

General Certificate of Education
June 2005
Advanced Subsidiary Examination



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

Friday 10 June 2005 Afternoon 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.
- 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.

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 will shift the demand curve for an inferior good to the left?

- A** A rise in the price of a substitute good.
- B** A rise in income.
- C** A fall in the price of a complementary good.
- D** A reduction in the supply of the good.

2 Which one of the following is a normative statement?

- A** Economists classify economic resources as land, labour, capital and enterprise.
- B** The environment is an example of a scarce resource.
- C** An unequal distribution of resources is unfair.
- D** Economies have limited means to satisfy unlimited wants.

3 Governments often place taxes on certain goods because these goods

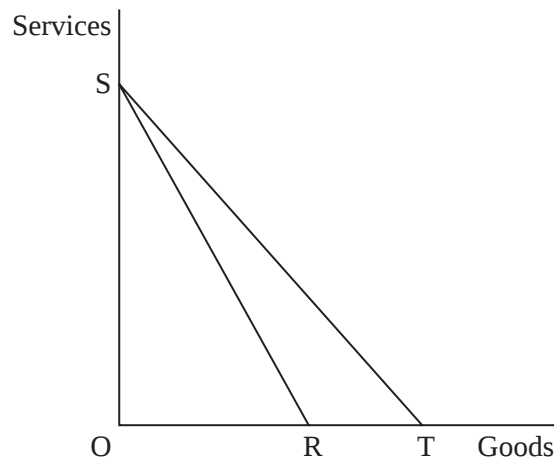
- A** are price elastic in supply.
- B** impose costs on non-users.
- C** might be under-provided by the market.
- D** include external benefits in their prices.

- 4 The table below shows estimates of UK consumers' income elasticity of demand for holidays in four different countries.

Country	Income elasticity of demand
Morocco	0.8
USA	1.0
France	1.4
Germany	2.0

From the data it may be concluded that a 10% rise in real incomes would lead to

- A a fall in demand for holidays in Morocco.
 - B no change in demand for holidays in the USA.
 - C a 14% increase in demand for holidays in France.
 - D a 2% increase in demand for holidays in Germany.
- 5 The diagram below represents an economy's production possibilities for goods and services.



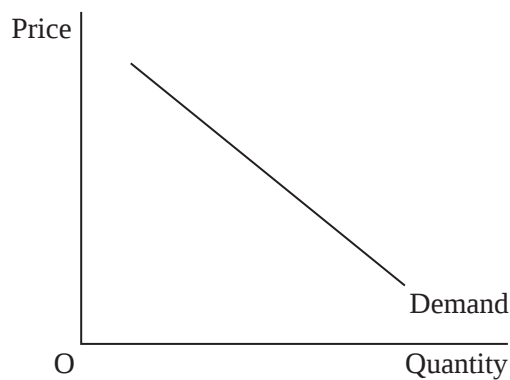
The movement of the production possibility boundary from SR to ST indicates an increase in

- A the resources employed in the production of goods.
- B the demand for goods.
- C the opportunity cost of goods.
- D productivity in the production of goods.

6 The cross elasticity of demand between two complementary products is always

- A negative.
- B positive.
- C zero.
- D greater than 1.

7 The diagram below shows a demand curve for apples.



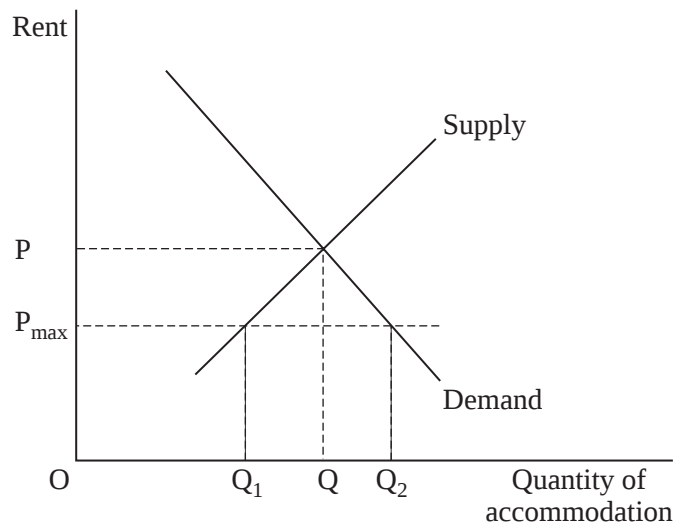
This demand curve is drawn on the assumption that each of the following remains constant **except**

- A the incomes of consumers.
 - B the price of apples.
 - C advertising expenditure on apples.
 - D the price of pears.
- 8 Specialisation and the division of labour require
- A a means of exchanging goods and services.
 - B that the economy is on its production possibility boundary.
 - C an absence of negative externalities.
 - D competitive markets.

- 9 One reason why UK governments provide health care is because
- A the private benefit from health care is less than the social benefit.
 - B health care cannot be provided by the free market.
 - C all health care is both a merit good and a public good.
 - D this ensures the provision of health care is maximised.
- 10 Monopolies lead to market failure because they
- A rarely benefit from economies of scale.
 - B earn some profit.
 - C are more innovative than competitive firms.
 - D use barriers to entry to restrict competition.
- 11 A good is in composite demand when
- A it is demanded for two or more distinct uses.
 - B the demand for the good is the result of the demand for another good.
 - C it is bought together with another good.
 - D it is a substitute for another good.

TURN OVER FOR THE NEXT QUESTION

12 The diagram below shows the market for rented accommodation.



Rent is initially at P . If a maximum rent of $P_{\max}$ is now imposed, all other things being equal, the effect will be to

- A increase the amount of accommodation available from Q_1 to Q_2 .
- B increase the amount of accommodation available from Q to Q_2 .
- C decrease the amount of accommodation available from Q to Q_1 .
- D decrease the amount of accommodation available from Q_2 to Q_1 .

13 A market is defined as being in equilibrium when

- A there is maximum output at minimum cost.
- B prices are at their lowest possible level.
- C there is no tendency for price to change.
- D consumer satisfaction is maximised.

- 14 The table below indicates various types of market failure, the consequences of such failure and examples of possible intervention strategies.

Situation	Type of market failure	Consequence of failure	Example of intervention
A	Factor immobility	Inefficient allocation of resources	Improved information flows
B	Public goods	Not provided	Government provision
C	Demerit goods	Over-consumed	Maximum price controls
D	Merit goods	Under-provided	Government subsidies

In which one of these situations is the intervention **not** appropriate?

- A Situation A
 - B Situation B
 - C Situation C
 - D Situation D
- 15 “Under government rules, electricity suppliers, who sell electricity to households and firms, are required to buy a growing amount of electricity from renewable energy generators. By 2010, this must amount to at least 10 per cent of total electricity bought from all generators. Green energy generators are paid more for their electricity because there is a scarcity of supply of electricity generated from renewable resources.”

Source: adapted from the Financial Times, 26 September 2003

It can be deduced from the data that

- A the government is subsidising the production of renewable energy.
- B the social cost of electricity generated from renewable resources is greater than the private cost.
- C the government is subsidising the negative externalities arising from the production of ‘green energy’.
- D electricity suppliers are paying higher average prices for their electricity because some of the electricity is generated from ‘green sources’.

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

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

END OF TEST

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