

General Certificate of Education  
June 2008  
Advanced Subsidiary Examination



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

Wednesday 4 June 2008 1.30 pm to 2.30 pm

**For this paper you must have:**

- 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: the total time for papers ECN1/1 and ECN1/2 together is 1 hour

**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.
- You should not spend too long on any question. If you have time at the end, go back and answer any question you missed out.

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**OBJECTIVE TEST QUESTIONS**

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

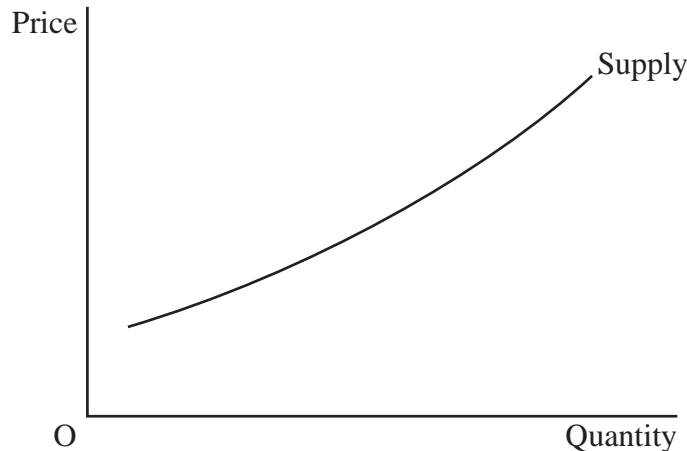
Each question is followed by four responses, **A**, **B**, **C** and **D**.

For each question select the best response and mark its letter on the answer sheet provided.

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- 1** Which one of the following is a measure of productivity?
  - A** The amount produced
  - B** The quantity of capital employed divided by its price
  - C** Output divided by employment
  - D** The percentage increase in production
  
- 2** Government failure may result directly from
  - A** the high cost of administering government policy.
  - B** under-consumption of merit goods by the public.
  - C** a failure of market prices to reflect social costs.
  - D** goods being provided through the market mechanism.
  
- 3** A positive statement in economics is always
  - A** correct.
  - B** based upon an opinion.
  - C** based upon quantitative data.
  - D** capable of being tested.

- 4 All other things being equal, if the demand for wheat is price inelastic in the short term, then
- A the price of substitutes for wheat will fall if the price of wheat rises.
  - B the price of goods in joint supply to wheat will rise if the price of wheat falls.
  - C a poor wheat harvest will lead to a relatively large change in the price of wheat.
  - D the quantity supplied of complements to wheat will rise if the price of wheat rises.
- 5 In a typical demand schedule, quantity demanded
- A varies directly with price.
  - B varies proportionately with price.
  - C is determined by the elasticity of demand.
  - D varies inversely with price.
- 6 The following diagram illustrates the short run market supply curve for DVD recorders.



The upward slope of the supply curve can be explained by

- A a low price elasticity of supply of DVD recorders.
- B increased economies of scale in DVD recorder production.
- C higher prices providing a profit incentive to increase production.
- D a high degree of monopoly power in the DVD recorder industry.

7 If cross price elasticity of demand between two products, X and Y, is positive then

- A a rise in the price of Y will lead to a rise in demand for X.
- B a rise in demand for Y will lead to a rise in the price of X.
- C a fall in the price of Y will lead to a rise in demand for X.
- D a rise in the price of Y will lead to a fall in the price of X.

8 The table below shows the changing price of waste disposal at landfill sites.

| Year | £ per tonne of waste |
|------|----------------------|
| 2003 | 10                   |
| 2004 | 11                   |
| 2005 | 12                   |
| 2006 | 13                   |
| 2007 | 14                   |

Between 2003 and 2007, the government increased the tax on waste disposal and, as a result, the quantity of landfill space demanded fell by 10%. All other things being equal, what is the value of price elasticity of demand for landfill space between 2003 and 2007?

- A -4.0
- B -2.5
- C -0.4
- D -0.25

9 'Falling coffee bean prices on world markets have hit Brazilian coffee-growers hard. Today's low prices for coffee beans have led many growers to look for alternatives. Passion-fruit is a fashionable option for smaller farmers whilst larger ones are focusing on grain crops. An estimated 10 per cent of Brazil's coffee-growing areas have been left idle since last year.'

Source: adapted from the *Financial Times*, 9 November 2001

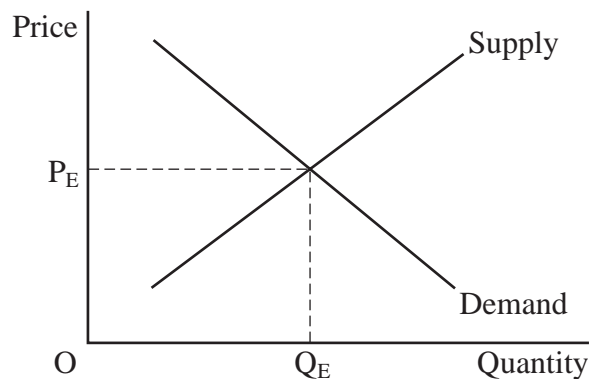
From the evidence given in the data, which one of the following is most likely to be true?

- A The cross elasticity of demand of passion-fruit for coffee is positive.
- B In 2001, there was a movement along the Brazilian supply curve for coffee.
- C Low coffee prices have shifted Brazil's production possibility boundary to the right.
- D The price elasticity of demand for coffee is inelastic.

10 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.

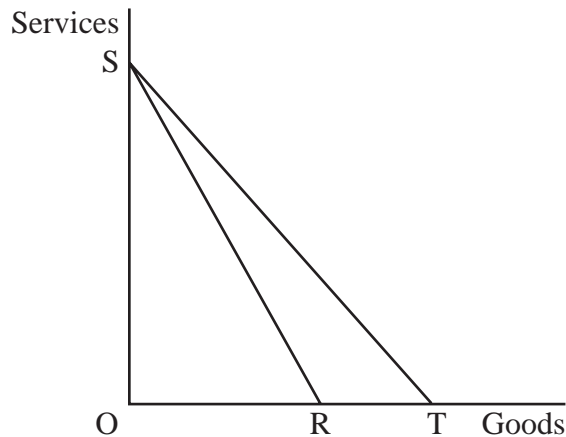
11 The diagram below illustrates the free market demand and supply curves for a merit good.



At the free market equilibrium position shown, there is a misallocation of resources because consumption of the good creates a positive externality. To improve the allocation of resources

- A the existing quantity of the good should be supplied at a higher price.
  - B more of the good should be supplied at a lower price.
  - C the demand curve should shift to the left.
  - D the elasticity of demand for the good should be increased.
- 12 In which one of the following circumstances are the benefits of monopoly most likely to exceed the costs of monopoly?
- A When there are no economies of scale
  - B When the monopoly's market power increases
  - C When the monopoly is privately owned
  - D When the monopoly uses its profit to invest and innovate

- 13 The diagram below represents an economy's production possibilities for goods and services.



The movement of the production possibility boundary from SR to ST is most likely to indicate an increase in

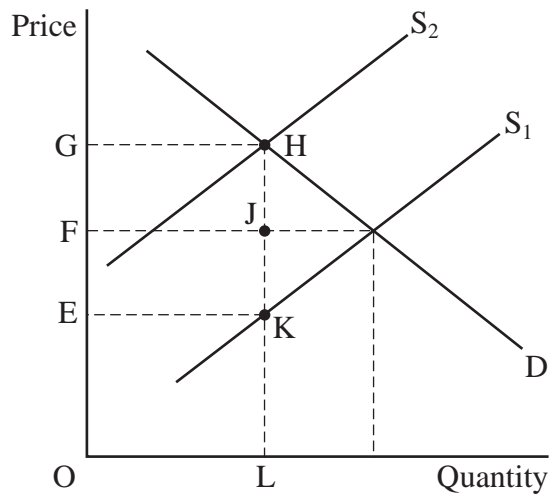
- A productivity in the production of goods.
  - B the resources employed in the production of services.
  - C the demand for goods.
  - D the opportunity cost of the production of goods in terms of services.
- 14 The table below shows the annual demand and supply schedules for an agricultural good.

| Price (£s) | Quantity demanded (000s of units) | Quantity supplied (000s of units) |
|------------|-----------------------------------|-----------------------------------|
| 20         | 4                                 | 12                                |
| 18         | 6                                 | 10                                |
| 16         | 8                                 | 8                                 |
| 14         | 10                                | 6                                 |
| 12         | 12                                | 4                                 |

The government fixes the minimum price at £18, to be maintained by intervention. How much will such an action cost the government each year?

- A £180 000
- B £144 000
- C £108 000
- D £72 000

- 15 In the diagram below, the government imposes an indirect tax on a product. This shifts its supply curve from  $S_1$  to  $S_2$ .



The government's tax revenue is shown by the area

- A EFJK.
- B OGHL.
- C FGHJ.
- D EGHK.

**QUESTION 15 IS 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**

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