

Surname						Other Names					
Centre Number						Candidate Number					
Candidate Signature											

General Certificate of Education
January 2004
Advanced Subsidiary Examination



ECONOMICS **ECN1/1**
Unit 1 Part 1 Objective Test: Markets and Market Failure

Friday 16 January 2004 Morning Session

In addition to this paper you will require:

- an objective test answer sheet;
- a black ball-point pen;
- the question paper for Part 2 (ECN1/2).

You may use a calculator.

Time allowed: 1 hour for papers ECN1/1 and ECN1/2 together

Instructions

- Use a black ball-point pen. Do **not** use pencil.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- For each question there are four alternative responses. When you have selected the response which you think is the best answer to a question, mark this response on your objective test answer sheet. If you wish to change your answer to a question, follow the instructions on your objective test answer sheet.
- Do all rough work in this book, **not** on your answer sheet.

Information

- The maximum mark for this paper is 15 marks.
- Each question carries one mark. No deductions will be made for wrong answers.

Advice

- You are advised to spend no more than 15 minutes on paper ECN1/1.
- Do not spend too long on any question. If you have time at the end, go back and answer any question you missed out.
- Make sure that you hand in **both** your answer sheet **and** this question book at the end of the examination.

OBJECTIVE TEST QUESTIONS

You are advised to spend no more than 15 minutes on these questions.

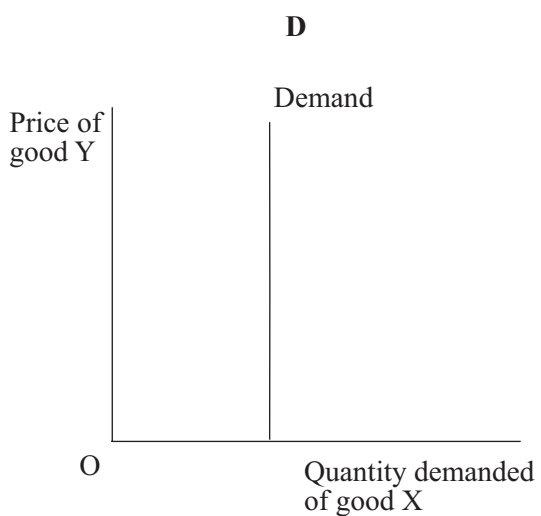
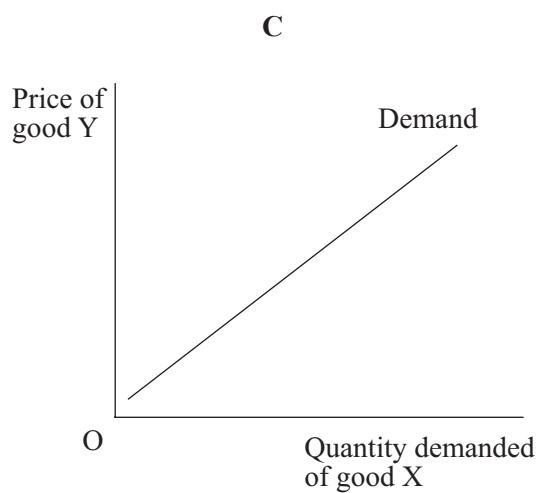
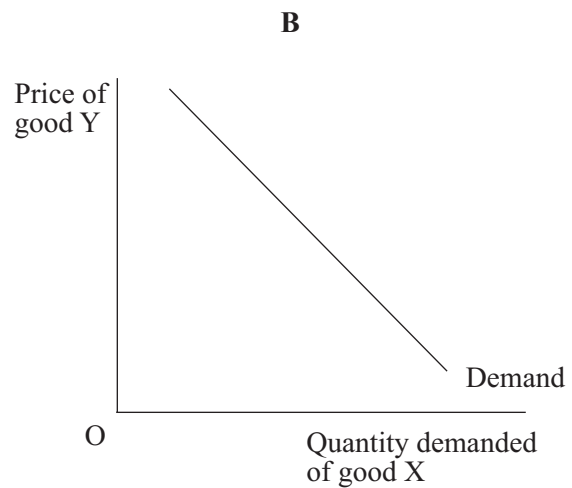
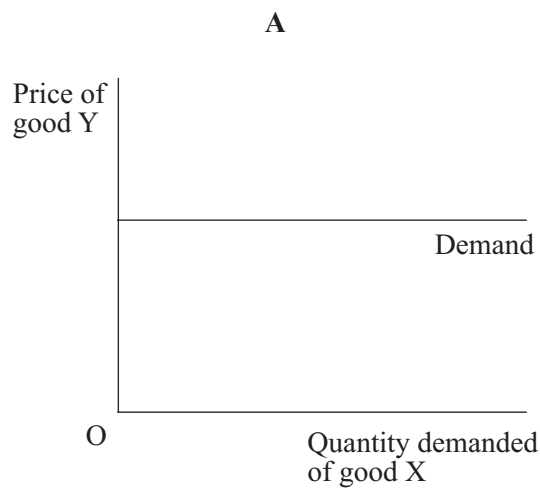
Each item consists of a question or an incomplete statement followed by four suggested answers or completions. You are to select the most appropriate answer in each case.

- 1 Which one of the following statements involves a value judgement?
- A The government must devote more resources to health care.
 - B More of a good is demanded at a lower price.
 - C The public sector has increased in size since 2000.
 - D The higher the income the higher the level of household saving.
- 2 “Carbon dioxide emissions from UK aviation are set to rise by 30% this decade, according to government predictions, which is likely to fuel concerns about the growing environmental impact of air travel.”
(*Financial Times*, 16 December 2002)

Which of the following explains why increased atmospheric pollution is a cause for concern about the growing environmental impact of air travel?

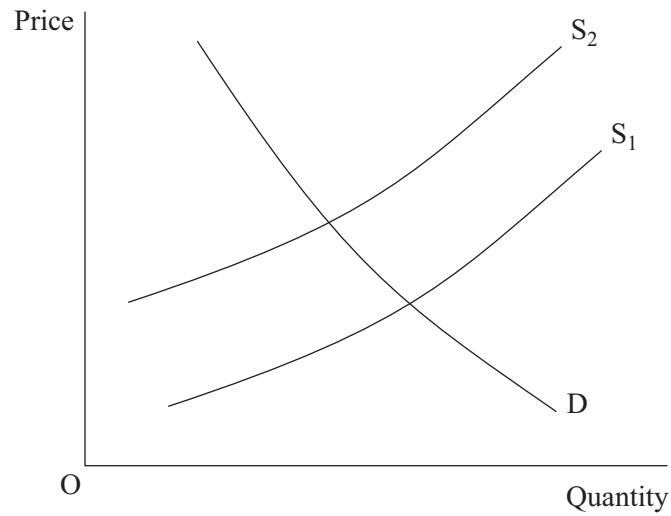
- A Air travel is a public good.
 - B The opportunity cost of air travel is zero.
 - C Air travel creates positive externalities.
 - D The environment is a scarce resource.
- 3 The income elasticity of demand for bus travel is -2.0 . This means that
- A a 10 per cent increase in fares will lead to a 20 per cent decrease in passengers.
 - B for most people bus travel is an inferior good.
 - C buses are likely to have a negative cross elasticity of demand.
 - D as unemployment falls more people will use their local buses.

- 4 All other things being equal, in agricultural markets
- A all prices are supported by the government.
 - B all that is produced is sold on the open market.
 - C the release of all stocks onto the market is likely to depress prices.
 - D there is always excess supply because of government intervention.
- 5 Which of the diagrams below illustrates that the two goods, X and Y, are complementary goods?



- 6** Specialisation requires the existence of
- A** economies of scale.
 - B** economic efficiency.
 - C** a system of exchange.
 - D** rising productivity.
- 7** In December 2001, Powergen announced an increase in the price of its gas of almost 9%. Assuming a 9% increase in price, what is Powergen's estimate of the value of the price elasticity of demand for its gas if the company is predicting that demand will fall by 2.7%, all other things being equal?
- A** -0.3
 - B** +0.3
 - C** +3.33
 - D** -3.33
- 8** The price mechanism improves resource allocation
- A** through the signalling function of prices.
 - B** in the non-market sector of the economy.
 - C** by protecting monopolies.
 - D** by providing free goods.
- 9** Because of the existence of economies of scale
- A** most businesses in the UK are large firms.
 - B** some markets are dominated by monopolies.
 - C** unit costs in the service sector have increased.
 - D** all small firms are inefficient.

- 10 The diagram below shows the demand and supply curves for golf balls.

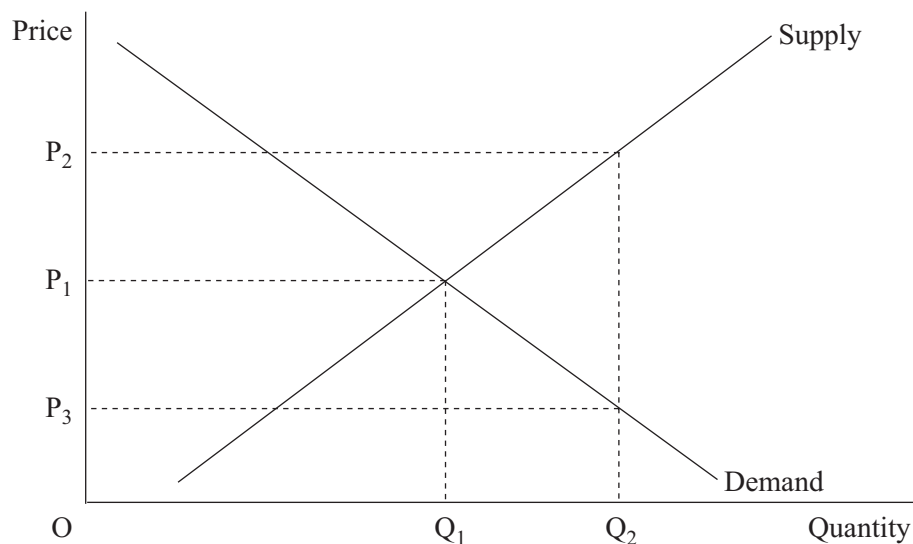


Which of the following could explain the shift of the supply curve from S_1 to S_2 ?

- A An improvement in the technology for making golf balls.
 - B The granting of a subsidy to golf ball producers.
 - C An increase in the price of a complement.
 - D An increase in wages in the industry.
- 11 Which of the following is an example of government failure?
- A The government overproducing a merit good.
 - B All government provision of national defence.
 - C All subsidies given to private sector firms.
 - D The government allowing free market forces to raise the price of oil.

- 12 The government is considering the introduction of road tolls to reduce motorway congestion. Charging motorists for using motorways will help to reduce congestion if
- A the income elasticity of demand for cars is high.
 - B the government reduces the tax on petrol.
 - C it leads to an increase in the cost of public transport.
 - D the price elasticity of demand for motorway use is high.

- 13 The diagram below shows the demand and supply curves of a merit good.



To increase consumption from OQ_1 to OQ_2 , the government could

- A tax producers by P_3P_2 per unit of the good.
 - B subsidise producers by P_3P_2 per unit of the good.
 - C impose a maximum price of OP_3 .
 - D impose a minimum price of OP_2 .
- 14 When applied to a public good, 'non-rival' means that
- A there is a single monopoly supplier of the good.
 - B the resources used in its production could not have been used to produce other goods.
 - C if the good is provided for one person it must be provided for others.
 - D consumption of the good by one person does not reduce the amount of the good available to others.

- 15** Continued government subsidies to an industry can be justified if the industry
- A** is more efficient compared with other countries.
 - B** creates a positive externality for consumers.
 - C** has a large share of the market.
 - D** is subject to diseconomies of scale.

**QUESTION 15 WAS THE LAST
QUESTION IN THE PAPER**

**ON YOUR ANSWER SHEET
IGNORE ROWS 16 TO 50**

END OF TEST

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE