General Certificate of Education
January 2008
Advanced Subsidiary Examination

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

Thursday 17 January 2008 9.00 am to 10.00 am

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.

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.

1 If increased economies of scale are experienced by firms in an industry, this is likely to result in

A a competitive market replacing a monopoly.

B rising unit costs of production.

C the demand curve for the good shifting to the right.

D the supply curve for the good shifting to the right.

2 Which one of the following is **not** an example of capital as a factor of production?

A An office building

B A tractor

C A bank loan

D A road

3 Which one of the following is a normative statement?

A Economic theory assumes that firms will maximise profits.

B Labour is the human contribution to production.

C Producers and consumers may have to consider opportunity cost when making decisions.

D Governments must intervene in markets.

4 An industry's short run supply curve is more likely to be price elastic if

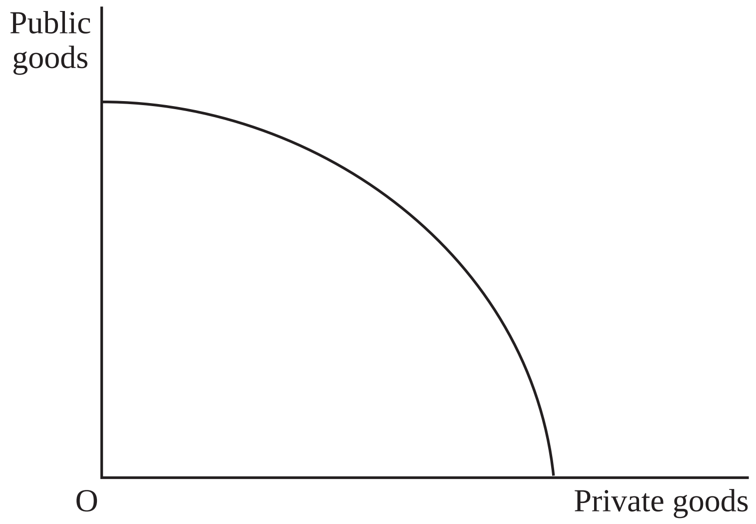
A the industry uses scarce factor inputs.

B its firms are operating below their full capacity.

C its firms hold relatively low levels of stock.

D there are many substitutes for its output.

5 The diagram below shows a production possibility frontier for an economy.



When the economy is operating on its production possibility frontier, an increase in the production of public goods will

A have no effect on the supply of private goods.

B increase the opportunity cost of private goods.

C increase total output because public goods are non-rival.

D mean a reduction in the production of private goods.

6 Composite demand is where

A a good is demanded for more than one use.

B two goods are complements.

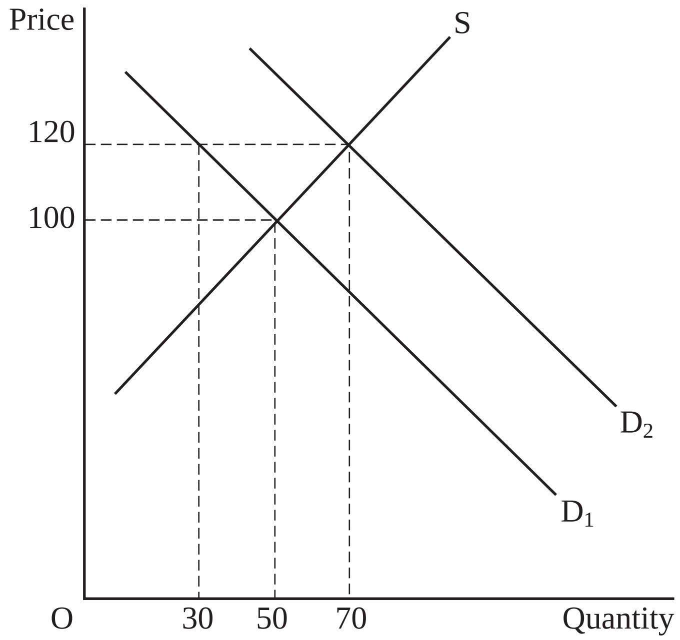
C two goods are bought together.

D the demand for one good depends on the demand for another.

7 The table below shows the supply of a good produced by four firms when price increases from £25 to £30. Over this price range, which firm, **A**, **B**, **C** or **D**, has unitary price elasticity of supply for its good?

	Quantity of goods supplied by firm			
Price	**A**	**B**	**C**	**D**
£25	100	100	100	100
£30	200	130	120	100

8 The diagram below shows the market demand and supply curves for organic apples. An increase in the demand for organic apples shifts the demand curve from D_1 to D_2.



From the above diagram, it can be concluded that when the price rises from 100 to 120

A the price elasticity of demand for organic apples is positive.

B there will be excess supply of organic apples.

C the price elasticity of supply of organic apples is +2.

D organic apples are a luxury good.

9 Which one of the following is most likely to be a feature of monopoly?

A High profits enable competing suppliers to enter the market.

B Choice for the consumer will be restricted.

C It is subject to diseconomies of scale at all output levels.

D Prices must be lower than in a more competitive market.

10 The income elasticity of demand for a normal good is always

A greater than +1.

B less than +1.

C positive.

D negative.

11 Merit goods are under-provided through the free working of the market mechanism because

A the market can only supply private goods.

B merit goods can only be supplied by the government.

C the market mechanism fails to take account of externalities.

D the price elasticity of demand for merit goods is zero.

12 The equilibrium price in a market

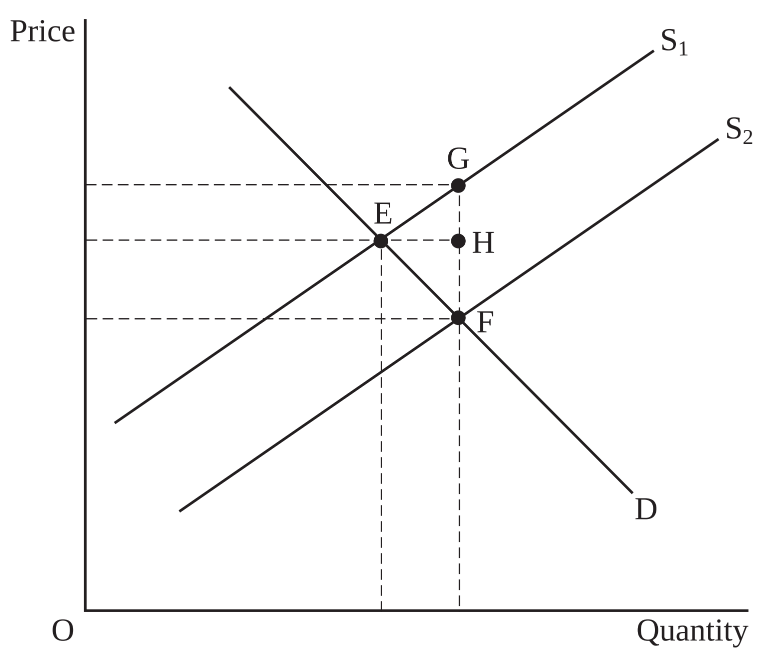
A is the market-clearing price.

B changes when demand equals supply.

C always increases when demand rises.

D is the balance of excess demand and excess supply.

13 In the diagram below, the government introduces a subsidy on a product. This shifts its supply curve from S_1 to S_2.



The subsidy paid on each unit of the good sold is

A HG

B FH

C FG

D FE

14 Government intervention in markets

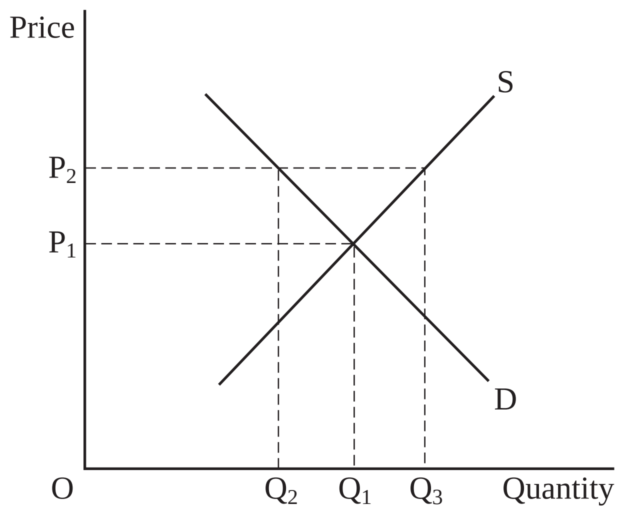
A does not necessarily result in an improvement in economic welfare.

B is always undertaken when there are externalities present.

C has no opportunity cost.

D is undertaken when the risk of market failure is minimal.

15 The diagram below shows the demand and supply curves for sugar in the European Union (EU).



The free market price of sugar is OP_1. It has been agreed as part of the Common Agricultural Policy (CAP) to maintain a price of OP_2 within the EU and to do so through intervention buying. In achieving a price of OP_2, the amount spent on intervention buying by the EU would be

A $OP_1 \times OQ_1$

B $OP_2 \times OQ_2$

C $OP_2 \times Q_2Q_3$

D $OP_2 \times OQ_3$

QUESTION 15 IS THE LAST QUESTION IN THE PAPER

On your answer sheet ignore rows 16 to 50

END OF TEST

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