

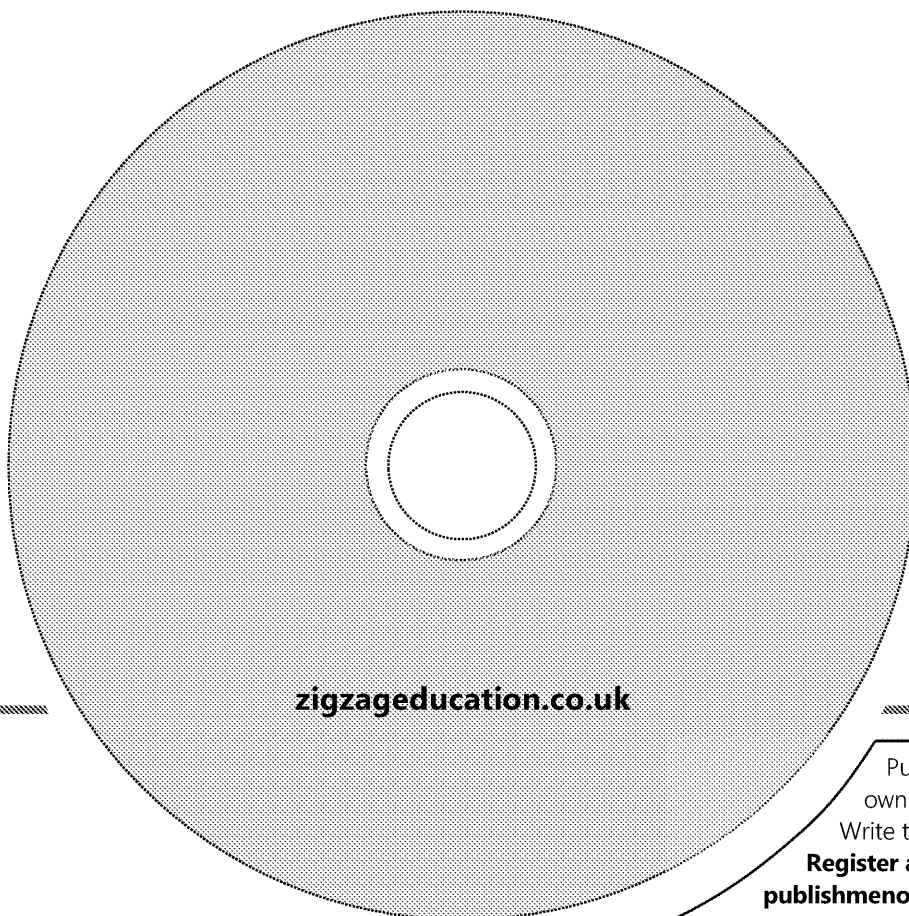


# Tricky Questions for OCR Economics

AS / Year 1 Microeconomics

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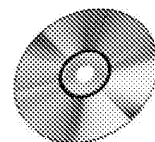
# Teacher's Introduction

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.

March 2016

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\* resulting from minor specification changes, suggestions from teachers and peer reviews, or occasional errors reported by customers

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## Topic 1: The Basic Economic Problem

- 1) Offering economic opinions within an argument is part of:
- a) Microeconomics
  - b) Normative economics
  - c) Positive economics
  - d) Macroeconomics
- Answer: ☐
- 2) Only one of the following is incorrectly 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: ☐
- 3) 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: ☐
- 4) Each of the following is an example of capital except:
- a) A tractor used on a farm
  - b) A photocopier used in an office
  - c) A washing machine used in a home
  - d) A washing machine used in a launderette
- Answer: ☐
- 5) Which of these goods is 'free' in the economic sense?
- a) U2's latest album 'free' on iTunes
  - b) NHS-funded treatment in the UK
  - c) Free entry to a car park close to an economically depressed retail centre
  - d) Seawater employed in the construction of a sandcastle
- Answer: ☐
- 6) One of these examples of the factors of production is incorrect. Which one?
- a) Land: fish in the sea
  - b) Labour: economics teacher
  - c) Capital: pizza shop in Domino's
  - d) Enterprise: manager of a branch of McDonald's
- Answer: ☐

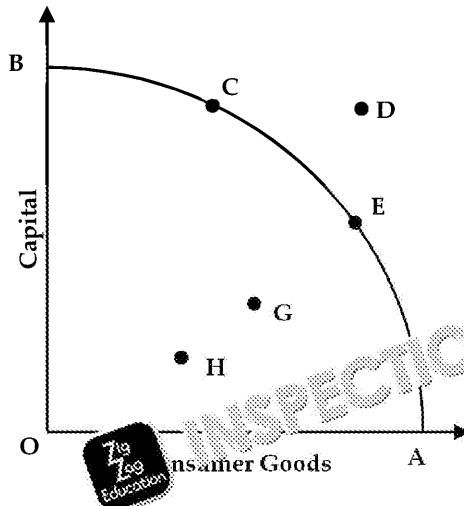
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- 7) Based on the PPF diagram below, only one of the following options (each comprises two statements) is correct. Which one?



- a) The curve 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 OA consumer goods is unsustainable; movement from C to E is undesirable.

Answer: ☐

- 8) 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

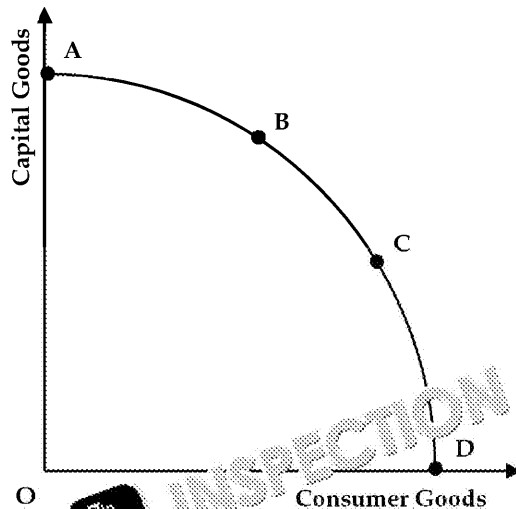
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- 9) Consider the production possibility frontier (PPF) diagram below:



Which 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: ☐

- 10) 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 cheeseburgers its productive potential has shrunk.

Answer: ☐

- 11) 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: ☐

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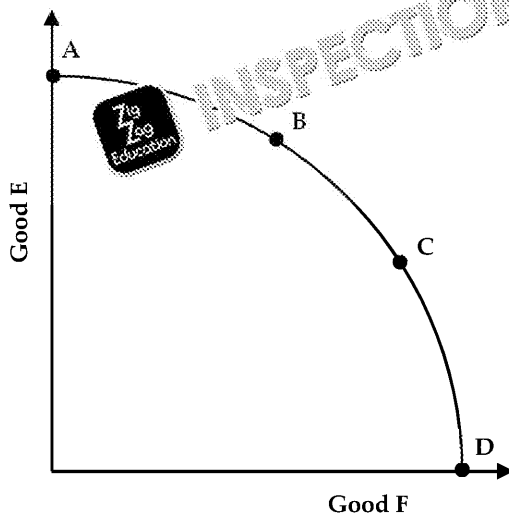
## Topic 2: The Market Economy

- 1) 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: ☐



- 2) 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: ☐

- 3) A free market in a product will allocate resources **inefficiently** 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: ☐

- 4) 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: ☐

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- 5) In the UK income is unevenly distributed. The causes of this inequality include differences in all of the following except:
- education and training
  - income-yielding assets
  - entitlement to NHS treatment
  - productivity
- Answer: ☐
- 6) Such income inequalities can be reduced by increases in only three of the following policies. The odd one out is:
- The highest rate of tax on income, currently 45%, is raised to 50%
  - The National Minimum Wage increases faster than average wages
  - The rate of VAT
  - Raising the tax-free allowance on income tax is paid to £15,000
- Answer: ☐
- 7) Consumer sovereignty is a principle most accurately associated with:
- communist economies
  - capitalist economies
  - mixed economies
  - subsistence economies
- Answer: ☐

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### Topic 3: Specialisation and Trade

- 1) 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 abandon tasks to which they are unsuited to focus on ones to which they are suited.

Answer: ☐

- 2) As a system of exchange based on barter, it has many limitations. These include which of the following.

- [1] Many goods are not visible so are difficult to trade.
- [2] There is a need 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: ☐

- 3) 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: ☐

- 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 refer to:

- 4) A means of storing purchasing power for the future.
- 5) A means by which credit may be employed.
- 6) A means by which the exchange value of goods can be expressed.

Answer: ☐

Answer: ☐

Answer: ☐

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- 7) Successful product differentiation should have which of the following effects on the market for a product?
- Raising its demand and market share
  - Reducing its cross price elasticity of demand with respect to the prices of substitutes
  - Making it less likely to become embroiled in a price war with rivals
  - All of these

Answer: ☐

- 8) Tesco made losses during the recession which followed the 2008 financial crisis. It is now competing with low-cost firms such as Aldi directly on price. It is **most likely** that Tesco's current aim is:
- Restoration of its market share
  - To increase prices
  - To drive new competitors entering the market
  - Preventing a takeover from Lidl

Answer: ☐

- 9) Consider the approximate % market shares of the main suppliers in the UK grocery market (from 2014): Tesco: 28.8; Sainsbury's: 16.1; Morrison's: 11; Waitrose: 5.2; Aldi: 4.8; Lidl: 3.5.

From this information we can **only** deduce that:

- Aldi and Lidl do not achieve internal economies of scale
- Asda and Sainsbury do not compete with each other
- The three-firm concentration ratio is nearly 56% and the five-firm concentration ratio is nearly 66%
- Tesco has an excessive market share

Answer: ☐

- 10) A mixed economy employs a progressive tax on incomes and offers means-tested benefits to households as a way of influencing the distribution of income.

Which statement is true of this economy?

- A progressive tax is defined simply as one in which tax payment rises as income rises.
- Poverty will not exist within such a system.
- The combined effects of the tax and benefits system serve to reduce inequality in this economy.
- The tax and benefits system will act as a disincentive to those paying the highest rates of tax.

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## Topic 4: Supply and Demand and the Interaction of Markets

No

- 1) 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: ☐

- 2) 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 a **linear** 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: ☐

- 3) One hundred thousand tickets (at £220 each) available for the Glastonbury Festival sold within ten minutes of release. Nine hundred thousand applicants for tickets were left disappointed.

Based on this information which of the following are **true**:

- [1] The equilibrium price is not £220.
- [2] Tickets could 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 only
- c) 2, 3 and 4 only
- d) All of them

Answer: ☐

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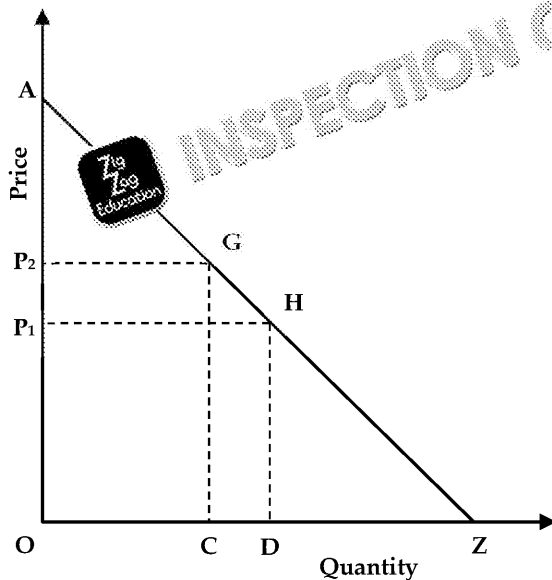
- 4) Charging a single price for selling its goods, a supplier generates £800 from 50 units sold.

It follows that average revenue is:

- a) £800
- b) £50
- c) Impossible to calculate from the information given
- d) £16

Answer: ☐

- 5) 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: ☐

- 6) 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: ☐

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- 7) Assuming an upward sloping supply curve and a downward sloping demand for a product curve, an increase in demand for the product from an equilibrium point will lead to:
- An increase in price and additional sales revenue only.
  - An increase in quantity exchanged and additional sales revenue only.
  - Increases in both price and quantity sold of equal percentage, only.
  - An increase in price, quantity sold and total revenue.

Answer: ☐

- 8) In early September a billboard advertisement for a winter coat available at fashion retailer H&M for £249.99. Based on this statement, we can infer which of the following:
- £249.99 is the supply price of the coat.
  - Demand may rise as a result of the billboard.
  - The coat will feature in the January sales.
  - The coat is in excess demand.

- 1 only
- 1 and 2 only
- 2 and 3 only
- All of them

Answer: ☐

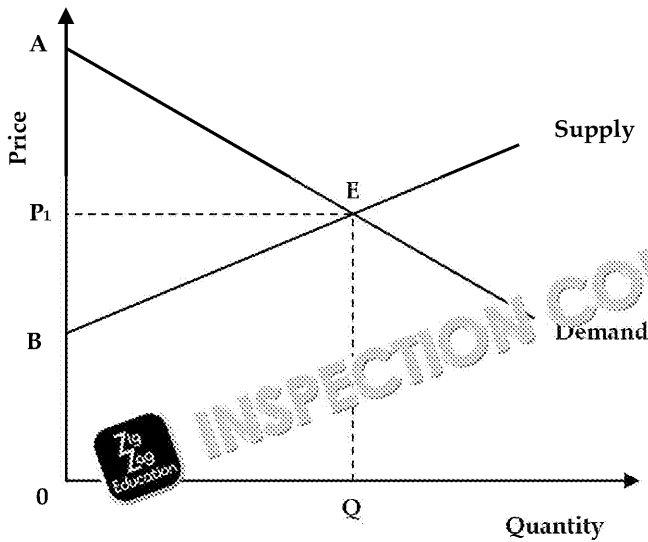
- 9) If a free market for a product is originally in equilibrium then conditions change due to **equal increases** in supply and demand this will cause:
- An increase in both price and quantity exchanged.
  - An increase in quantity exchanged at a lower price.
  - An increase in quantity exchanged with price unchanged.
  - An increase in price only with no change in quantity exchanged.

Answer: ☐

- 10) The price mechanism performs which of the following functions in free markets?
- It indicates shifts in consumer demand.
  - It achieves an equilibrium price and output without government intervention.
  - It induces contractions of supply if demand for a good falls.
  - All of the above.

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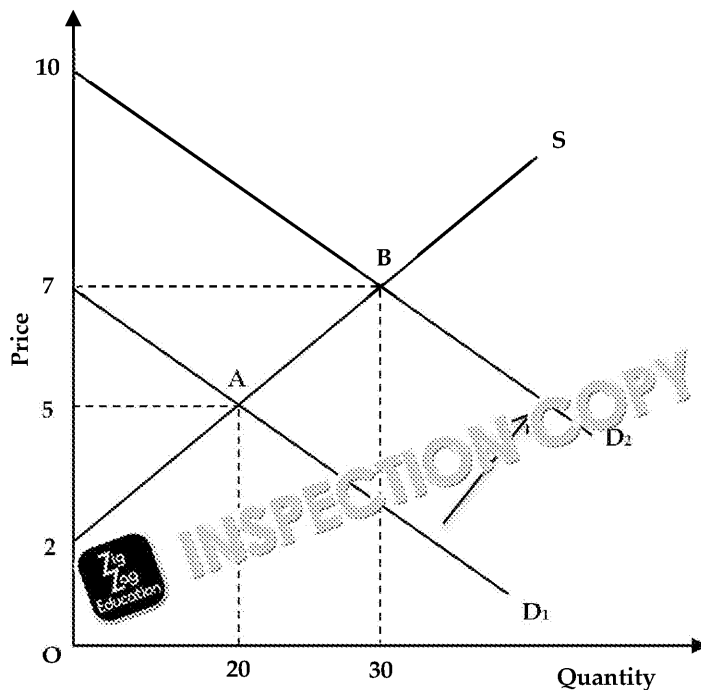
- 11) Consider the diagram which shows equilibrium in a competitive market. Only one of the following combinations of statements is incorrect. Which one?



- 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 sale of the last unit,  $0Q$ , generates both consumer and producer surplus.

Answer: ☐

- 12) 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: ☐

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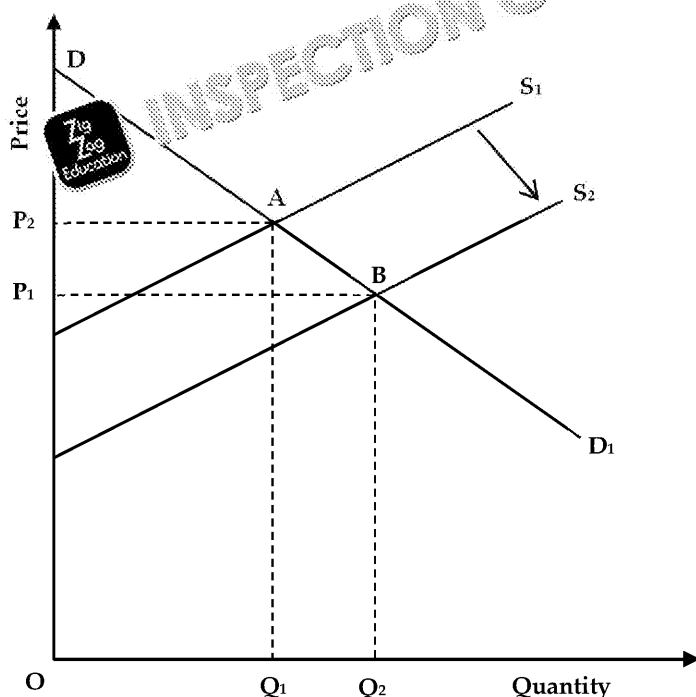


13) Consumer surplus can be defined as:

- 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: ☐

14) 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  $P_1P_2AB$ .
- 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: ☐

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## Topic 5: Price Elasticity of Demand

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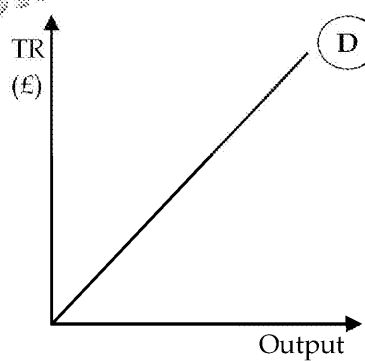
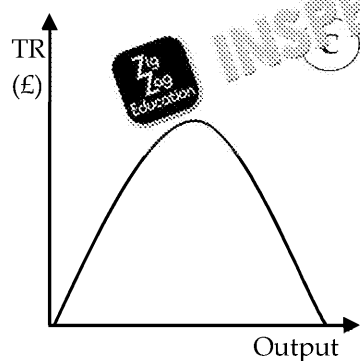
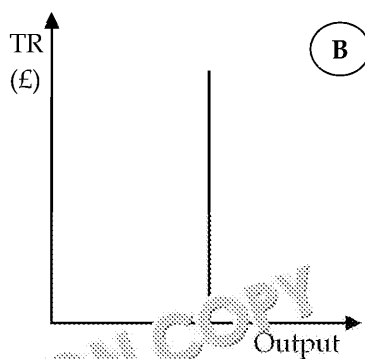
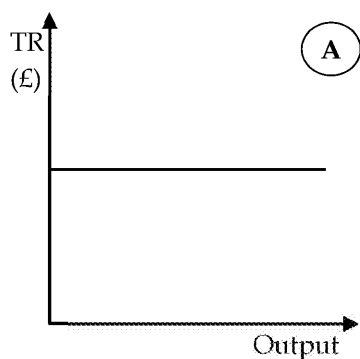
- 1) The price of UK passport **renewals** rises from £80 to £84. Annual demand falls from 500,000 to 485,000. Only one of these statements is **fully** correct. Which one?
- Price has risen by 5% and demand has fallen by 1.5%.
  - Originally, annual sales revenue from passports was £40m but demand is elastic for the price rise.
  - The price rise is 5%. The fall in demand is 3% and sales revenue is greater than £40m at a price of £84.
  - Demand for overseas visits by UK citizens will fall as there are fewer passport holders.
- Answer: ☐
- 2) Good A has a price elasticity of demand (PED) less than 1. Also, the cross elasticity of demand for B with respect to A is 0.5. All of the following statements are **true except**:
- A price rise for A will lead to a proportionately smaller fall in demand for A.
  - If the price of A rises so will revenue from sales of both A and B.
  - A 10% fall in the price of A will cause sales of B to fall by 5%.
  - A has inelastic demand following a price rise and B is a strong substitute for A.
- Answer: ☐
- 3) 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?
- Price elasticity of demand is inelastic.
  - Total revenue from sales of good A would rise by £125 per period.
  - Price elasticity of demand for A equals -2.5.
  - Sellers would earn 10% less per item sold of A but sales would rise by more than 10% to compensate for this.
- Answer: ☐
- 4) Which of the following could explain why the demand for a product is elastic with respect to price?
- It has only weak substitutes
  - Buying it takes up a large proportion of consumers' incomes
  - It is habit-forming
  - Its demand is normal with respect to income
- 1, 2 and 3 only
  - 2 only
  - All of them
  - 3 only
- Answer: ☐
- 5) If the price elasticity of demand 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 10% price rise for A will cause total revenue from A to fall by 8%.
  - A 10% price fall for B will cause revenue from A to fall by 20% at constant prices.
  - 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.
  - A 10% price rise for B will cause demand for A to rise by 5%.
- Answer: ☐

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6) to 7) Match up the description of the demand curve to the **total revenue** curve below which matches it.



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

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For questions 9) to 17), 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

- 9) The price of the product to consumers would fall by the full extent of a producer subsidy. Answer: ☐
- 10) A 10% price rise in the product would result in total revenue rising, but by less than 10%. Answer: ☐
- 11) Consumer surplus at the equilibrium price of the product is zero. Answer: ☐
- 12) Total revenue from sales of the product would remain the same after a 5% price fall. Answer: ☐
- 13) The product has perfect substitutes – demand would fall to zero if a seller attempted to raise price. Answer: ☐
- 14) A 7% price cut for the product would leave quantity demanded unchanged but total revenue would fall by 7%. Answer: ☐
- 15) The product has weak substitutes, is habit-forming and buying it takes up only a small proportion of income. Answer: ☐
- 16) 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: ☐
- 17) The burden of an excise duty on the product would fall **mainly** on the consumer. Answer: ☐

- 18) 'Steel can be used in making guns, lifts, cycles, cars and many other goods besides.'

This is an example of what kind of demand?

- a) Price elastic
- b) Derived
- c) Composite
- d) Joint

Answer: ☐

- 19) An increase in demand for timber leads to an increase in the supply of sawdust – an example of:

- a) Composite supply
- b) Joint supply
- c) Joint demand
- d) Substitutes

Answer: ☐

- 20) 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: ☐

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## Topic 6: Other Elasticities

- 1) One of these statements about **the position** of a product's demand curve is **false**. Which one?
- It will be unaffected if the price of a weak complement falls.
  - It will shift to the right if incomes rise and it is a normal good.
  - It would shift further to the left if the price of a strong substitute fell than if a weak substitute had become cheaper.
  - If the price of an unrelated good rises it will not move.

Answer: ☐

- 2) Which one of the following will cause an **extension** or expansion of demand (movement along the curve)?
- A successful advertising campaign
  - A fall in income if the good is inferior
  - A grant or subsidy to producers
  - Good reviews of the product in *Which magazine*

Answer: ☐

- 3) If a product is **inferior** with respect to income it:
- Is by definition badly made.
  - Has a YED of zero.
  - Will rise in demand in a recession.
  - Will fall sharply in demand if a substitute falls in price.

Answer: ☐

- 4) 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: ☐

- 5) 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:

- The new quantity sold is 120 and total revenue is now £1,320.
- The new quantity sold is 125 and total revenue is £1,155.
- The increase in total revenue generated is £200.
- Total revenue will rise by 10%.

Answer: ☐

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

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

Answer: ☐

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7) 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: ☐

8) 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 the product.

Answer: ☐

Question 9) makes 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	50
4	40	60
3	30	70
2	20	80
1	10	90
0	0	100

9) Based on the schedules above **all** of the following statements are true **except**:

- a) The equilibrium price is £5 where quantity exchanged is 50 per period.
- b) £210 **would be** spent at a price of £7, £25 at the equilibrium price and £160 at £2 per item.
- c) The product's supply curve is relatively elastic.
- d) Demand for the product is relatively elastic.

Answer: ☐

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10) 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: ☐

11) A fishmonger has ten kilos of fish left over at the end of 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 and 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: ☐

For questions 12) to 18) 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

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

Answer: ☐

13) Product supply is fixed in the short run, such as the number of seats in a stadium.

Answer: ☐

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

Answer: ☐

15) If price increased from £10 to £11 and quantity supplied expanded from 100 to 110 units, this indicates...

Answer: ☐

16) If price increased from £10 to £9 and supply remained at 125 units, this indicates...

Answer: ☐

17) Downloads are apparently unlimited at a price of 89p each. This reflects...

Answer: ☐

18) 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: ☐

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- 19) 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: ☐

- 20) 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 supply
  - b) Substitute in production
  - c) Complements
  - d) In joint supply

Answer: ☐

- 21) 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: ☐

- 22) 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.

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Questions 23) to 26) 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	50
4	40	60
3	30	70
2	20	80
1	10	90
0	0	100

23) 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: ☐

24) If a specific tax of £2 was placed on the product then which of the following is **incorrect**?

- 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: ☐

25) 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: ☐

26) 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 at 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: ☐

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27) and 28) are based on the table below which shows a typical breakdown of the component parts of the price of petrol:

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

27) Based on the table each of the following is **not** 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: ☐

28) 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: ☐

29) 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: ☐

30) 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 and 4 only
- d) 2, 3 and 4 only

Answer: ☐

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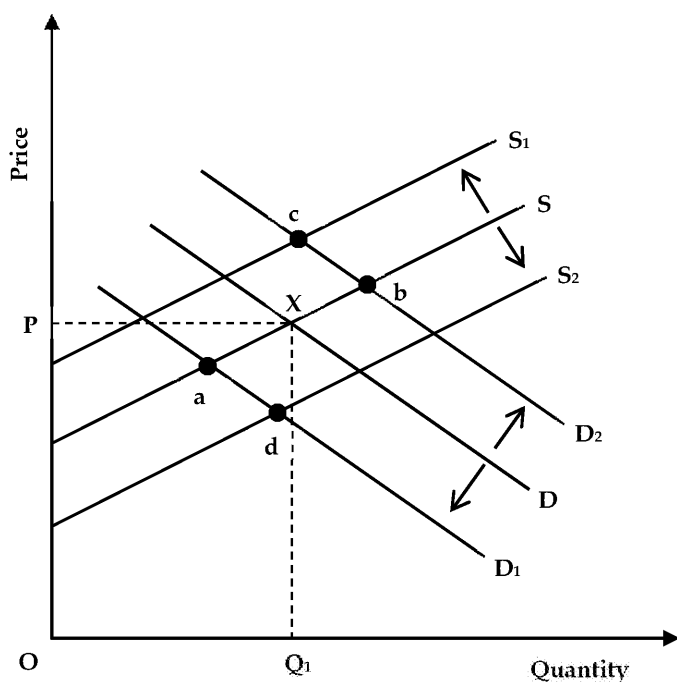
31) Which of the following would cause a product's supply curve to shift to the right?

- [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 and 4 only
- c) All of them
- d) 1, 2 and 3 only

Answer: ☐

32) to 37) 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.



32) A specific tax is introduced at the same time as an advertising campaign.

Answer: ☐

33) The price of a substitute good falls.

Answer: ☐

34) The price of a complement good falls.

Answer: ☐

35) During a recession, the government subsidises the good, and the good is normal with respect to income.

Answer: ☐

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

Answer: ☐

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

Answer: ☐

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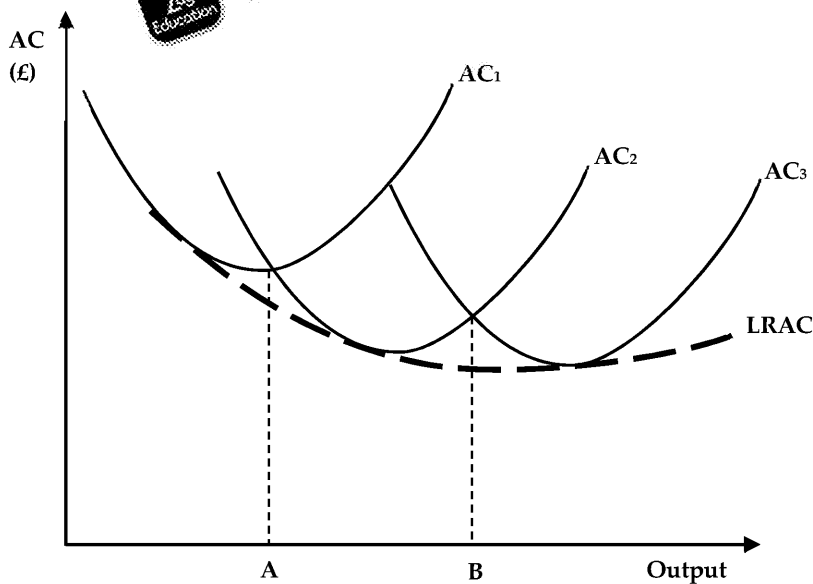


## Topic 7: Costs, Revenue and Economies of Scale

N

- 1) Which of the following is not an example of an internal economy of scale secured by a supplier through its expansion?
- It is able to employ specialist departmental managers.
  - It is economic to invest in an expensive stock control system.
  - It benefits from council-funded improvements to the local infrastructure.
  - It has buying power when negotiating with its own suppliers.
- Answer: ☐

- 2) Consider the diagram which shows a succession of short-run average cost curves for a firm, with a long-run ATC curve depicted by the dashed line.



Which of the following statements is/are correct?

- Up to an output of A, AC1 is more productively efficient than AC2.
  - Suppliers are experiencing the effects of economies of scale if the LRAC slopes downwards.
  - Each of the three U-shaped average cost curves represents a different scale of production.
  - Statements a), b) and c) are all correct.
- Answer: ☐
- 3) An office hires a photocopier for £200 per month which includes 'free' toner. It buys paper at £5 per 100 sheets. Ignoring the costs of electricity, which of these statements is **false**?
- The toner is not 'free' in an economic sense.
  - Both the average variable and marginal cost per sheet of paper are 5p.
  - The average total cost per copy falls as more copies are made.
  - The average total cost per copy will always be £2.05.
- Answer: ☐

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- 4) Study this table which shows how a firm's output is affected by changes in both the amount of labour and capital it employs:

Plant	Labour Employed	Capital Employed (Units)	Output
A	10	10	50
B	20	20	110
C	30	30	165
D	40	40	215

Which **one** of these statements regarding returns to scale is **incorrect**?

- a) There are increasing returns to scale if the firm moves from Plant A to Plant B.  
 b) There are increasing returns to scale if the firm moves from Plant B to Plant C.  
 c) There are constant returns to scale if the firm moves from Plant B to Plant C.  
 d) There are constant returns to scale if the firm moves from Plant B to Plant D.

Answer: ☐

- 5) A limo company charges £150 for an evening's hire. There is room for up to six passengers in the vehicle. Which of these statements is **correct**?

- a) The MR from a sixth passenger is £25.  
 b) The average cost to each paying passenger is always £25.  
 c) The MC to the firm of the last passenger will include any extra fuel consumed.  
 d) At the price set, the firm is losing money.

Answer: ☐

- 6) A firm's total costs increase by £12 to £212 when it increases its output from 20 to 21 units. Its fixed costs are £60. Based on this information we can deduce that:

- a) The marginal cost of the 21st unit is £12 and the average cost of 21 units is £212 divided by 21  
 b) £10 is the average cost of 20 units  
 c) For 20 units the average variable cost must be less than £10  
 d) Options a), b) and c) are all correct

Answer: ☐

- 7) The management of a profit-maximising supermarket decide to abandon their 24-hour opening policy for Monday to Friday, reverting to opening hours of 8am to 10pm. Which of the following is the most **economic** explanation for this change?

- a) Average fixed costs will rise.  
 b) Costs are expected to fall more than revenue.  
 c) Labour costs will fall.  
 d) Stock levels should rise.

Answer: ☐

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## Topic 8: Market Failure and Government Intervention

- 1) If a competitive market is taken over by a monopolist which seeks to maximise profit, we can expect which combination of economic effects?
- a) A reduction in consumer choice, a fall in consumer surplus and higher price elasticity of demand
  - b) Allocative inefficiency, a fall in consumer surplus and an increase in profits
  - c) Reduced output with consumer and producer surplus unaffected
  - d) Consumer surplus falls to zero as it is reallocated to producers
- Answer: ☐
- 2) 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 without 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: ☐
- 3) Pure public goods include all of the following **except**:
- a) Streetlights
  - b) Public roads
  - c) National defence
  - d) Flood defences
- Answer: ☐
- 4) 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: ☐
- 5) 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 would be like a regressive tax.
  - d) Waiting lists for certain treatments would be lengthened.
- Answer: ☐

No

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- 6) 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-diminishable.
- Answer: ☐

- 7) 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 and the consumer may undervalue.
  - d) In the UK both public and private providers provide merit goods.
- Answer: ☐

- 8) Disadvantages of the NHS being free at the point of use based on need **do not** include all of the following **except**:
- a) Queues are common at peak times in A&E.
  - b) Service is routinely poor because the NHS is a monopolist.
  - c) Some people take greater risks with their health because they are 'insured'.
  - d) Some people will miss appointments without financial penalty.
- Answer: ☐

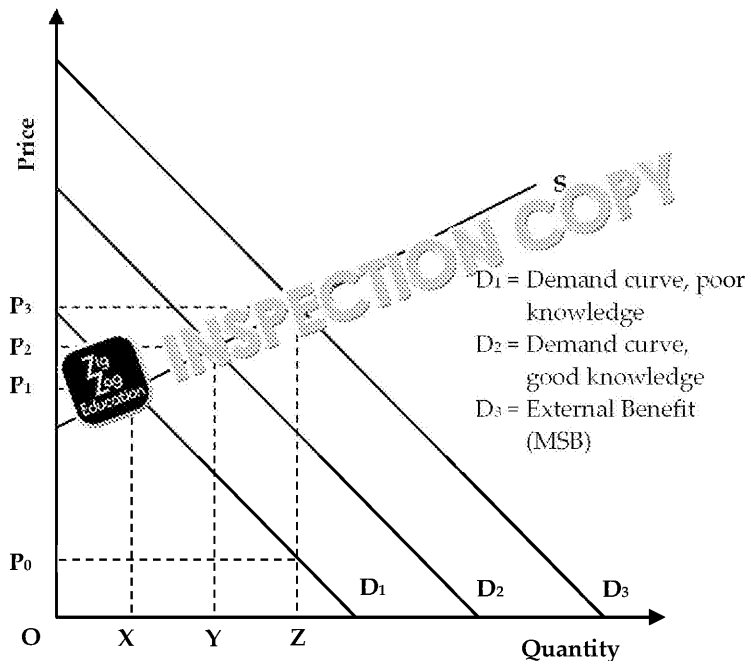
- 9) Which of the following would result in market failure?
- a) A profit-maximising monopolist achieves dominance in a once competitive market.
  - b) Ignorant of its market value, a pensioner sells a painting to a dealer for £50.
  - c) To stimulate civil aviation, government abolishes Air Passenger Duty.
  - d) Each of a), b) and c).
- Answer: ☐

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



Only one of these statements is *fully* correct. Which one?

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

Answer: ☐

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

- The daily charge has more than doubled.
- Journey times have increased.
- Demand has proved to be elastic.
- Some motorists avoid the charge.

Answer: ☐

- 12) 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**:

- Flights would be too cheap.
- Airlines would have little incentive to reduce emissions.
- There would be excess demand for flights at the free market price.
- Flights would be over-consumed.

Answer: ☐

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13) 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) Cake, class A drugs, alcopops
- c) E-cigarettes, burgers, legal highs
- d) Whisky, cigarettes, champagne

Answer: ☐

14) 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?

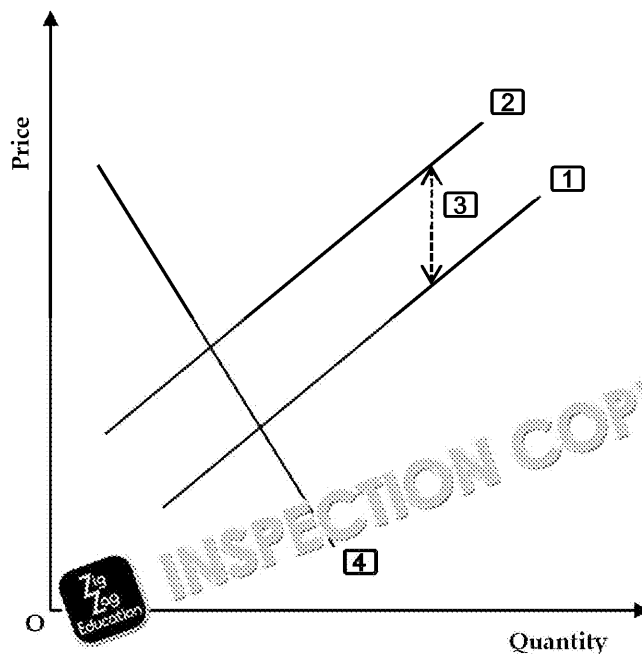
- a) Reduce the rate of tax on helmets and cycling equipment.
- b) Subsidise cycle helmets and make wearing them compulsory (with education).
- c) Improve the provision of cycle lanes.
- d) Produce public information films for showing on the BBC.

Answer: ☐

15) 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 **incorrect**. 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: ☐



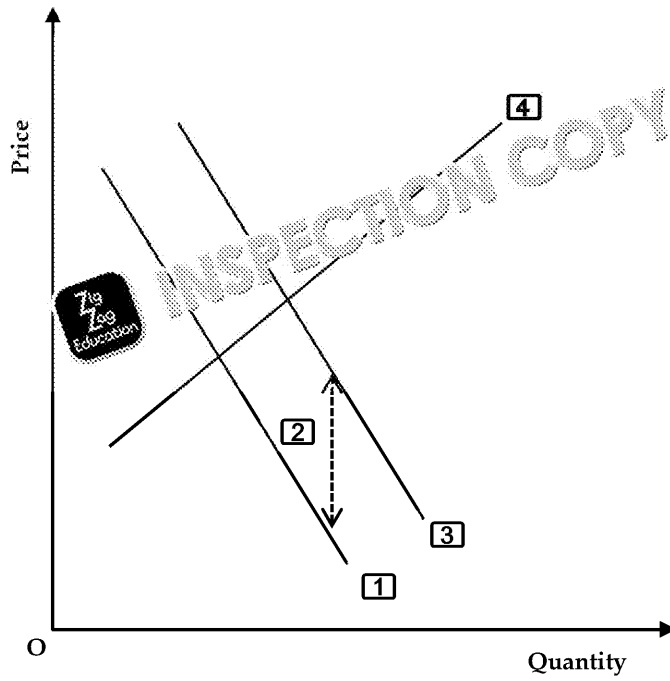
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16) This question refers to the diagram below which shows the market for a product which generates external benefits of consumption. One of the diagram 'match-ups' is **incorrect**. Which one?

- 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: ☐



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## Topic 1: The Basic Economic Problem

Q	A	Explanation
1	b)	Normative economics is based on opinions. Positive economics is science. Micro and macro are both branches of the subject about which opinions may be formed.
2	d)	Money held in savings is precisely that – a store of wealth. The other options are not. Money will be used to create services. The unsold tablets, an inventory, are deadweight.
3	d)	Options a) to c) are examples of the types of decisions entrepreneurs face. d) is not risk-taking, the correct option.
4	c)	The classification of goods as consumer goods or capital goods can depend on the context. A machine designed to produce consumer goods or services, generating a profit, is a source of income for the laundrette, not to a household.
5	d)	d) – Seawater is not scarce in the sense that it is not scarce. Even though it is a free good for the consumer, they still use resources and are thus not free.
6	d)	McDonald's manager (d) is not 'bearing the risks of production' as the restaurant's employment will depend on the profitability of the restaurant. He/she is setting up a new business.
7	c)	For option a) the second statement is incorrect, since it indicates a negative relationship. The second claim in option b) cannot be made – it depends on the technology and productive potential. Option c) is entirely correct; for d) output of capital goods is unsustainable, but the latter statement is a value judgment.
8	c)	The closest alternative foregone is the holiday – which the student could have taken if he had the car – option c), therefore.
9	b)	Point D is the highest current standard of living (consumer goods maximum). Point A is the highest 'in the future' as capital goods are required to produce consumer goods.
10	d)	Option d) is false – using existing resources, the economy could have produced more cheeseburgers in combination with the 20 million tonnes of rice. It does not show that it has declined, just that it is inefficient. The other options are verifiable.
11	c)	C) is correct – public goods are provided with taxpayers' money but are not provided by a public sector organisation.

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## Topic 2: The Market Economy

Q	A	Explanation
1	b)	Resources would be reallocated between E and F; less E would be produced from B to C; therefore, option b). A movement from C to D would increase goods falling.
2	c)	Effective demand is the desire to buy supported by the ability. Goods in those prepared to pay the price – c). 'Desire' may not be backed by the ability.
3	b)	A free market should remove shortages and surpluses via 'the invisible hand'. Sellers are required for a market to be genuinely competitive. Externalities are ignored in an unregulated free market, leading to overproduction or underproduction. The correct answer is b).
4	a)	Option a) is a public good, non-excludable in nature (consumers can't be excluded from the good). The other three goods are excludable – can't be excluded.
5	c)	Healthcare is free to all on the basis of need – this offers a basic principle of justice. Therefore correct.
6	c)	VAT is a regressive tax, as spending on goods suffering VAT takes up a larger proportion of lower incomes – so it is the only option whose impact does not reduce the income of the poor.
7	b)	b) – Consumer sovereignty refers to the power consumers have, via their purchasing decisions, which goods are produced. It is present in mixed economies (free market economies) but most closely associated with unbridled market forces, under capitalism.

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### Topic 3: Specialisation and Trade

Q	A	Explanation
1	c)	Options a), b) and d) are established advantages of the division of labour – they become more productive, lowering unit costs and making the firm more competitive. However, the division of labour does not correct market failure – the fact that it produces an efficient allocation of resources. The correct answer is c).
2	d)	Many goods are indivisible – cannot be broken into smaller units for the way of gauging the value of items; a 'double coincidence of wants' – people must want what the other is offering.
3	c)	Productivity is defined as output per worker per period; originally $(48,000/10)$ – so has increased by a factor of 480 – option c) is, thus, correct.
4	c)	Money acting as a 'store of value' allows saving to take place.
5	b)	Good is something we can consume now but pay later – a 'standard for comparison'.
6	d)	Money allows us to measure the value of goods in a universally understood way.
7	d)	Product differentiation is the process by which a firm tries to give its product a unique selling point to distinguish it from its rivals. Thus all of the statements are correct – option d).
8	a)	The correct answer is a) – restoration of market share is the main aim of a price-cutting strategy. It is unlikely that price cutting will increase profits (option b) as costs will fall unless costs have fallen too. Managers of supermarkets usually use 'loss leaders'. Such a strategy would be unlikely to encourage new entrants (option c) as a priority. Lidl would be unlikely to be able to take over a rival many years away from Tesco pursuing this strategy or not.
9	c)	We can only deduce c) that the three-firm concentration ratio is near 66% by adding the market shares. Small market shares do not mean being gained; equal market shares do not imply that competition is intense (option d).
10	c)	Option a) is too vague about progressive taxes – the proportion of income rises. Poverty may be reduced in this system, but it may not be if this is how income is redistributed in the economy. There may be a loss of benefit combined with rising tax payment as incomes rise, but not necessarily (option b).

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## Topic 4: Supply and Demand and the Interaction of Markets

Q	A	Explanation
1	c)	In order to draw a demand curve we have to allow the price of options are some of the constants assumed when the curve is drawn.
2	b)	Demand is limited to 50 units even if the good is 'free' but revenue (quantity demanded) at £60, via a price of £3 or £2.
3	d)	All the statements are correct – at £220, the preset price, demand is 100 units. This excess demand suggests that the equilibrium price is higher than £220. Producer surplus would be higher at a higher price. Consumer surplus to producer surplus.
4	d)	Average revenue is calculated by dividing TR by quantity demanded. $AR = £16$ .
5		PFDD is along the length of a straight-line curve, increasing price cannot cause a shift in demand – so b) is wrong. The point is GZ/AG whereas at H it is HZ/AH – so option c) is correct. In is incorrect.
6	c)	Study the terms carefully. The set price to cross the bridge is £6. Changes in demand, many of which cannot be predicted – hence others. The system could generate £3,250 per hour but it is not.
7	d)	Sketch out supply and demand curves, label equilibrium price and revenue – answer must be d).
8	b)	Options 1) and 2) are correct, answer is b). The coat will feature in excess supply. We can't tell if it is in excess demand, but the it is not.
9	c)	Unless you know 'the rule' for this one try a simple diagram – demand cancel out any price rise but result in a greater quantity exchanged, option c) then.
10	d)	Answer d): the price mechanism, the 'free' interaction of supply a), b) and c).
11	d)	Option d) is false since the last unit consumed and produced is CS or PS – the rest are true.
12	d)	Consumers are prepared to pay the revenue equal to the area under equilibrium output – this is £255, not £300.
13	c)	Option a) may appear to be correct, but consumer surplus is the received when goods are bought and total utility paid for. So, c)
14	b)	Option b) is correct – try shading in the increase in consumer surplus. They necessarily spend more in total – this is true only if demand is perfectly elastic. Sold would add $P_1P_2$ to consumer surplus.

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## Topic 5: Price Elasticity of Demand

Q	A	Explanation									
1	c)	Writing out the key information in a table helps here. Then work out price and total revenue (TR) at the higher price. Demand is price inelastic at option c), therefore. It does not follow that there will be fewer overseas sales if it is possible.									
2	d)	Good A does have inelastic demand so its revenue would rise after a price rise. Sales of B. However, good B is a weak substitute (cross price elasticity is at 0.5) for A, not a strong one – so d) is incorrect.									
3	a)	Statement a) is incorrect: <table border="1"> <thead> <tr> <th>P (£)</th><th>Qty Sold, Period</th><th>TR (£s)</th></tr> </thead> <tbody> <tr> <td>10</td><td>100</td><td>1,000</td></tr> <tr> <td>9</td><td>125</td><td>1,125</td></tr> </tbody> </table> <p>Price elasticity of demand is equal to <math>(-)\frac{25}{100} = -0.25</math>, 25%/-10%, so it is elastic; 25 extra sales at £9 each is a £225 increase in total revenue. Option a) is incorrect.</p>	P (£)	Qty Sold, Period	TR (£s)	10	100	1,000	9	125	1,125
P (£)	Qty Sold, Period	TR (£s)									
10	100	1,000									
9	125	1,125									
4	b)	Options 1 and 3 contribute to inelastic demand; option 2) is related to income elasticity of demand for good in question, and thus b) is correct. Option 4) refers to income elasticity of demand for good in question, and thus b) is correct.									
5	c)	B is a weak substitute for A (+XPED but <1); demand for A is price inelastic. Option c) describes the correct combination.									
6	d)	TR will be linear, through the origin, increasing by the same amount (the same amount as the price rise).									
7	a)	If demand is unit elastic for all prices, the demand curve is a rectangular hyperbola. If demand is perfectly elastic, price is constant.									
8	b)	Part of b) is false since the bulk of the tax will not be paid by the consumer if demand was inelastic, say. Price would rise though, and demand would fall.									
9	b)	Would happen if demand was perfectly inelastic – so option b) is correct.									
10	d)	If demand is inelastic but less than perfectly so, then a price rise will lead to a lower % increase in revenue than the price rise. Only if PED is zero will revenue rise by the same % as price.									
11	a)	Consumer surplus will exist so long as the demand curve is less than perfectly elastic. If equilibrium price is £5 and that is the highest price any units would sell for, then consumer surplus exists.									
12	c)	If TR is constant between two prices demand is unit elastic.									
13	a)	Demand must be perfectly elastic – raise price by 1p above the going rate and revenue falls.									
14	b)	If revenue changes by the same % as price, in the same direction, PED is unit elastic.									
15	d)	Product ticks the boxes for low PED – inelastic but not perfectly so: option d) is correct.									
16	c)	In this case TR is a constant, whatever price is charged, which would be the case if demand was perfectly elastic between all prices.									
17	d)	If the incidence of a tax falls mainly on either consumer or producer then demand must be inelastic. Here it's the consumer paying more, so demand must be inelastic, but not perfectly so.									
18	c)	Composite demand is demand for a product from multiple sources – derived demand is demand for a product from one of the goods mentioned, e.g. the demand for steel was based on one of the goods mentioned, e.g. the demand for guns. Option d) is wrong – joint demand refers to complementary goods.									
19	b)	The goods are not in composite supply (see 32) but in joint supply (option b) is correct. Timber generates sawdust as a by-product. They are neither complementary nor substitute goods.									
20	d)	Try drawing out the events described in the options – CS rises in all cases except if demand is perfectly elastic then consumer surplus is zero, whether supply rises or falls.									

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## Topic 6: Other Elasticities

Q	A	Explanation						
1	a)	All the options would cause a shift in demand except a) – the correct answer. A weak complement will have a small impact on the demand for the good.						
2	c)	We are looking for a factor causing an expansion of demand, namely growth. This can only be caused by a rightward shift in supply, such as a government subsidy.						
3	c)	An inferior good is one with a negative income elasticity of demand. Incomes are inversely related – option c), since a recession is a period of falling incomes.						
4	c)	In both the short run and the long run the PED is less than 1 and thus demand is inelastic. The correct answer is thus c).						
5	a)	<p>Substitute into the equation <math>PES = 2 = x/1/10</math>, where x is the proportion of supply. Cross multiplying confirms that <math>x = 1/5</math>, so the supply schedule is:</p> <table><tr><th>Price (£)</th><th>Qty Supplied</th></tr><tr><td>10</td><td>100</td></tr><tr><td>11</td><td>120 (20% extra) so the new TR is £11 x 120 = £1,320, so a 20% increase.</td></tr></table>	Price (£)	Qty Supplied	10	100	11	120 (20% extra) so the new TR is £11 x 120 = £1,320, so a 20% increase.
Price (£)	Qty Supplied							
10	100							
11	120 (20% extra) so the new TR is £11 x 120 = £1,320, so a 20% increase.							
6	c)	A fall in demand induces a movement down a supply curve, a contraction of supply. Try to avoid the error that if a demand curve shifts, supply must change.						
7	d)	Perfectly inelastic supply is depicted by a vertical supply curve, since quantity supplied does not change in price.						
8	b)	Option b) is false, thus the correct answer – revenue can change if the price, say, will result in an equivalent increase in total revenue.						
9	d)	a) is clearly correct – supply and demand are equal; £250 would be spent on the good. PES is unit elastic – the supply curve is linear and passes through the origin, so it is not ‘relatively elastic’ so d) is false – the correct option then.						
10	c)	Option 4) would make demand elastic, not supply; it is incorrect; option c) causes of inelastic supply, so c) is correct.						
11	c)	There are no extra costs associated with the fish, so profits would be maximised.						
12	c)	Try sketching a diagram – if both price and quantity fall equally supply is unit elastic through the origin.						
13	b)	Supply is fixed, its curve is vertical, and PES must be zero.						
14	d)	As with Q. 12) try a quick diagram – if the impact of rising demand is small, supply is inelastic, but not perfectly inelastic.						
15	c)	Both price and quantity supplied have increased by 10% – so PED is 0.5.						
16	b)	Supply again must be perfectly inelastic – the impact of falling demand is on price.						
17	a)	Perfectly elastic supply – ‘apparently limitless’.						
18	d)	<p>Using TR by price gives us the new quantity supplied – £1,155/£11 = 105. The PED induced by a 10% price rise (from £10 to £11) so PED is 0.5; relative to the original price and quantity. Option d) is correct.</p>						
19	c)	Try a diagram – horizontal supply curve, demand shifts to the right. The quantity exchanged rises. Producer surplus, profit, is lower, the gross value added (PES), other things being equal, so is zero if supply is infinitely elastic. Option c) is fully correct.						

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Q	A	Explanation
20	b)	The goods are substitutes in production (option b), as an increase in restricts the number available for juicing and vice versa. They may be deduce that based on the information given. Juice is not a by-product
21	c)	The goods are in competitive supply – the land can be used for either farmer will grow whichever makes more profit, rather than the crop lowest costs. They may be substitutes, with a positive XPED, but, we information given.
22	b)	The only certainty is that more will be spent on B as the price of A rises. Good C should be in lower demand at a lower price as a complement. A depends on its PED, which is not given.
23	c)	Avoid the assumption that if a supply curve shifts position the demand reasons are required. A shift in the supply curve to the left – c) is correct extent of the shift in demand must be perfectly inelastic or supply perfectly
24	c)	When a tax is introduced a new supply schedule can be written, but at a price now £2 higher (in this case). The new price is quantity now 40. Price to consumers has risen by £1, to producers has is £2 times 40. Suppliers now receive 40 lots of £4 rather than 50 lots except c) then.
25	d)	A maximum price will only affect the market if below the free market leaving the market undisturbed – so d) is correct.
26	d)	Try a new supply schedule (parallel to the old but with all quantities lower). Option d) is incorrect though. Although consumers do spend receive the subsidy too, raising their revenue.
27	d)	VAT is 20% of the value added – the addition of the component costs which includes VAT – so d) cannot be deducted and is therefore the litre, at 70p, from the two taxes, is more than 50% of the price of £1.32
28	d)	Option d) is correct – 48p plus 22p/£1.32 – there is ‘tax on the tax’; remember this is before costs, so is not profit. VAT is ‘automatically buoyant’ so rate) will rise if any of the components increase. Completely tax-free plus 5p, not simply VAT free.
29	c)	The conditions of demand are unchanged so there is no shift in the demand curve. The new supply curve diverges from the original rather than being parallel
30	c)	There will be excess demand for petrol, a shortage at the suppressed price rationing, hoarding, and increased car sharing. An increase in petrol supply including ‘3’ as correct is not valid. It follows that c) is correct, then.
31	d)	Statement 4) is incorrect – the demand curve for the complement shifts extension of supply, not a shift. The effect of a tax, or a subsidy, on good in joint supply – all these are supply shifting events, so d) is correct
32	c)	S <sub>1</sub> meets D <sub>2</sub> : option c)
33	a)	D <sub>1</sub> meets S <sub>2</sub> : option a)
34	b)	D <sub>2</sub> meets S <sub>1</sub> : option b)
35	d)	D <sub>1</sub> meets S <sub>2</sub> : option d)
36	b)	Theory as for Q. 37), thus option b)
37	a)	Option a) as demand falls from DD to D <sub>1</sub> D <sub>1</sub>

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## Topic 7: Costs, Revenue and Economies of Scale

Q	A	Explanation
1	c)	All options are examples of internal economies of scale (achieved by the firm benefitting by the growth of the industry).
2	d)	All three statements are correct – hence d) is the correct one; $AC_1$ is more than $AC_2$ up to 0A because its unit costs are lower – a); the dotted line (LRATC) is the long-run Average Total Cost (ATC) could be; a downward-sloping curve indicates economies of scale (b); to change from one scale of production to another involves a new short-run ATC curve – statement c) is correct, making them all true.
3	d)	Option d) is incorrect and thus the correct answer is c) – the average total cost curve is U-shaped. The other options are correct, e.g. marginal cost and average variable cost curves are U-shaped.
4	d)	Returns to scale are measured by the impact on output of an increase in all inputs. If output more than doubles, they are increasing. All statements are correct, but as input of factors doubles, output more than doubles (100%).
5	c)	If the charge is £150 for up to six passengers then the marginal revenue is £150. Option c) is correct; the average cost per customer is only £25 if there are more than six passengers.
6	d)	All three statements are right so option d) is correct – costs increase by £100 divided by 20 is £5; if fixed costs are £60 the variable costs of producing 20 units is £100.
7	b)	b) – Option b) is correct – both variable costs and revenue will fall and profits will rise. The other options are valid statements, but do not explain the change in profit.

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## Topic 8: Market Failure and Government Intervention

Q	A	Explanation
1	b)	Option b) is correct. Monopolists, sole suppliers, tend to restrict supply in order to increase prices (so consumer surplus falls), lower costs. In the diagram: Revenue rises from £1,000 to £1,040 but costs fall as 20 fewer units are produced. The shaded area, E, becomes profit, and G is deadweight loss.
2	c)	Social welfare will not be maximised (option c) because the good is being provided. The impact of the external costs should be reflected in a higher price for the good.
3	b)	Roads are not pure public goods because they can be rival – congested roads can be charged directly for, as with the London congestion toll.
4	c)	There is only so many people on a beach, a motorway and the Severn light house – they are rival – thus option c) is correct.
5	d)	Waiting lists for treatment (option d) should shorten if prices lead to a reduction in demand.
6	c)	Roads are excludable (option c), i.e. non-payers can be denied access, so they are not pure public goods.
7	a)	Merit goods are classified as such by government and not only have external benefits. They tend to be underestimated by themselves. They are provided by the government (option a), e.g. higher education is subsidised, private education suffers from market failure.
8	b)	Service is not necessarily 'routinely poor' because of the monopoly of the provider. The provider is not accountable for the quality of service it provides. So b) is not inevitable.
9	d)	All three would be instances of market failure – option d) – the monopoly of the provider restricts output below what would occur in a competitive market, there is a negative externality regarding the painting and the abolition of APD would lead to increased costs, not reflected in the price per flight.
10	d)	Students would be prepared to pay $OP_0$ for OZ courses but providers would only accept $OP_3$ , the suggested unit subsidy being the difference between the two. The demand from $D_1$ to $D_2$ but the external benefits are not being included in the price.
11	b)	It has to be b) – the main aim of the charge is to remove congestion so 'increasing congestion is worse'.
12	c)	The correct answer is c) – it is a contradiction in terms. The 'free market' would provide an incentive for aviation firms to reduce the negative externality of emissions. A 'free market' would not factor in the external (social) costs, hence the flights are cheap.
13	d)	Option d) contains alcohol and tobacco products – petrol, burgers and cigarettes.
14	b)	Only b) makes them both cheaper and shifts the demand curve to the right. A tax would lead to higher prices and lower demand. Compulsion should overcome the negative externality.
15	d)	Option d) is incorrect. The correct answer: '4' is the marginal private benefit, '3' is the marginal external benefit and '2' is the marginal social benefit. The others are correct.
16	c)	Option c) is correctly identified – it is the marginal social benefit curve. The marginal private benefits of consumption – indicated by '2'.

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