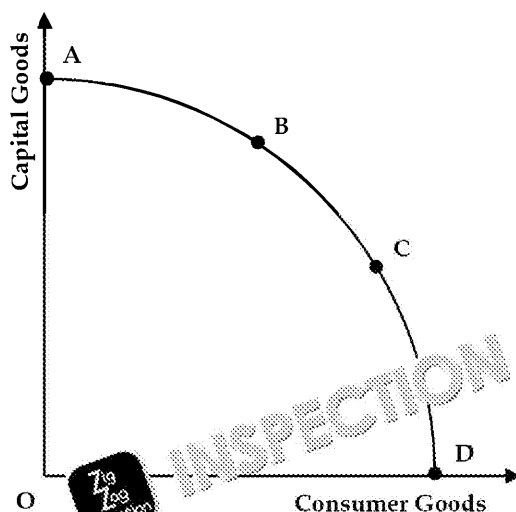
   Which of the combinations of points below concerning the standard of living (as measured by consumer good consumption) is correct?
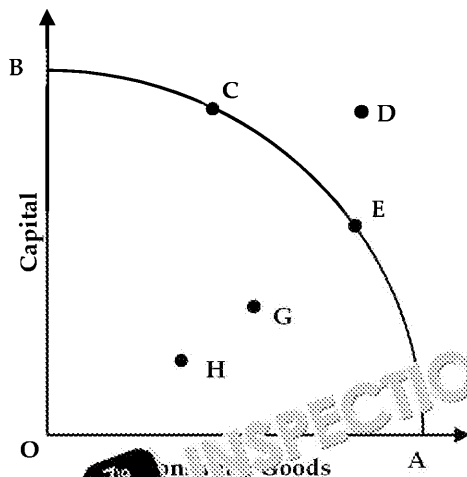
	Highest Current	Highest Future
a)	A	B
b)	D	B
c)	A	D
d)	C	D

   Answer: ☐

6) Based on the PPF diagram below, only one of the following options (each comprises two statements) is correct. Which one?

a) The line AB indicates that the economy has limited resources; a movement from G to H would be caused by a fall in productive capacity.

b) C is an efficient point on the PPF and D will be next year.

c) A movement from G to E allows greater output of both goods; movement from E to C involves opportunity cost.

d) Output of 0A consumer goods is unsustainable; movement from C to E is undesirable. **Answer:** [ ]

7) Consider the production possibilities for an economy that can produce two goods using its scarce resources:

Rice (Million Tonnes)	Cheeseburgers (Million Units)
50	0
40	15
30	27
20	37
10	45
0	50

Which one of these statements is **false**?

a) The opportunity cost of 50 million tonnes of rice is 50 million cheeseburgers

b) An output combination of 20 million tonnes of rice and 37 million cheeseburgers would be on the PPF for this economy.

c) The opportunity cost of increasing cheeseburger output from 37 million to 45 million is 10 million tonnes of rice.

d) If the economy produces 20 million units of both goods its productive potential has shrunk. **Answer:** [ ]

8) Which of the following proverbs equates to the law of diminishing returns:

a) Many hands make light work

b) There's no such thing as a free lunch

c) Too many cooks spoil the broth

d) Practice makes perfect **Answer:** [ ]

9) If a production possibility frontier is a straight line it follows that:
   a) Only one good can be produced
   b) It cannot be shifted outwards or inwards
   c) The opportunity cost of reallocating resources is zero
   d) The opportunity cost of reallocating resources is constant   Answer: ☐

10) If economic goods are limited in supply it follows that:
   a) Effective demand is missing
   b) Few of such goods exist
   c) Demand exceeds supply at all prices
   d) These goods have an opportunity cost   Answer: ☐

11) If a production possibility frontier is of a typical shape which of the following statements is false?
   a) The opportunity cost of increasing the output of one good along the curve increases.
   b) The law of diminishing returns will apply to resource reallocation.
   c) The opportunity cost of moving from the maximum of one good to the maximum of another can be calculated.
   d) Movement to the curve from inside it will involve opportunity cost.   Answer: ☐

Questions 12) to 14) refer to the production possibility diagram below, which shows the maximum combinations of two goods, capital and consumer, that an economy can currently produce.
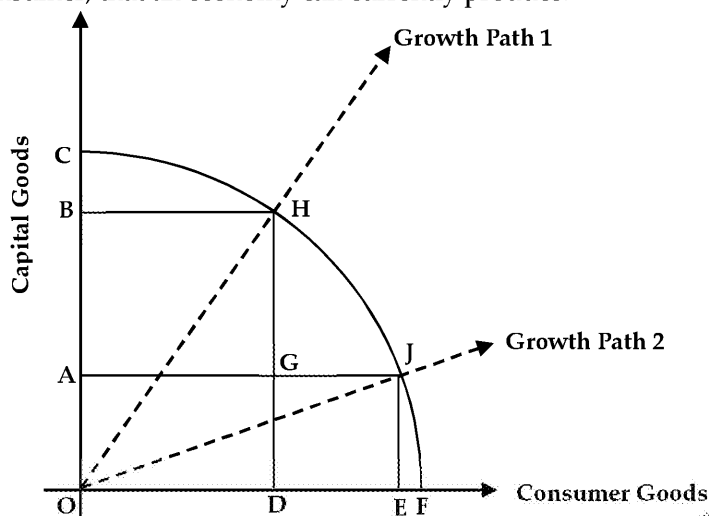
12) Which of the following combinations of goods can be produced by this economy?
   a) OC capital and zero consumer goods
   b) OB capital and OD consumer goods
   c) OA capital and OE consumer goods
   d) OC capital and OD consumer goods   Answer: ☐

13) If the economy is operating on its production possibility curve, only one of these statements regarding the application of **opportunity cost** on the diagram is false. Which one?
   a) For OC capital goods the opportunity cost is OF consumer goods.
   b) From G to H the opportunity cost is GJ consumer goods.
   c) For an extra DE consumer goods the opportunity cost is AB capital goods.
   d) A reallocation of resources from point C to H involves an opportunity cost of BC capital goods.   Answer: ☐

14) If two economies, X and Y, have the same production possibility curve as in the diagram and X chooses growth path 1, and Y chooses growth path 2, which of the following statements will be __unverifiable (cannot be proved)__? (Growth paths indicate future combinations of the two goods as the production possibility curve shifts.)

  a) At full employment Y will produce an extra DE consumer goods.
  b) At full employment X will produce at point H, Y will produce at J.
  c) Y will have a higher standard of living than X in the future.
  d) At full employment, X produces AB more
    capital goods than Y.   Answer: [ ]

15) Each of the following is an example of capital except:

  a) A tractor used on a farm
  b) A photocopier in a school office
  c) A washing machine used in a home
  d) A washing machine used in a launderette   Answer: [ ]

16) Each of the following is a characteristic of a pure 'free' market economy __except__:

  a) Suppliers aim to maximise profits.
  b) Consumers aim to maximise utility or satisfaction from their income.
  c) There is an unequal distribution of income.
  d) The state protects the poorest with welfare
    payments.   Answer: [ ]

17) A free market economy is able to produce two goods, E and F. It is currently operating on its production possibility frontier at B on the diagram below, producing a combination of the two goods.

The combined effects of a **small** fall in demand for E and a **small** rise in demand for F would be shown by which movement on the curve below?

  a) A to B
  b) B to C
  c) C to D
  d) B to D   Answer: [ ]
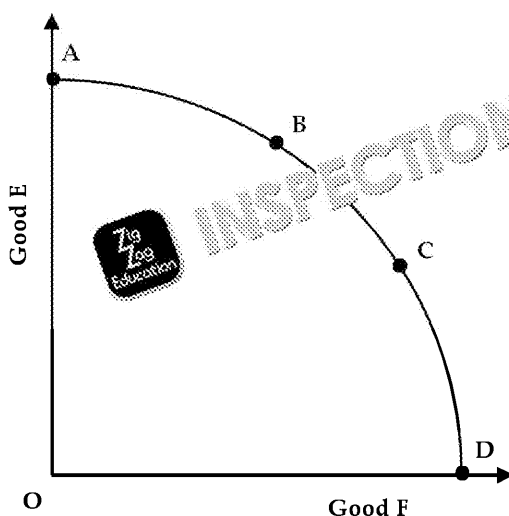
Topic 3: Elasticities

1) Following an increase in demand for its product a firm can now generate unit sales of 120 at £11 each having previously sold 100 units at £10 each.
   Based on this information, which of the following is **correct**?

   a) Price has risen by 9%, quantity exchanged by 20% and total revenue by 32%.
   b) Total revenue has risen by 32%, price by 10% and quantity exchanged by 20%.
   c) Quantity exchanged has increased at twice the r   price and thus total revenue has doubled.
   d) Price elasticity of supply is 0.5   l revenue has increased   **Answer:** ☐

2) If the   g   increases from £10 to £10.50, causing unit sales o   3 to increase from 1,000 to 1,040 at constant prices, and unit sales of C to fall from 1,000 to 980 *then*:

   a) A's price has increased by 20%, B's demand has increased by 4% and C's has fallen by 5%.
   b) The cross elasticity of demand of C with respect to A is -1.
   c) A's price has risen by 5%, B's demand has risen by 4% and C's has fallen by 2%.
   d) Goods B and C are weak complements.   **Answer:** ☐

3) If a product is **<u>inferior</u>** with respect to income it:

   a) Is by definition badly made.
   b) Has a YED of zero.
   c) Will rise in demand in a recession.
   d) Will fall sharply in demand if a substitute falls in price.   **Answer:** ☐

4) The price of UK passport **renewals** rises from £80 to £84. Annual demand falls from 500,000 to 485,000. Only one of these statements is **fully** correct. Which one?

   a) Price has risen by 5% and demand has fallen by 1.5%.
   b) Originally, annual sales revenue from passports was £40m but demand is elastic for the price rise.
   c) The price rise is 5%. The fall in demand is 3%   es revenue is greater than £40m at a price c   £   .
   d) Demand for overseas visits b   ens will fall as there are   r b s   holders.   **Answer:** ☐

5) Good   p   elasticity of demand (PED) less than 1. Also, the cro   icity of demand for B with respect to A is 0.5. All of the following statements are *true* **except**:

   a) A price rise for A will lead to a proportionately smaller fall in demand for A.
   b) If the price of A rises so will revenue from sales of both A and B.
   c) A 10% fall in the price of A will cause sales of B to fall by 5%.
   d) A has inelastic demand following a price rise and B is a strong substitute for A.   **Answer:** ☐

6) If a specific tax is imposed on a product which has relatively elastic demand then which one of these statements is partially **false**?
   a) If price rises by x%, demand will contract by a bigger % than x, and consumer expenditure on the product will fall.
   b) Price rises, demand contracts and the bulk of the tax is paid by the consumer.
   c) Both producer and consumer surplus will fall.
   d) Government revenue from the tax is equal to the tax per unit times the quantity demanded after the tax.
   Answer: ☐

For questions 7) to 15), match these options to the numbered statement about price elasticity of demand. Each option may be used more than once.

Options:

a) Perfectly elastic demand
b) Perfectly inelastic demand
c) Unit elastic demand
d) Relatively inelastic demand

7) The price of the product to consumers would fall by the full value of a producer subsidy.
   Answer: ☐

8) A 10% price rise in the product would result in total revenue rising, but by less than 10%.
   Answer: ☐

9) Consumer surplus at the equilibrium price of the product is zero.
   Answer: ☐

10) Total revenue from sales of the product would remain constant after a 5% price fall.
   Answer: ☐

11) The product has perfect substitutes – demand would fall to zero if a seller attempted to raise price.
   Answer: ☐

12) A 7% price cut for the product would leave quantity demanded unchanged but total revenue would fall by 7%.
   Answer: ☐

13) The product has weak substitutes, isn't habit-forming and buying it takes up only a small proportion of income.
   Answer: ☐

14) If total revenue for the product was plotted on a y-axis and quantity demanded on an x-axis, the curve would be horizontal.
   Answer: ☐

15) The burden of an excise duty on the product would fall **mainly** on the consumer.
   Answer: ☐

16) If a firm lowers the price of its product, good A from £10 to £9 and quantity demanded expands from 100 to 125 per time period then which is the **incorrect** statement?
   a) Price elasticity of demand is inelastic.
   b) Total revenue from sales of good A would rise by £125 per period.
   c) Price elasticity of demand equals -2.5.
   d) Sellers would earn less per item sold of A but sales would rise by more than 10% to compensate for this.
   Answer: ☐

17) Which of the following could explain why the demand for a product is elastic with respect to price?
   [1] It has only weak substitutes
   [2] Buying it takes up a large proportion of consumers' incomes
   [3] It is habit-forming
   [4] Its demand is normal with respect to income

   a) 1, 2 and 3 only
   b) 2 only
   c) All of them
   d) 3 only
   Answer: ☐

18) In the short run the price elasticity of supply (PES) of a product is 0.6 but it is 0.95 in the long run. Which of the following combinations of statements most accurately describes this?

	SR	LR
a)	Inelastic	Elastic
b)	Inelastic	Unit elastic
c)	Inelastic	Inelastic
d)	Elastic	Elastic

Answer: ☐

19) If the PED for good A is (-) 0.8 and the cross elasticity of demand for A with respect to B is 0.5 we can deduce that:

a)   A 10% price rise for A will cause total revenue from A to fall by 8%.

b)   A 10% price fall for B will cause revenue from A to fall by 20% at constant prices.

c)   A 10% price rise for A will cause its demand to contract by 8% and that of B to rise by 5% at a constant price.

d)   A 10% price rise for B will cause demand for A to rise by 5%.

Answer: ☐

20) A fishmonger has ten kilos of fish left unsold late one Saturday afternoon. She will not be able to sell the fish when trade resumes on the Monday as it will have gone off.

Knowing the demand schedule for the fish and motivated by the desire to maximise profit she should:

a)   Reduce the current price charged by 10%.

b)   Choose the price at which ten kilos would sell.

c)   Choose the price at which sales revenue would be maximised then dispense with any surplus fish.

d)   Advertise in the shop window.

Answer: ☐

21) This question is based on the straight line demand curve diagram below. Point h is midway between a and z.
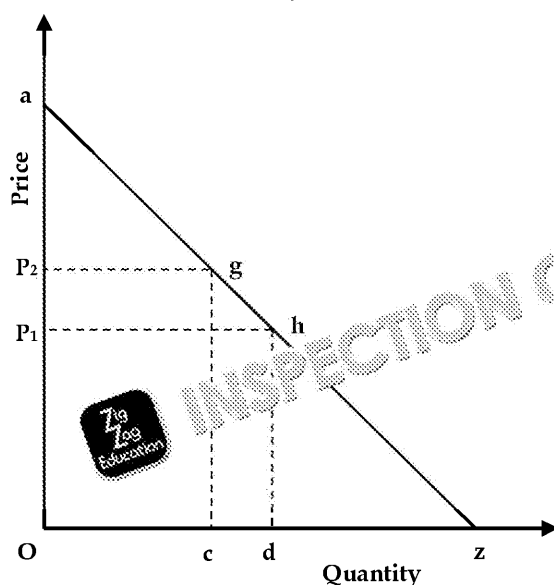
The diagram shows that:

a)   Price elasticity of demand is constant.

b)   A rise in price causes a leftward shift in demand.

c)   Demand is more elastic at point g than point h.

d)   The product is a normal good.

Answer: ☐

22) A local store reduces the price for DVD hire from £3 to £2.50. The number of DVDs hired per week increases from 240 to 260. Which of the following statements is **correct**?

a) Price elasticity of demand (PED) is 2 and total revenue rises as a result.

b) Total revenue rises from £720 to £780.

c) PED is unit elastic and total revenue would be unchanged.

d) PED is -0.5 and total revenue would fall by £70.   **Answer:** ☐

23) A pub manageress notices that if the average price of a pint of lager is raised from £2.50 to £2.75, the demand for cider increases by 5% per period but the demand for beer nuts falls by 12%. Which of the following statements is **correct**?

a) Sales revenue from lager will fall.

b) Beer nuts are a weak complement for lager.

c) Cider is a weak substitute for lager because its cross-elasticity with respect to beer is 0.5.

d) Beer nuts have a negative cross-elasticity of demand with respect to the price of cider.   **Answer:** ☐

24) The table below gives estimate values for the price and cross-price elasticities of demand for 7 Up and Sprite:

Soft drink:	Elasticity with respect to the price of:	
	7 Up	Sprite
7 Up	-0.8	0.9
Sprite	0.6	-0.7

Which one of these statements is **incorrect**?

a) The drinks are substitutes for each other, but relatively weak ones.

b) If the price of Sprite was increased by 10%, its demand would contract by 7%.

c) If the price of Sprite was lowered, total revenue from its sales would rise.

d) 7 Up is a stronger substitute for Sprite than Sprite is for 7 Up.   **Answer:** ☐

Topic 4: Supply

1) The supply curve of good A will shift to the right in all of the following circumstances **except**:

a) An increase in demand for a product in joint supply with A.
b) If government removes VAT from A.
c) If the price of A falls after a fall in demand.
d) If good A is a bacon sandwich and the price of bacon falls.

Answer: ☐

2) If an increase in demand for oranges for juicing purposes causes a fall in the supply of whole oranges the two goods are:

a) In competitive demand
b) Substitutes in production
c) Complements
d) In joint supply

Answer: ☐

3) If the supply curve of a product is **perfectly inelastic** then it:

a) Slopes upwards from left to right.
b) Must pass through the origin.
c) Is horizontal.
d) Is vertical at a set quantity.

Answer: ☐

4) If a product's supply curve is perfectly inelastic then all of the following are true **except**:

a) Any increase in demand must act exclusively on the price of the product not the quantity exchanged.
b) Since quantity exchanged cannot rise, total revenue cannot rise either.
c) Producer surplus will rise or fall as demand rises or falls.
d) There can be no excess supply or excess demand for this product.

Answer: ☐

For questions 5) to 11) match the following options to the numbered statement about price elasticity of supply. Each option may be used more than once.

Options:

a) Perfectly elastic supply
b) Perfectly inelastic supply
c) Unit elastic supply
d) Relatively inelastic supply

5) A leftward shift of the demand curve from an equilibrium point would cause price and quantity exchanged to fall by the same %. Answer: ☐

6) Product supply is fixed in the short run, such as the number of seats in a stadium. Answer: ☐

7) An increase in demand from an equilibrium point would cause both price and quantity exchanged to rise, but by a bigger %. Answer: ☐

8) If price increased from £10 to £11 and quantity supply expanded from 100 to 110 units, this indicates… Answer: ☐

9) If price fell from £10 to £9 and supply remained at 125 units, this indicates… Answer: ☐

10) Downloads are apparently unlimited at a price of 89p each. This reflects… Answer: ☐

11) A rightward shift in demand for the product causes an increase in price from £10 to £11 and total revenue from sales of the product rises from £,1000 per period to £1,155. This indicates… Answer: ☐

12) In a market-based economy, the job of the price mechanism includes all of the following **except**:

a) Inducing extensions or contractions in supply as demand changes.
b) Indicating changes in effective demand.
c) Indicating where markets are in disequilibrium.
d) Limiting price rises for scarce goods such as housing. Answer: ☐

13) Which of the following could explain why the price elasticity of supply of a product is inelastic?

[1] It takes a long time to produce.
[2] Firms supplying it are already working at full capacity.
[3] Stocks of finished goods are few.
[4] It has close substitutes.

a) All of them
b) 1 and 2 only
c) 1, 2 and 3 only
d) 2, 3 and 4 only Answer: ☐

14) A farmer can use the same land to grow either maize or wheat. Based on this simple statement which of the following is **correct**?

a) Maize and wheat have a positive cross elasticity of demand relationship.
b) The farmer will choose which of the two crops costs less to grow.
c) The two crops are in competitive supply.
d) The farmer will necessarily grow whichever of the two goods commands the higher market price. Answer: ☐

15) Markets for goods A, B and C are all at equilibrium and have conventional demand and supply curves. Good B is a substitute for A but good C is a complement for A. An increase in the costs of producing A and a price rise for it **must** lead to which one of the following:

a) Less being spent on A.
b) More being spent on B.
c) The price of C staying the same.
d) Demand for C staying constant. **Answer:** ☐

16) A public good has all of the following characteristics **except**:

a) It is non-rival.
b) It is non-rejectable.
c) It has to be produced by a public sector organisation.
d) It is non-excludable. **Answer:** ☐

17) If a product's supply curve is **relatively inelastic** then which of the following statements is **false**?

a) An increase in demand for the product will act **mainly** on the price of the product.
b) A 10% increase in price will induce an extension of supply of less than 10%.
c) It is difficult, but not impossible, to supply more of the product if demand rises.
d) The value for price elasticity of supply will be zero. **Answer:** ☐

18) Which of the following is a plausible explanation for why the price elasticity of supply for a product is elastic?

a) Suppliers have plentiful stocks.
b) Suppliers struggle to switch resources from other uses into making this good.
c) The product has a long production cycle.
d) Suppliers are working close to full capacity. **Answer:** ☐

Topic 5: Price

1) The price for a car to enter Wales via the Severn Bridge is £6.50 whatever the time of day or year. The turnstiles can process up to 500 vehicles per hour. Sometimes there are long queues, sometimes the bridge is empty. Based on this information which of these statements is **correct**?

   a) The bridge will generate £3,250 per hour in revenue.
   b) £6.50 is the **equilibrium** price to cross the bridge at all times.
   c) £6.50 is the **set** price to cross the bridge.
   d) If fewer than 500 cars wish to cross the bridge in a given hour there will be queues.   **Answer:** ☐

2) Assuming an upward sloping [...] curve and a downward sloping demand for [...] curve, an increase in demand for the product [...] a [...] ium point will lead to:

   a) A [...] se in price and additional sales revenue only.
   b) An increase in quantity exchanged and additional sales revenue only.
   c) Increases in both price and quantity sold of equal percentage, only.
   d) An increase in price, quantity sold and total revenue.   **Answer:** ☐

3) If a free market for a product is originally in equilibrium then conditions change due to **equal increases** in supply and demand this will cause:

   a) An increase in both price and quantity exchanged.
   b) An increase in quantity exchanged at a lower price.
   c) An increase in quantity exchanged with price unchanged.
   d) An increase in price only with no change in quantity exchanged.   **Answer:** ☐

4) to 9) inclusive: make use of the following diagram which shows a product market in equilibrium at price P at point X from the intersection of demand curve D and supply curve S. The questions require you to identify the new equilibrium by letter, following shifts in either or both of D and S. Each question starts afresh from point X. Each letter option can be used more than once.
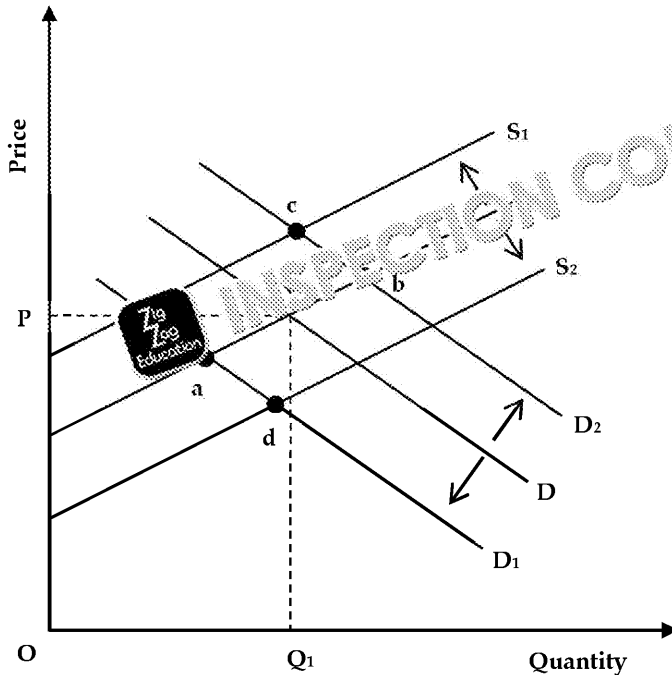
4) A specific tax is introduced at the same time as an advertising campaign.

Answer: ☐

5) The price of a substitute good falls.

Answer: ☐

6) The price of a complementary good falls.

Answer: ☐

7) During a recession the government subsidises the good, whose demand is normal with respect to income.

Answer: ☐

8) The product is the subject of a successful advertising campaign.

Answer: ☐

9) A brief craze for the product comes to an end.

Answer: ☐

10) The PES of good C is 2. Following an increase in demand for the good the equilibrium price rises to £11 from £10 and quantity sold increases **from** 100.

It follows that:

a) The new quantity sold is 120 and total revenue is now £1,320.
b) The new quantity sold is 105 and total revenue is £1,155.
c) The increase in total revenue generated is £200.
d) Total revenue will rise by 10%.   **Answer:** [ ]

11) The price mechanism performs which of the following functions in free markets?

a) It indicates shifts in consumer demand.
b) It achieves an equilibrium of price and output without government intervention.
c) It signals contractions of supply if demand for a good falls.
d) All of the above.   **Answer:** [ ]

12) In early September a billboard advertises a winter coat available at fashion retailer H&M for £24.99.

Based on this statement we can infer which of the following:

[1] £24.99 is the supply price of the coat.
[2] Demand may rise as a result of the billboard.
[3] The coat will feature in the January sales.
[4] The coat is in excess demand.

a) 1 only
b) 1 and 2 only
c) 2 and 3 only
d) All of them   **Answer:** [ ]

13) Assuming conventional supply and demand curves a fall in supply for a good from an equilibrium point **will** lead to which combination of outcomes?

   a) A higher price, lower demand and lower total revenue.
   b) A higher price, lower demand and unchanged consumer surplus.
   c) A higher price, lower demand, lower consumer surplus but it is not possible to calculate the revenue impact.
   d) A higher price, lower demand, lower consumer surplus and unchanged revenue.

   Answer: ☐

14) The 'signalling' function of a market includes:

   a) That prices need to fall if there is excess supply.
   b) That prices need to rise if there is a shortage.
   c) That if supply and demand are equal price will not change.
   d) Each of a), b) and c).

   Answer: ☐

15) Based on the diagram below, which shows the impact on a market of an increase in supply (from S_1 to S_2) only one of the following statements is *entirely* correct – which one?
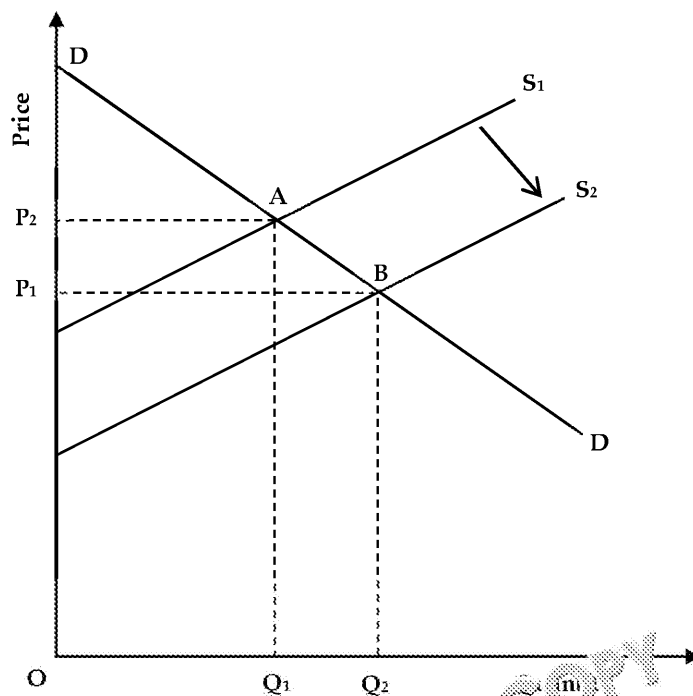
   a) Price falls by P_2P_1 and consumer surplus becomes DP_1A.
   b) Quantity exchanged increases by Q_1Q_2 and consumer surplus increases by this area.
   c) Consumer surplus becomes DP_1B but total revenue must rise.
   d) Suppliers earn P_1P_2 less per item sold and consumer surplus increases by this amount per unit sold.

   Answer: ☐

Topic 6: Surpluses, Taxes and Subsidies

1) Consumer surplus can be defined as:
   a) Satisfaction received by consumers of a good.
   b) That part of their income that consumers have not spent.
   c) The difference between what consumers spend on buying x units of a good and what they would be prepared to spend on those x units.
   d) The price of a good times quantity demanded.   **Answer:** [ ]

2) One hundred thousand tickets (at £220 each) available for the Glastonbury Festival sold within ten minutes of sale. Nine hundred thousand applicants for tickets are left disappointed.
   Based on this information which of the following are **true**:
   [1] The equilibrium price is not £220.
   [2] The tickets have sold 'ten times over' at £220 each.
   [3] There is an incentive to print 'fake' tickets.
   [4] Producer surplus would have been higher at the equilibrium price, consumer surplus lower.

   a) 1 only
   b) 2 and 3 only
   c) 2, 3 and 4 only
   d) All of them   **Answer:** [ ]

3) Consider this diagram which shows the market for a product before and after an increase in demand.
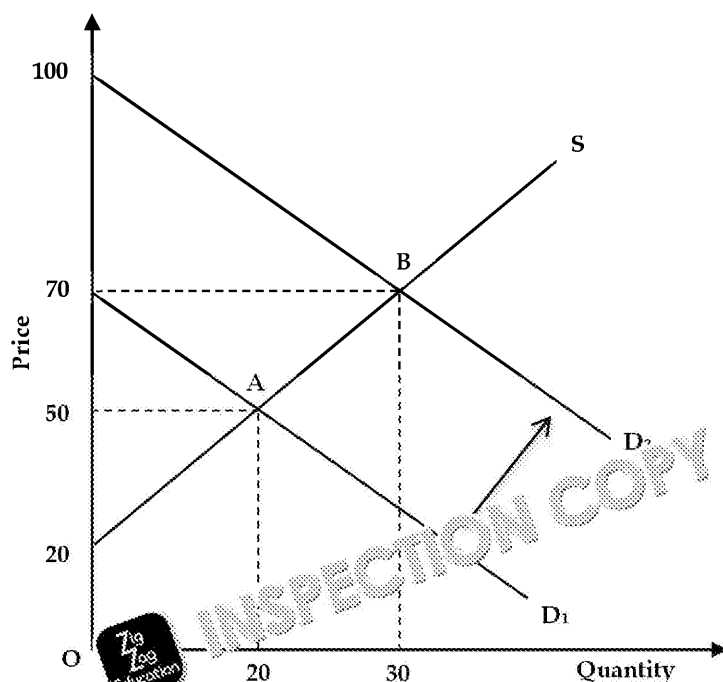
   Which of these statements is **incorrect**?
   a) The original value of producer surplus is £30 and this rises to £75.
   b) Total revenue rises from £100 to £210.
   c) Consumer surplus rises by £25.
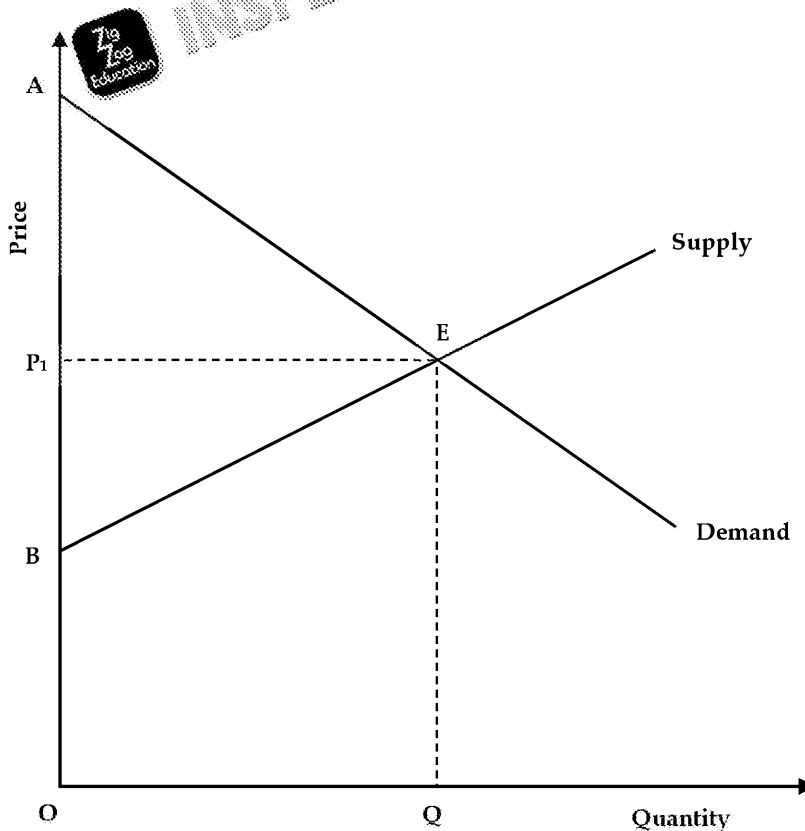   d) Consumers would be prepared to spend £300 to buy the 30 units they do buy at £7 each.   **Answer:** [ ]

4) If a product's supply curve is horizontal (perfectly elastic) then an increase in demand for the good from an equilibrium point will lead to:

a) A slight increase in price and an increase in quantity exchanged with a higher total revenue resulting.

b) An increase in quantity exchanged and a higher producer surplus.

c) Both price and producer surplus being unchanged but quantity exchanged and total revenue would rise.

d) An increase in quantity demanded, sales revenue and producer surplus.

Answer: ☐

5) Consider the diagram which shows equilibrium in a competitive market. Only one of the following combinations of statements is **incorrect**. Which one?

a) Consumers would be prepared to spend 0AEQ on 0Q units and consumer surplus is 0AEQ – 0P₁EQ

b) The supply costs of 0Q units are 0BEQ and the value of social welfare is BEA.

c) Producer surplus is BP₁E and consumer surplus is AP₁E.

d) Only the last unit, 0Q, generates both consumer and producer surplus.

Answer: ☐

6) If VAT is put on a previously untaxed product, which of the following will happen to market conditions?

a) A leftward, parallel shift in demand.

b) A leftward shift in both the demand and supply curves.

c) A divergent (or rotational) shift in the supply curve.

d) A leftward, parallel shift in supply.

Answer: ☐

Questions 7) to 11) inclusive, make use of this supply (Sy) and demand (Dd) schedule for Good X:

Price (£s)	Qty Sy per period	Qty Dd per period
10	100	0
9	90	10
8	80	20
7	70	30
6	60	40
5	50	
4	40	60
3		70
2	20	80
	10	90
0	0	100

7) Based on the schedules above **all** of the following statements are true <u>except</u>:

   a) The equilibrium price is £5 where quantity exchanged is 50 per period.
   b) £210 **would be** spent at a price of £7, £250 at the equilibrium price and £160 at £2 per item.
   c) The product's supply curve is unit elastic.
   d) Demand for the product is relatively elastic.   **Answer:** ☐

8) If a specific (or unit) tax was imposed on the product then which of these is correct?

   a) Only its demand curve would shift, and to the left.
   b) Both its demand and supply curves would shift to the left.
   c) Only its supply curve would shift, and to the left.
   d) Price would rise by the same amount as the tax.   **Answer:** ☐

9) If a specific tax of £2 was placed on the product then which of the following is <u>incorrect</u>?

   a) Demand falls to 40 units at the new market price.
   b) Total tax revenue to the Government would be £80, split 50/50 between producer and consumer.
   c) The new price must be £5 plus £2 equals £7.
   d) Having paid the Government suppliers experience reduced revenue.   **Answer:** ☐

10) If Government had introduced a maximum price of £7 per item then which of the following would follow?

   a) Suppliers would expand supply to the market.
   b) Consumers would buy fewer items at the higher price.
   c) Supplies would have to be rationed.
   d) Price and quantity exchanged would be unchanged.   **Answer:** ☐

11) If the Government had awarded suppliers a specific subsidy of £2 per item then which of the following would **not** have occurred?

   a) The supply curve would have shifted outwards, price falling by £2 for all quantities.
   b) Some of the subsidy would be 'passed on' to consumers, some retained by suppliers.
   c) Consumers would now pay £4 per item, demanding 60 units per period.
   d) Suppliers would be worse off, total consumer expenditure falling from £250 (£5 x 50) to £240 (£4 x 60).   Answer: ☐

12) and 13) are based on the table below which shows a typical breakdown of the component parts of the price of petrol.

Price (per litre)	
Product:	57
Duty:	48
Retail:	5
VAT:	22
Pump price: 132 pence.	

12) Based on the table each of the following can be deduced **except**:

   a) VAT is added to the other components of the price.
   b) There are two taxes levied on petrol.
   c) More than half of the pump price is made up of tax.
   d) The rate of VAT is 16.7%.   Answer: ☐

13) Based **entirely** on the table above which of the following statements is **true?**

   a) Petrol stations make 5p profit per litre of petrol.
   b) If the price of 'the product' rose then the duty would rise too.
   c) VAT-free, petrol would be 62p per litre.
   d) The proportion of the pump price per litre that is tax is calculated by 70p/£1.32.   Answer: ☐

14) Which of the following would cause a product's supply curve to shift to the right?

   [1] The removal of an expenditure tax.
   [2] The introduction of a government subsidy.
   [3] An increase in demand for a good in joint supply.
   [4] An increase in the price of a good in joint demand.

   a) 1 only
   b) 2, 3 only
   c) All of them
   d) 1, 2 and 3 only   Answer: ☐

15) Consumer surplus gained from a market will rise in all of the following circumstances **except**:

a) A rightward shift in demand with an upward sloping supply curve
b) Downloads of the new U2 album being available at zero price rather than £7.99
c) A rightward shift in supply, downward sloping demand curve.
d) Demand is perfectly elastic for the good and supply falls.

Answer: ☐

16) The burden of a tax will fall entirely on the consumer of a good if:

a) Price elasticity of demand and price elasticity of supply are equal at the equilibrium price.
b) Supply is perfectly elastic.
c) Demand is perfectly elastic.
d) Supply is inelastic.

Answer: ☐

Questions 17) and 18) use this supply and demand information for good F.

17) Examine this weekly supply and demand schedule for good F.

P (£)	Quantity supplied	Quantity demanded
10	100	0
8	80	20
6	60	40
4	40	60
2	20	80
0	0	100

Which of the statements is **false**?

a) At £2 there would be a shortage of 60 units of F.
b) At a price of zero, demand for this 'free' good is infinite.
c) The equilibrium price of this product lies between £4 and £6.
d) At a price of £8 there is a surplus of 60 units of F.

Answer: ☐

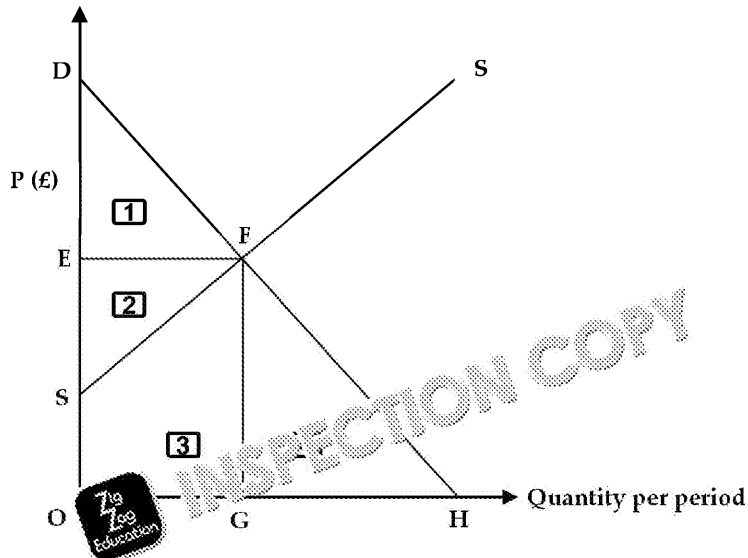18) If a £2 specific tax was imposed on good F, which one of the following statements is **correct**?

a) The demand curve for F would shift to the left.
b) The price of F would rise by £2.
c) The market price would rise to £6.
d) Profit from the market would rise.

Answer: ☐

19) Consider the diagram below.

Based on the supply and demand diagram for good X at the equilibrium price and output, which of these options is **correct**?

a) The value of consumer surplus comprises areas 1) to 4) inclusive.
b) Consumer surplus is area 2) plus area 3) minus area 1).
c) Consumer surplus is area 1) only.
d) Producer surplus is areas 2) and 3) combined.

Answer:

Topic 7: Market Failure

1) In the course of producing a private good a firm does not include the damage it does to the environment within its cost calculations. In a market free from government intervention, which of the following will **not** occur?

   a) Price will be too low.
   b) Output will be too high.
   c) Social welfare will be maximised.
   d) Social costs will exceed private costs.

   Answer: ☐

2) Which of the following would result in market failure?

   a) A profit-maximising monopolist achieves dominance in a once competitive market.
   b) Ignorant of its true value, a pensioner sells a painting to a dealer for...
   c) To stimulate civil aviation, government abolishes Air Passenger Duty.
   d) Each of a), b) and c).

   Answer: ☐

3) Socially efficient output levels would not be achieved in free markets for merit and demerit goods. Which of the following combinations of points helps to explain this?

   [1] Consumers do not have full information about the benefits of consuming each good.
   [2] Consumption of each good creates externalities.
   [3] De-merit goods can only be supplied by the private sector, merit by the public sector.

   a) 1 only
   b) 1 and 2 only
   c) 2 and 3 only
   d) 3 only

   Answer: ☐

4) Research suggests that usage of cycle helmets would rise if they were cheaper and if cyclists were better informed about their value in protecting life. Which of these government policy options would best address their underconsumption?

   a) Reduce the rate of VAT on helmets and cycling equipment.
   b) Subsidise cycle helmets and make wearing them compulsory (when cycling...).
   c) Improve the provision of cycle lanes.
   d) Produce public information campaigns for showing on the BBC.

   Answer: ☐

5) Only one of the following statements about a merit good such as education is **false**. Which one?

   a) It is always free at the point of use.
   b) It is often better for consumers than they realise.
   c) There are external benefits of consumption which the consumer may undervalue.
   d) In the UK both public and private sector provide merit goods.

   Answer: ☐

6) Arguments against the NHS being replaced by a free market in medical insurance include all of the following **except**:

   a) Many people could choose to be uninsured.
   b) Some people with congenital conditions would be an uninsurable risk.
   c) Premiums could act like a regressive tax.
   d) Waiting lists for certain treatments would lengthen.
   Answer: ☐

7) The consumption of demerit goods is worse for us than we realise and also imposes external costs on other people. Thus in a free market they are over-consumed. Which combination of goods below only contains goods classified in the UK as demerit?

   a) Petrol, alcohol, cigarettes
   b) Cakes, crisps, alcopops
   c) E-cigarettes, burgers, legal highs
   d) Whisky, cigarettes, champagne
   Answer: ☐

8) Use of the division of labour in manufacturing is likely to have all the following effects **except**:

   a) Lower unit costs of production.
   b) Higher productivity of labour.
   c) A reduction in the capital-intensity of production.
   d) Reduced movement of labour around the shop floor.
   Answer: ☐

9) If the social costs of an economic activity exceed the private costs then:

   a) It must be taxed to reduce consumption.
   b) It must generate external costs.
   c) It should be made illegal.
   d) It would be under-consumed in a free market.
   Answer: ☐

10) Pure public goods include all of the following **except**:

   a) Streetlights
   b) Public roads
   c) National defence
   d) Flood defences
   Answer: ☐

11) Only one of the following is genuinely non-rival in its consumption. Which one?

   a) A beach
   b) A motorway
   c) A lighthouse
   d) The Severn Bridge which separates Wales and England

   Answer: ☐

12) Only one of these statements about public goods is false. Which one?

   a) Defence services are non-rival.
   b) Flood defences are non-rejectable.
   c) Roads are non-excludable.
   d) Lighthouse services are non-rejectable.

   Answer: ☐

13) Consider the diagram below which shows the market in Higher Education. It is assumed that students underestimate the financial benefit to themselves of being a graduate and ignore the external benefits to the wider economy.

D1 = Demand curve, poor knowledge
D2 = Demand curve, good knowledge
D3 = External Benefit (MSB)
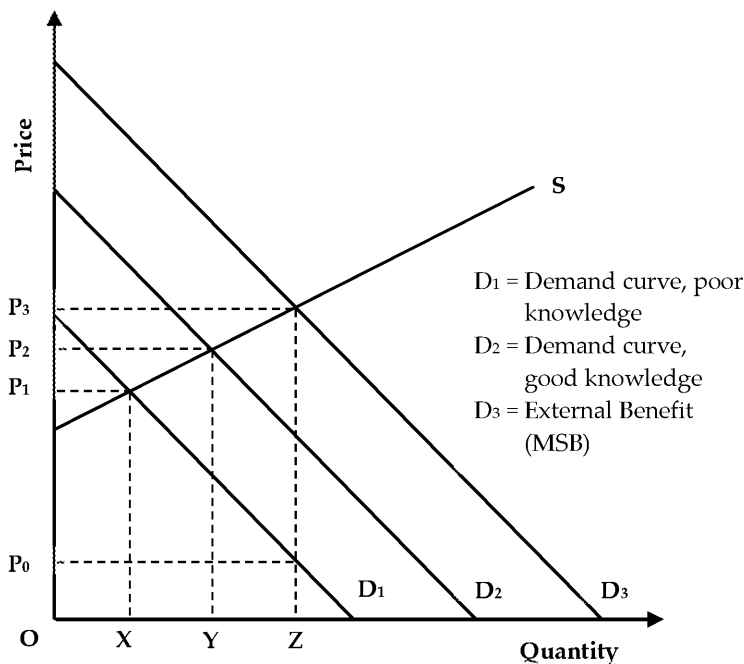
Only one of these statements is *fully* correct. Which one?

   a) In a free market degrees would be priced at P_1 and would be under-consumed by XY units.
   b) Given better information students would be prepared to pay $0P_3$ and there would be no overconsumption.
   c) Students would opt to buy the socially efficient quantity of degrees, 0Z.
   d) To achieve an output of 0Z degrees government should subsidise each student by $P_0 P_3$.

   Answer: ☐

14) This question refers to the diagram below which shows the market for a product which generates external costs of production. One of the diagram 'match-ups' is <u>incorrect</u>. Which one?

a) '1' is the marginal private cost curve.
b) '2' is the marginal social cost curve.
c) '3' is the external cost per item produced.
d) '4' is the marginal external benefit curve.

Answer: ☐
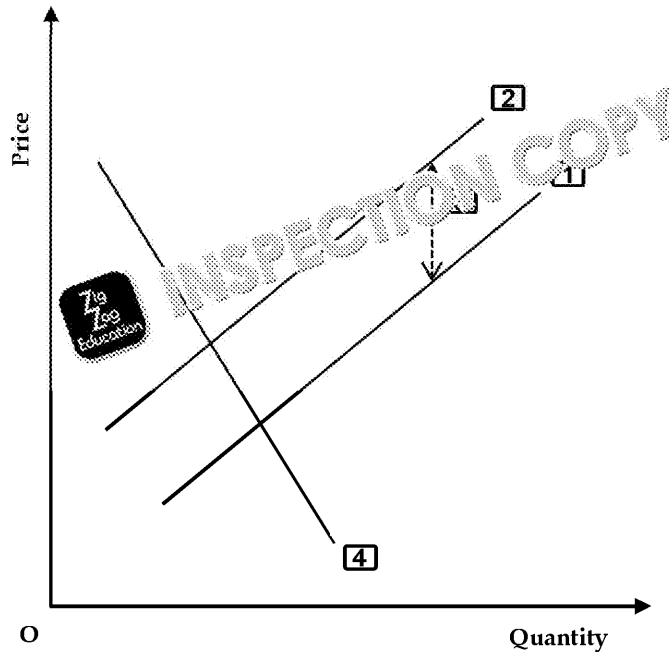
15) This question refers to the diagram below which shows the market for a product which generates external benefits of consumption. One of the diagram 'match-ups' is <u>incorrect</u>. Which one?

a) '1' is the marginal private benefit curve.
b) '2' is the external benefit per item produced
c) '3' is the marginal external benefit curve.
d) '4' is the marginal social cost curve.

Answer: ☐
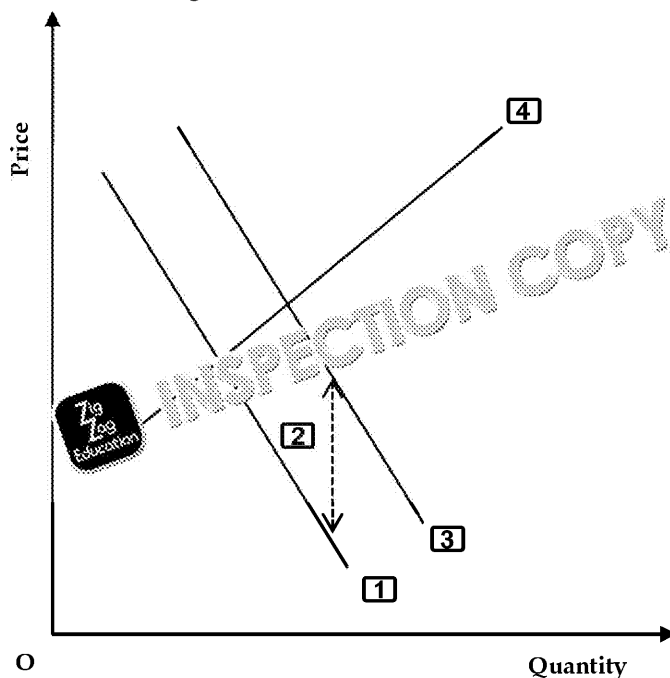
16) A free market system *could* supply all but one of the following pairs of goods. Which pair?

   a) Designer clothes and health care
   b) Education and foreign holidays
   c) Toll roads and flood defences
   d) Socks and shoes   **Answer:** ☐

17) Civil aviation is a highly polluting form of transport. Without government intervention to address this issue the market would fail for each of the following reasons **except**:

   a) Flights would be too cheap.
   b) Airlines would have little incentive to reduce emissions.
   c) There would be excess demand at the free market price.
   d) Flights would be over-consumed.   **Answer:** ☐

18) Consider the table below which gives selected data on the labour market in the North and the South within the UK.

Region	% Unemployed	Average full-time weekly wage (£)	Unemployed per vacancy
N	12	500	100
S	8	600	25

Based on the data, which of these statements is **correct**?

   a) There are 100 applicants per vacancy in the North, 25 in the South.
   b) The UK is experiencing 10% unemployment.
   c) Geographically mobile unemployed workers will move from North to South.
   d) Wage differences between North and South will disappear.   **Answer:** ☐

19) The diagram below shows a market for certain alcoholic drinks in Scotland after the government has intervened to impose a minimum price. Only **one** of the ensuing statements is **false**. Which one?
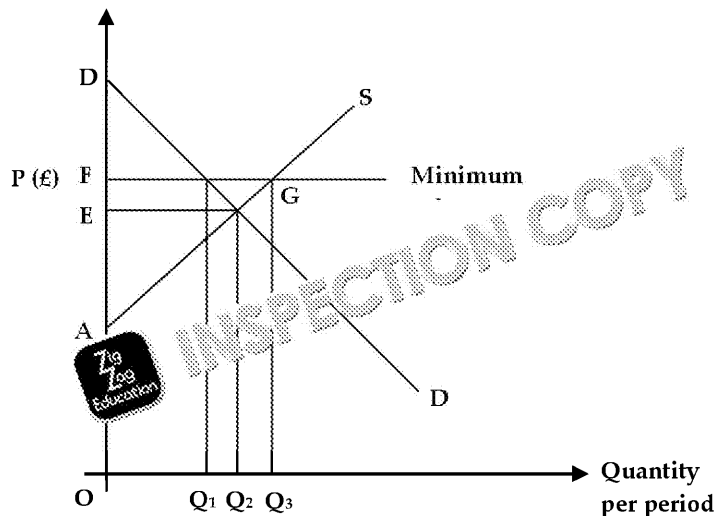
   a) Demand will contract by Q_1Q_2 units.
   b) The supply curve for alcohol will be unaffected.
   c) Purchases of alcohol in England from sources over the border will rise.
   d) The external costs of alcohol consumption will fall.   **Answer:** ☐

Topic 8: Government Intervention

1) Externalities should arise from government-backed development of high speed rail links. These include all of the following **except**:

    a) Construction costs.
    b) Reduced noise from vehicles.
    c) Faster travel leading to shorter journey times.
    d) Less congested roads.   **Answer:** ☐

2) Government is most likely to subject which of the following to heavy taxes?

    a) Superior goods
    b) Public goods
    c) Demerit goods
    d) Inferior goods   **Answer:** ☐

3) If the government started to impose 'green' taxes on polluting firms which of the following should occur?

    a) Externalities are internalised.
    b) Recycling of waste materials.
    c) Higher product prices.
    d) Each of a) to c) is correct.   **Answer:** ☐

4) Which of the following policies would not help to combat obesity?

    a) Putting an excise duty on 'fizzy' drinks.
    b) Banning fast-food outlets from areas near schools.
    c) Subsidising sugar production.
    d) Requiring warnings to be put on the packaging of 'high fat' foods.   **Answer:** ☐

5) Following a fall in supply of petrol the Government prevents the price rising from the original equilibrium (effectively a maximum price)

    Which **combination** of the following might be expected to happen?

    [1] Rationing of petrol
    [2] Increased car sharing among commuters
    [3] Extra supply of petrol
    [4] Petrol hoarding.

    a) 1 only
    b) 1, 2 and 3 only
    c) 1, 2 and 4 only
    d) 2, 3 and 4 only   **Answer:** ☐

6) Which of the following government policies would **not** reduce the externalities of private car travel?

    a) Raising road tax.
    b) Building car parks on brownfield sites.
    c) Subsidising the electric car industry.
    d) Developing more cycle lanes on roads.   **Answer:** ☐

7) If a government offered farmers a guaranteed minimum price for supplying an agricultural good this could cause government failure for which of the following reason(s)?

   a) Surpluses are sold off below cost price
   b) Surpluses are destroyed
   c) Taxpayers money could have been more productively spent elsewhere
   d) Each of a) b) and c) is correct.

   Answer: [ ]

8) Creating a market in pollution permits may result in government failure for all of these reasons **except**:

   a) Too many permits are distributed initially
   b) Firms can transfer production outside the controlled area
   c) The supply of permits is reduced, year on year in order to increase p
   d) Compensation allows used permits to be resold

   Answer: [ ]

9) Since 2003, to reduce vehicular congestion in central London weekday charging for road use has applied. The government has **failed** if:

   a) The daily charge has more than doubled.
   b) Journey times have increased.
   c) Demand has proved to be elastic.
   d) Some motorists avoid the charging zone.

   Answer: [ ]

10) Examples of government intervention in the free market in the UK include all of the following **except**:

   a) The national minimum wage.
   b) Free visits to GPs.
   c) Social housing rent controls.
   d) Pay rates for the self-employed.

   Answer: [ ]

11) If a specific tax is placed on a good with relatively inelastic demand it follows that:

   a) The tax will be paid entirely by consumers.
   b) The bulk of the tax will be passed on in higher prices to consumers.
   c) Supplier revenue will be unaffected.
   d) Producers must pay 50% of the tax.

   Answer: [ ]

12) If government agrees to a unit subsidy on bus services the impact on the market would be:

   a) Lower prices, more journeys bought but unchanged revenue for suppliers.
   b) Unchanged prices, more frequent buses and greater supplier revenue.
   c) Ticket prices fall by the size of the subsidy and buses become less frequent.
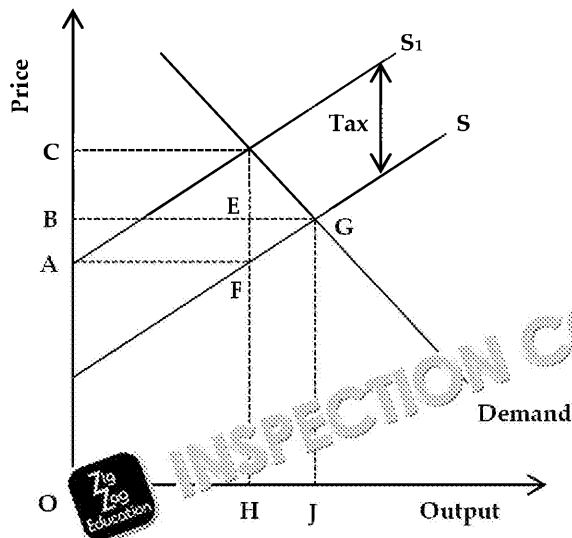   d) Ticket prices fall, demand extends and supplier revenue rises too.

   Answer: [ ]

13) Consider the diagram below, which shows the market for a good after a specific tax has been put on it.
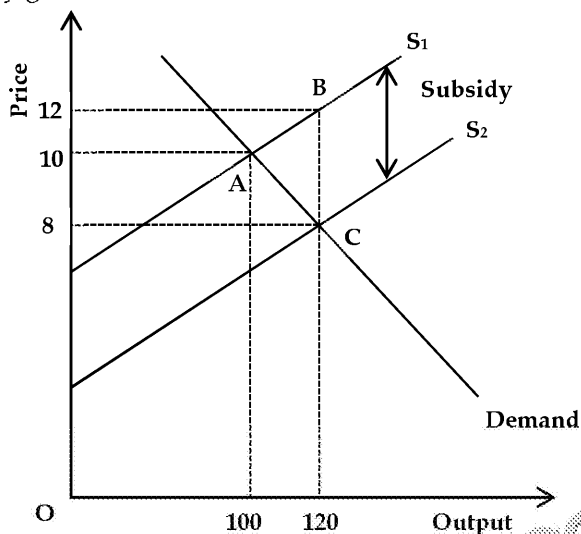

The producer's share of the tax is shown by the area:

a) BCDE
b) DEG
c) ACDF
d) ABEF

Answer:

14) In the diagram below a specific subsidy of £4 has been introduced by government.

As a result of the subsidy, the total revenue of suppliers changes from:

a) £1,000 to £960
b) £960 to £1,440
c) £1,000 to £1,440
d) £960 to £1,000

Answer:

15) Other things being equal, the consumer's share of a subsidy will be:

a) Greater, the bigger the subsidy on the product.
b) Lower, the higher the original equilibrium quantity demanded of the product.
c) Greater, the lower the price elasticity of demand of the good.
d) Greater, the more income elasticity of demand for the good.

Answer:

16) Information failure in the market for cigarettes is addressed by all of the following policies **except**:

a) Health warnings on the packets.
b) An advertising ban.
c) Public information films.
d) Heavy excise duties.

Answer: ☐

17) Asymmetry of information cannot occur in a market if:

a) A job applicant needs to supply two references.
b) A potential car buyer inspects the vehicle they wish to buy.
c) Goods are 'sold as seen'.
d) Consumers and producers are equally knowledgeable about the product.

Answer: ☐

18) Imposing a maximum price for private rented accommodation could be a cause of government failure due to which of the following outcomes:

a) The excessive administration costs of monitoring the system.
b) A deterioration in the quality of rentals for hire.
c) Landlords discriminating between applicants on grounds of status or ethnicity.
d) Each of a, b and c is evidence of government failure.

Answer: ☐

19) Government failure is defined as:

a) Failure of the government to achieve its target for 2% inflation
b) Failure of the government to reduce its budget deficit to zero
c) When its intervention in the economy to correct a market failure creates further inefficiency
d) Both A) and B)

Answer: ☐

Topic 1: Economics, demand and decision-making

Q	A	Explanation
1	b)	Normative economics is based on opinions. Positive economics is scier̶ macro are both branches of the subject about which opinions may be e̶
2	c)	Options a), b) and d) are established advantages of the division of labour – specialise they become more productive, lowering unit costs and making ̶ productively efficient. However, the division of labour does not correct m̶ of a given market to produce an efficient allocation of resources. The corre̶
3	d)	Many goods are indivisible – cannot be broken ̶ smaller units for tr̶ universal way of gauging the value of i̶ ̶ ̶ ouble coincidence of ̶ trade, two people must want̶ ̶ ̶ ̶er is offering.
4	c)	Money acting as a ̶ ̶ of ̶ ̶ue̶ allows saving to take place.
5	b)	Cre̶ m ̶ ̶ an consume now but pay later – a 'standard for defe̶ ̶ ̶ts ̶
6	d)	M̶y allows us to measure the value of goods in a universally under̶
7	a)	Option a) is a public good, non-excludable in nature (consumers can't ̶ consumption so could take a 'free ride'). The other three goods are exc̶ consume.
8	c)	Effective demand is the desire to buy supported by the ability. Goods in a̶ among those prepared to pay the price – c). 'Desire' may not be backed by̶
9	b)	A free market should remove shortages and surpluses via 'the invisibl̶ and sellers are required for a market to be genuinely competitive. Exte̶ tend to be ignored in an unregulated free market, leading to overprodṵ underproduction, so the correct answer is b).
10	c)	Productivity is defined as output per worker per period; originally it w̶ 4,800 (48,000/10) – so has increased by a factor of 480 – option c) is, thu̶
11	c)	Diminishing marginal utility – satisfaction grows as extra units of a go̶ a decreasing rate – second helpings are less satisfying than first, etc.; o̶
12	d)	Consumers are assumed to be utility maximisers, seeking to make the ̶ They are rational, not 'sensible'. Cabbage would be consumed instead ̶ extra utility rather than extra health benefits.
13	b)	Demand is limited to 50 units even if the good is 'free' but revenue is n̶ quantity demanded) at £60, via a price of £3 or £2.
14	a)	All the options would cause a shift in demand except a) – the correct answ̶ a weak complement will have a small impact on ̶ ̶mand for the good̶ shift.
15	c)	We are looking for a factor ̶ ̶ n̶ ̶ xpansion of demand, namely grea̶ price. This can on̶ ̶ ̶ ̶u̶ ̶ ̶y a rightward shift in supply, such as a go̶ optio̶ c).
16	d)	̶ a̶ to c) are examples of the types of decisions entrepreneurs m̶ r̶ ̶d) – risk-taking, the correct option.
17	c)	Option c) is a summary of how 'economic' man is assumed to behave ̶ but each of the other three options is an example of common consume̶
18	c)	In order to draw a demand curve we have to allow the price of the goo̶ options are some of the constants assumed when the curve is drawn.

Q	A	Explanation
19	d)	• Positive statements are factual or verifiable by testing whereas value ju[...] • Statements a), b) and c) are factual, whereas d) is an opinion. • A lower tax burden is a recognised way of boosting incentives to ea[...] proven to be 'the best way'. • Value judgements inform government policy decisions.
20	c)	Option b) is a Keynesian perspective. Keynes and Hayek disagree over t[...] the economy.
21	a)	
22	d)	

Topic 2: The Economic Problem and PPFs

Q	A	Explanation
1	d)	Money held in savings is precisely that – a store of wealth. The other th[...] the lorry will be used to create services. The unsold tablets, an inventor[...] capital goods.
2	c)	The closest alternative foregone is the holiday – which the student mi[...] damaging the car – option c), therefore.
3	d)	The McDonald's manager (d) is not 'bearing the risks of production' e[...] continued employment will depend on the pr[...]ility of the restaur[...] undertake the risks of setting up a new[...] in [...].
4	c)	It has to be opportunity cos[...] (c); [...]me and substitution effects refer[...] cuts on the deman[...] a [...]uct; marginal utility is a measure of add[...] gained fr[...] is[...]nt consumed of a good.
5	b)	[...] i[...]ne highest current standard of living (consumer goods ma[...] [...]e the highest 'in the future' as capital goods are required to pr[...] – option b), therefore.
6	c)	For option a) the second statement is incorrect, since it indicates a mo[...] the curve. The second claim in option b) cannot be made – it depends [...] of productive potential. Option c) is entirely correct; for d) output of c[...] is unsustainable, but the latter statement is a value judgment.
7	d)	Option d) is false – using existing resources, the economy could have [...] million cheeseburgers in combination with the 20 million tonnes of ri[...] that its potential has declined, just that it is inefficient. The other optio[...] the table.
8	c)	All these proverbs have an economics application, but only 'too many[...] diminishing returns – (c); 'many hands' – the division of labour; 'no s[...] someone is paying.
9	d)	If a PPC has a straight line then it is like any other PPC curve except t[...] increasing either good is a constant (as in basic free trade theory) – th[...]
10	d)	Limited in supply means scarce but in this subject 'scarce' does not m[...] but does mean finite – so option d) is the correct choice.
11	d)	If a PPF is concave in shape then options a) and b) are correct. So is c),[...] cost of a complete reallocation of resources is calculable. D) is false an[...] economy moves from a point inside its curve to the curve itself then n[...] this is known as a Pareto improvement.
12	c)	• OA capital goods can combine with O[...] er goods (Point J) [...] goods are only available with [...]ro[...] ar[...] goods. • Options A and B are [...] e [...]. D is inside the curve and sugge[...] but it is pos[...]
13	b)	• [...]v[...]m G to H involves no opportunity cost since an extr[...] [...]duced without requiring sacrifice of consumer goods. • [...]e movement is not along the production possibility curve, whic[...] sacrifice, but from a point inside it to one on it. • The other options correctly identify the alternative good sacrificed[...] – opportunity cost.

Q	A	Explanation
14	c)	• This statement involves a prediction which cannot be verified from measured by access to consumer goods, citizens of Y may have a h in the short run, but with fewer resources devoted to capital good sustain this. • X produces more capital goods – which are needed for consume • Statements A and D involve opportunity cost. • The diagram confirms that B is correct.
15	c)	The classification of goods as consumer or capital can depend on the are designed to produce consumer goods or services, generating a pi washing machine is a source of income to the drette, not to a hou option is c).
16	d)	The state would **not** pre rest with welfare payments in a f
17	b)	Resources w llocated between E and F; less E would be pr men B to C; therefore, option b). A movement from C to ction of both goods falling.

Topic 3: Elasticities

Q	A	Explanation
1	b)	Revenue has risen from £1,000 to £1,320 (32%), price has risen by £1 from to 120.
2	c)	The price of A has risen by 5% – 50p/£10; the other parts of the statem 40/1,000 is the increased demand for B; the fall in demand for C is 20/1
3	c)	An inferior good is one with a negative income elasticity of demand (and incomes are inversely related – option c), since a recession is a per
4	c)	Writing out the key information in a table below e. Then work out demand (PED) and total revenue (TR) t t higher price. Demand is so revenue will rise – optior fore. It does not follow that there trips by UK citizen tho is possible.
5	d)	Good A inelastic demand so its revenue would rise after a sales of B. However, good B is a weak substitute (cross (XPED) is less than 1 at 0.5) for A, not a strong one – so d) is i
6	b)	Part of b) is false since the bulk of the tax will not be paid by the consu happen if demand was inelastic, say. Price would rise though, and der
7	b)	Would happen if demand was perfectly inelastic – so option b) is corr
8	d)	If demand is inelastic but less than perfectly so, then a price rise will l revenue but of a lower % than the price rise. Only if PED is zero will r same % – see Q. 47)
9	b)	Consumer surplus will exist so long as the demand curve is less than equilibrium price is £5 and that is the highest price any units would se
10	c)	If TR is constant between two prices demand is unit elastic.
11	a)	Demand must be perfectly elastic – raise price by 1p above the going rate disappear.
12	b)	If revenue changes by the same % as price, in the same direction, PED
13	d)	Product ticks the boxes for low PED – inelastic, but not perfectly so: o
14	c)	In this case TR is a constant, whatever the price charged, which would was unit elastic between all prices.
15	d)	If the incidence of a tax falls mainly on either consumer or producer t 50% of the tax. Here it's the consumer paying more, so demand must perfectly inelastic.
16	a)	Statement a) is incorrect: | P(£)	Qty Dd per per d	TR (£s)
10		1,000
9	125	1,125 | PED is e 2.5, 25%/-10%, so it is elastic; 25 extra sales at £9 ea s for the £1 loss on each of the original items.
17	b)	ns 1 and 3 contribute to inelastic demand; option 2) is related to elastic for the good in question, and thus b) is correct. Option 4) refers demand.
18	c)	In both the short run and the long run the PES is less than 1, thus inel in the short run than the long run.
19	c)	B is a weak substitute for A (+XPED but <1); demand for A is price ine 0.8, so option c) describes the correct combination.
20	c)	There are no extra costs associated with the fish, s

Q	A	Explanation
		revenue is maximised.
21	c)	PED varies along the length of a straight-line curve, increasing as pr price cannot cause a shift in demand – so b) is wrong. The point ela point g is gz/ag whereas at h it is hz/ah – so option c) is correct. Inc d) is incorrect.
22	d)	• Price has been reduced by 1/6 (-50p/£3) and demand has extend 240) so the proportional change in quantity demanded is exactl price. • It follows that total revenue would fall, since the extra demand the fall in price. • The new value for revenue is £650· f 2( ); originally, reven
23	c)	• We are not told specific y a ppened to the sales of lager; quantity has fall t r nce rise, but without knowing by ho to tell if h a g fewer sales (albeit at a higher price) would r r verall lager sales revenue. a) is therefore incorrect. eer nuts are a strong complement for lager as their cross-elasti price of lager is greater than -1 at -1.2 (a 12% fall has been cause for lager – 25p/£2.50). • The correct option is c); a weak substitute has a cross-price elast less than 1; demand for the substitute is rising at a lower rate th caused it. The answer here is 0.5 (5% / 10%). • d) cannot be correct – within the data the price of cider is uncha cannot be performed.
24	c)	• Under 'soft drink' are the goods whose demand is being affecte to their right. • To simplify the table, which is a common format for showing th assume a 10% price change for the drinks. • Thus a 10% price rise for Sprite would cause a 9% increase in de contraction in its own demand. Sprite has a price elasticity of de 0.7, less than 1 so therefore relatively inelastic. Price cuts lead to a cut in total revenue. • The drinks are evidently substitutes but with positive cross-pric values of less than 1 they are weak ones. If PED for Sprite is -0.7 the equation for PED confirms that B) is correct (-0.7 = -7% / 10% of 0.3 in the cross-elasticity of demand values, confirming this s

Topic 4: Supply

Q	A	Explanation
1	c)	A fall in demand induces a movement down a supply curve, a contr… shift in supply. Try to avoid the error that if a demand curve shifts, s… vice versa.
2	b)	The goods are substitutes in production (option b), as an increase in … oranges restricts the number available for juicing and vice versa. The… but we can't deduce that based on the information given. Juice is no… oranges.
3	d)	Perfectly inelastic supply is depicted …y … v…cal supply curve, sinc… to any change in price.
4	b)	Option b) is fal… … s th… …orrect answer – revenue can change if th… a higher …… …ly, will result in an equivalent increase in total reven…
5	c)	…… …ing a diagram – if both price and quantity fall equally sup… …ng through the origin.
6	b)	Supply is fixed, its curve is vertical, and PES must be zero.
7	d)	As with Q. 51) try a quick diagram – if the impact of rising demand i… supply must be inelastic, but not perfectly inelastic.
8	c)	Both price and quantity supplied have increased by 10% – so PED is…
9	b)	Supply again must be fixed – all the impact of falling demand is on p… at 125.
10	a)	Perfectly elastic supply – 'apparently limitless'.
11	d)	Dividing TR by price gives us the new quantity supplied – £1,155/£1… has been induced by a 10% price rise (from £10 to £11) so PED IS 0.5… then, so option d) is correct.
12	d)	The price mechanism will perform each of a), b) and c) but it will no… property (d) as that would imply some sort of government intervent… maximum price.
13	c)	Option 4) would make demand elastic, not supply; it is incorrect; op… conventional causes of inelastic supply, so c) is correct.
14	c)	The goods are in competitive supply – the land can be used for eithe… c); the farmer will grow whichever makes more profit, rather than th… price or the lowest costs. They may be substitutes, with a positive XI… deduce this based on the information given.
15	b)	The only certainty is that more will be so… … … …t… …s the price of A ri… correct. Good C should be in low… d…m… …at a lower price as a con… less is spent on A depen… … … …D, which is not given.
16	c)	C) is correct … … … …s are provided with taxpayers' money but… … …u… … … …ublic sector organisation.

Q	A	Explanation
17	d)	• Think of the formula for price elasticity of supply, and then apply change in quantity supplied / proportional change in price). • The value for price elasticity of supply (PES) will be less than 1 si change in quantity supplied will be less than the proportional cha will not be zero – option D). • Thus statement A) is correct, as is B). • C) helps to explain why the PES is less than 1.
18	a)	• The question is about factors typically affecting price elasticity of • Plentiful stocks suggest that suppliers can react readily to any inc without a major price rise, making sup̃p̃ i a ̃ic. • Options B), C) and D) are typical ̃as ̃ why product supply is i indicates difficulty i ̃ ̃ ̃iic ̃ ̃ponse to rising demand. • By the way ̃ ̃ ̃ f r ̃ ̃dent that A) is the correct option, it's a g ̃ the a ̃ ̃ ̃ ̃ons too.

Topic 5: Price

Q	A	Explanation
1	c)	Study the terms carefully. The set price to cross the bridge is £6.50, it changes in demand, many of which cannot be predicted – hence the not others. The system could generate £3,250 per hour but it is not gu
2	d)	Sketch out supply and demand curves, label equilibrium price and q revenue – answer must be d).
3	c)	Unless you know 'the rule' for this one try a simple diagram – the in demand cancel out any price rise but result in a greater quantity excl is unchanged price, increase in quantity exc̲ d, option c) then
4	c)	S₁ meets D₂: option c)
5	a)	D₁ meets S: on'
6	b)	ee ion b)
7	d)	ets S₂: option d)
8	b)	Theory as for Q. 37), thus option b)
9	a)	Option a) as demand falls from DD to D₁D₁
10	a)	Substitute into the equation for PES: $2 = x/1/10$, where x is the propor quantity supplied. Cross multiplying confirms that $x = 1/5$, so the sup effectively:
11	d)	Answer d): the price mechanism, the 'free' interaction of supply and each of a), b) and c).
12	b)	Options 1) and 2) are correct, answer is b). The coat will feature in the Janu excess supply. We can't tell if it is in excess demand, but the existence of th
13	c)	Similar method to Q. 24) here; supply shifts to the left, demand contr conventional) but the impact on total revenue is only calculable if PE not. Consumer surplus will fall though. Thus, the right answer is c).
14	d)	Option d) is again correct. Prices signal whether prices are too low, t
15	b)	Option b) is correct – try shading in the increase in consumer surplu necessarily spend more in total – this is true only if demand is elastic units sold would add P₁P₂ of consumer surplus.

For Q10:

P(£)	Qty Sy
10	100
11	120 (20% extra) so the new TR is £11 × 120 = £1,320, so

Topic 6: Surpluses, Taxes and Subsidies

Q	A	Explanation
1	c)	Option a) may appear to be correct, but consumer surplus is the diff⋮ utility received when goods are bought and total utility paid for. So,⋮
2	d)	All the statements are correct – at £220, the preset price, demand wa⋮ This excess demand suggests that the equilibrium price is higher an⋮ for a market in 'fakes'. Producer surplus would be higher at a highe⋮ from consumer surplus to producer surplus.
3	d)	Consumers are prepared to pay the revenue equal to the area under⋮ the equilibrium output – this is £255, not £3C⋮
4	c)	Try a diagram – horizontal suppl⋮ cɪ⋮ ⋮ and shifts to the right⋮ unchanged but quantit⋮ ⋮ ⋮ rises. Producer surplus, profit, i⋮ price elasticity ⋮ p⋮ ⋮ £S), other things being equal, so is zero i⋮ el⋮stic ⋮ ⋮ ⋮ ⋮uld rise by the extra sales times the price. Option⋮
5	d)	⋮n ⋮ is false since the last unit consumed and produced is the ⋮ ⋮ CS or PS – the rest are true.
6	c)	The conditions of demand are unchanged so there is no shift in the ⋮ is a %, the new supply curve diverges from the original rather than ⋮ excise duty.
7	d)	a) is clearly correct – supply and demand are equal; £250 would be spe⋮ £160 at £2; PES is unit elastic – the supply curve is linear and passes thr⋮ varies along its course – it is not 'relatively elastic' so d) is false – the co⋮
8	c)	Avoid the assumption that if a supply curve shifts position the deman⋮ separate reasons are required. A tax shifts the supply curve to the left⋮ rise by the full extent of the tax but demand must be perfectly inelasti⋮ elastic –not the case here.
9	c)	When a specific tax is introduced a new supply schedule can be wri⋮ would be supplied, but at a price now £2 higher (in this case). The n⋮ with equilibrium quantity now 40. Price to consumers has risen by £⋮ fallen by £1, thus tax revenue is £2 times 40. Suppliers now receive 4⋮ 50 lots of £5. All options are correct except c) then.
10	d)	A maximum price will only affect the market if below the free mark⋮ above, leaving the market undisturbed – so d) is correct.
11	d)	Try a new supply schedule (parallel to the old but with all quantitie⋮ price £2 lower). Option d) is incorrect though. Although consumers ⋮ suggested, suppliers receive the subsidy too, raising their revenue.
12	d)	VAT is 20% of the value added – the ⋮⋮ ⋮⋮ ⋮f ⋮e component cost⋮ price – which includes VAT – s⋮ ⋮ c ⋮ ⋮ ⋮e deduced and is theref⋮ Total tax per litre, at ⋮⋮⋮ ⋮ ⋮ ⋮e two taxes, is more than 50% of th⋮
13	d)	Option d) ⋮⋮ ⋮ ⋮ ⋮p plus 22p/£1.32 – there is 'tax on the tax'; re⋮ ⋮ bɪ⋮ ⋮ ⋮ before costs, so is not profit. VAT is 'automatically b⋮ ⋮ of the 20% rate) will rise if any of the components increase. Co⋮ ⋮ce would be 62p – 57p plus 5p, not simply VAT free.

Q	A	Explanation
14	d)	Statement 4) is incorrect – the demand curve for the complement shi[...] an extension of supply, not a shift. The removal of a tax, or a subsidy[...] demand for a good in joint supply – all these are supply shifting eve[...]
15	d)	Try drawing out the events described in the options – CS rises in all [...] demand is perfectly elastic then consumer surplus is zero, whether s[...]
16	b)	Option b) is correct. If supply is perfectly elastic then an excise duty [...] supply curve upwards and parallel to the original, thus all the tax is [...]
17	b)	• For Q42) and Q43) work directly from th[...] ply and demand s[...] alternatively quickly draw the cu[...] (a[...] re linear). • £2 would generate exce[...] n[...] 60 units so a) is correct. • £8 would crea[...] sd[...] s described. • Assum[...] ine supply and demand curves, £5 would be[...] [...]et [...] and £6. [...]is false for two reasons: demand is for 100 units and is not infinite[...] 'free' in the economic sense as its production would consume resou[...] opportunity cost.
18	c)	• A shift in supply causes a movement up or down a demand curv[...] movement up the demand curve), not a shift, which would be ca[...] one of the non-price conditions of demand. • A common error is to assume that the price of a product always rise[...] any tax imposed; this can happen, but only if demand is perfectly in[...] perfectly elastic. • c) is correct: the same quantities would be supplied as before the[...] would rise by £2 in each case, e.g. 20 units now supplied at £4, 4[...] supply schedule set against the original demand schedule gener[...] (quantity of 40 per period). • d) Profit would fall – 10 fewer items would be sold and although[...] would be £6 the government is entitled to tax of £2 per item, leav[...] per item sold.
19	c)	• Areas 1) to 4) inclusive would represent consumer surplus if the [...] point of use, not at the equilibrium price. • Consumer surplus is measured by subtracting what consumers [...] (areas 2 and 3) from what they would be prepared to spend in to[...] the area under the demand curve at the price in question. • Thus b) is incorrect but c) is right. Producer surplus is a measure[...] between what suppliers actually receive for [...]lling goods and w[...] prepared to supply them for – are[...] (p[...] area 3) minus area 1).

Topic 7: Market Failure

Q	A	Explanation
1	c)	Social welfare will not be maximised (option c) because the good is b[...] the impact of the external costs should be reflected in a higher price f[...] output.
2	d)	All three would be instances of market failure – option d) – the mono[...] price and restrict output below what would occur in a competitive m[...] asymmetry of information regarding the painting and the abolition o[...] increased flying, increased external costs, not reflected in the price pe[...]
3	b)	Option b) is correct – statement c) is inc[...] [...] of private health[...]
4	b)	Only b) makes them both [...] [...] shifts the demand curve to the r[...] requirements for [...] lo[...] prices and greater demand. Compulsion s[...] consum[...]
5	a)	[...]oods are classified as such by government and not only have ex[...] [...]mers also tend to underestimate the benefits to themselves of co[...] always free at the point of use (option a), e.g. higher education is subsi[...] suffers fees.
6	d)	Waiting lists for treatment (option d) should shorten if prices lead to [...] demand.
7	d)	Option d) contains alcohol and tobacco products – petrol, burgers an[...] goods.
8	c)	Increased division of labour would be facilitated by increased rather [...] investment in specialist machinery (c); the other options are likely.
9	b)	It must, by definition, generate external costs, so in a free market it w[...] Tax is simply one way of trying to achieve a socially efficient output, [...] would only be illegal if social costs exceed social benefits at all outpu[...] is correct.
10	b)	Roads are not pure public goods because they can be rival – congeste[...] excludable if charged directly for, as with the M6 toll.
11	c)	There is only so much capacity on a beach, a motorway and the Sever[...] from a lighthouse is non-rival – thus option c) is correct.
12	c)	Roads are excludable (option c), i.e. non-payers can be denied access,[...] road.
13	d)	Students would be prepared to pay $0P_2$ for OZ courses but providers w[...] quantity at a price of $0P_3$, the suggested unit s[...]y being the differe[...] Better information would shift deman[...] [...] to D_2 but the external [...] included in the calculations.
14	d)	Option d) is incor[...] [...] [...]ight answer: '4' is the marginal privat[...] marginal [...] [...] curve, the others are correct.
15	c)	[...] c[...] incorrectly identified – it is the marginal social benefit cu[...] [...]lus the external benefits of consumption – indicated by '2'.
16	c)	Option c) is correct: toll roads create a market in the use of specific ro[...] are a public good, non-excludable, non-rival, non-rejectable.
17	c)	The correct answer is c) – it is a contradiction in terms. The 'free market' [...] is no incentive for aviation firms to reduce the negative externality of em[...] a) and d), the 'free market' would not factor in the external (social) costs,[...] over-consumed and too cheap.

Q	A	Explanation
18	c)	• By definition, the geographically mobile C) are able and willing t⟨ opportunities (such workers are more likely to be young, single a⟨ • The ratio of unemployed people per vacancy A) is an indicator of⟨ between demand for and supply of labour but it does not follow t⟨ person will apply for every vacancy. • Equally, currently employed workers are also able to apply. • Option B) would only be true if the two regions comprised the en⟨ labour forces were equal in size. • There may be some narrowing in regional wage differentials D) b⟨ unlikely – many jobs still have national ⟨...⟩ ⟨...⟩ es, the cost of livin⟨ south', and we are not assuming p⟨...⟩ mobility of labour either⟨ move until regional w⟨...⟩ ⟨...⟩ ities disappear.
19	b)	• Before the r⟨...⟩ m⟨...⟩ce alcohol would have been supplied at a⟨ ⟨...⟩ • ⟨...⟩ga⟨...⟩ none should be supplied now below OF so the market su⟨ ⟨...⟩scribed by the letters FGS rather than AS. • Demand does contract by Q_1Q_2 so d) should result too. • In the absence of an English minimum price sales of alcohol to visito⟨ rise.

INSPECTION COPY

Topic 8: Government Intervention

Q	A	Explanation
1	a)	Construction costs are private costs paid for by the train-operating co... People other than the buyer and seller of the good could benefit from... such as the employers who benefit when their employees can travel...
2	c)	It has to be c): goods which are over-consumed in a free market due... and which confer external costs, such as alcohol and tobacco, are sub... Taxing superior goods would be a good revenue raise in a period of... happens with VAT).
3	d)	All three of the options are likely: 'externalities ... nternalised' as the p... costs of production. Prices rise as some all ... c tax is 'passed on'; recyc... the tax. Each of the options ... individually correct, thus d) is the r...
4	c)	A tax on drinks ... d ... uce demand and hence some of the extern... is ... st. (highly unlikely); restricting location should red... n ... warnings' should address information failure and reduce ... will lower product prices, stimulating demand – thus the corr...
5	c)	There will be excess demand for petrol, a shortage at the suppressed pri... will be rationing, hoarding, and increased car sharing. An increase in pe... implausible, so any option including '3' as correct is not valid. It follows...
6	b)	Building car parks (b) would increase the supply of car parking spaces a... (cheaper complement), whereas the other options would reduce deman... petrol/diesel cars.
7	d)	Government failure can involve its policy designed to reduce or elim... actually deepening it, or creating a new one, or indeed leading to a w... hence a), b) and c) are all correct, thus d) is the correct selection.
8	c)	Option c) should be a cause of increasing permit prices, thus creating... to reduce their emissions and maybe sell surplus permits at profit. T... reasons why such a system may fail.
9	b)	It has to be b) – the main aim of the charge is to remove congestion se... times' suggest that congestion is worse.
10	d)	The government does not intervene to regulate option d); pay rates f... who are exempt from minimum wage legislation, for instance.
11	b)	Option b) is correct as 'the bulk of the tax' (but not all of it) will be passe... consumers. If suppliers tried to pass it on in full there would be excess s... taxed.
12	d)	Option d) is correct: ticket prices fall, demand e... nds and supplier r... Remember that suppliers receive the r... tc. expenditure from con... subsidy from government on... e... a subsidy diagram – studen... tax diagrams.
13	d)	The produc... the tax is shown by option d), area ABEF. It... h c) ... be passed on to the consumer, effectively the price cut... supplier multiplied by the new quantity demanded.
14	c)	Total revenue is £1,000 per period before the subsidy (£10 x 1,000). A... spends £8 x 120 after the subsidy (£960) the supplier receives an extr... taxpayer, £480 in subsidy, thus £14,440 in total – option c).
15	c)	The consumer's share of a subsidy refers to the extent of the price fal... the subsidy is 'passed on' to consumers, thus option c) is correct.

Q	A	Explanation
16	d)	Information failure in the market for cigarettes is not addressed by op[...] duties simply raise price rather than advising consumers of the privat[...] overestimating.
17	d)	Option d) If consumers and producers are equally knowledgeable [...] there can be no information imbalance.
18	d)	Government fails when it attempts to correct a market failure – the[...] say – and deepens the failure or creates new one(s) – option d) is c[...] supply and demand diagram will help. Any price controls impose [...]
19	c)	• Government failure is a technical term [...] h applies when its [...] market failure lead to a deepen[...] [...] location of resources. • An example – rent con[...] es[...]ed to control a key living c[...] shortages of re[...] [...]modation and homelessness. • Optio[...] [...] could be instances of government failing to a[...] h [...] likely target, however, but is not a government failu[...]