

General Certificate of Education
January 2007
Advanced Subsidiary Examination



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

Thursday 18 January 2007 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

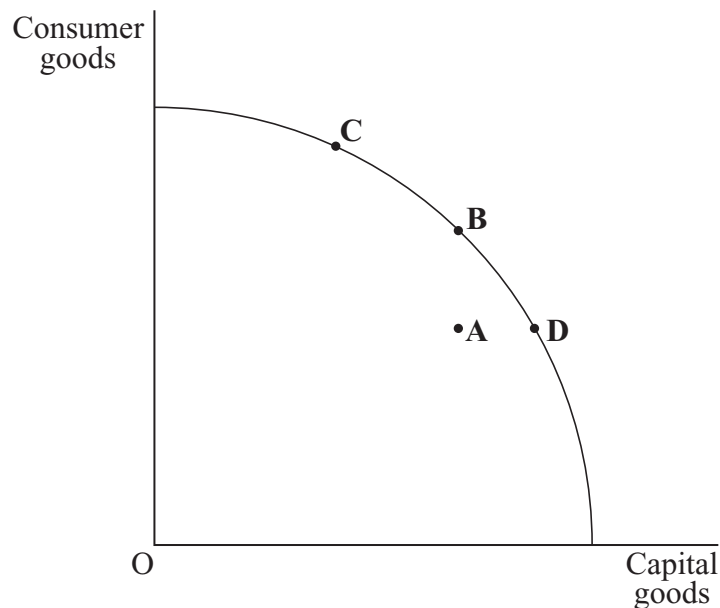
You are advised to spend no more than 15 minutes on these questions.

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 Putting a subsidy on a good usually

- A lowers its price.
- B reduces positive externalities from its consumption.
- C shifts the demand curve for the good to the left.
- D offsets a tax imposed on the good.

2 The diagram below shows a production possibility frontier for an economy. Which point, **A**, **B**, **C** or **D**, corresponds to a situation whereby the economy could increase production of consumer goods without forgoing the production of capital goods?

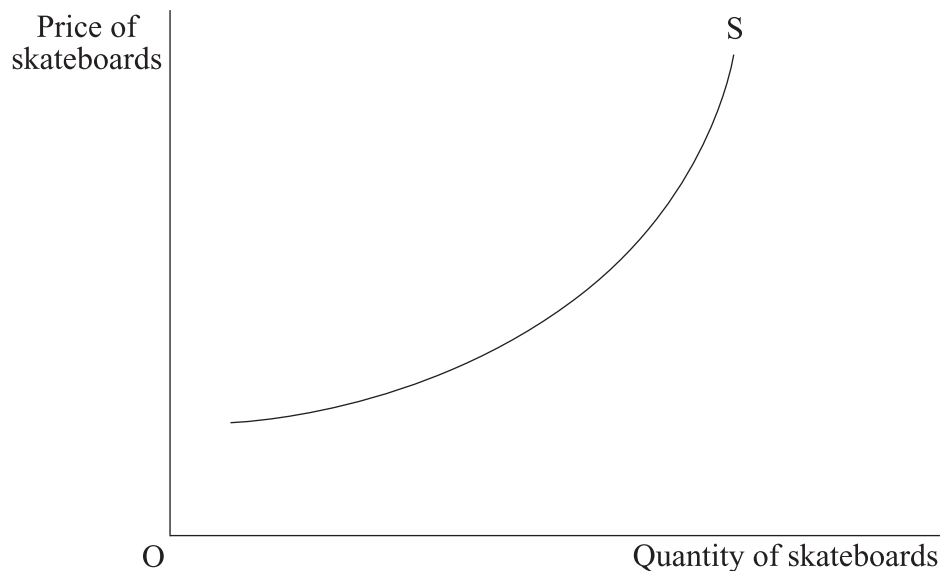


3 The income elasticity of demand for bus travel is -2.0

This means that

- A a 10 per cent increase in fares will lead to a 20 per cent decrease in passengers.
- B 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 Government intervention to correct market failure will improve the allocation of resources if
- A there are no externalities in consumption.
 - B the costs of government action are less than the benefits.
 - C all products are excludable.
 - D merit goods are taxed.
- 5 Which one of the following is most likely to lead to improvements in labour productivity?
- A An increased supply of labour
 - B Less division of labour
 - C Less specialisation
 - D Adopting capital-intensive methods of production
- 6 The diagram below illustrates the industry supply curve for skateboards.



All other things being equal, the upward slope of the supply curve is due to

- A the existence of a monopoly in the industry.
- B higher prices providing a profit incentive for firms to expand production.
- C the elasticity of supply exceeding the elasticity of demand for skateboards.
- D higher prices providing an incentive for firms to increase their allocative efficiency.

Turn over ►

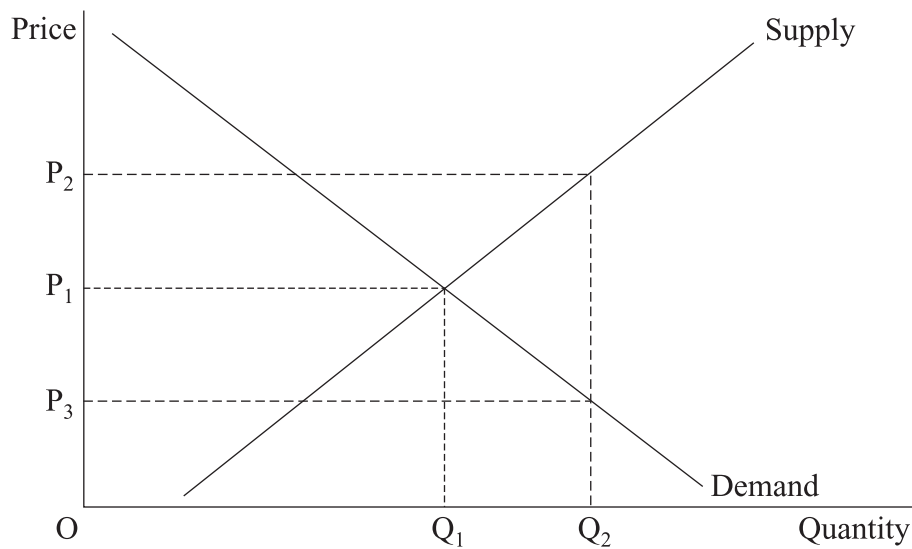
- 7 The table below shows the shares of total income of different income groups in an economy in 1996 and 2006.

Income group		% share of total income	
		1996	2006
Bottom	10%	4.1	2.5
Bottom	20%	9.8	6.8
Bottom	30%	16.0	12.0
Top	30%	47.0	54.0
Top	20%	35.0	41.0
Top	10%	20.0	26.0

From the data it may be concluded that over the period in question

- A the bottom income groups experienced a fall in their income.
 - B the distribution of income became more unequal.
 - C the distribution of wealth became more unequal.
 - D everyone became better off because total income increased.
- 8 The government was recently advised that a 20% increase in the price of alcoholic drink would reduce consumption by the rich by 3% and consumption by the poor by 10%. It can be concluded from this that
- A the rich consume fewer alcoholic drinks than the poor.
 - B for the rich, alcoholic drink is an inferior good.
 - C demand for alcoholic drink is price inelastic for both rich and poor.
 - D the demand of the poor for alcoholic drink is price elastic while that of the rich is price inelastic.
- 9 An economic good is one which
- A has an opportunity cost in production.
 - B does not use up resources.
 - C is supplied competitively.
 - D makes a profit.

10 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
- 11 Which one of the following is a defining characteristic of a merit good?
- A It may be provided by the free market but not in sufficient quantities.
 - B Once the good has been supplied to one consumer, there is no extra cost in supplying it to others.
 - C It is always provided free to consumers.
 - D It tends to be provided by the government because of the problem of non-excludability.
- 12 Which one of the following is **not** held constant when a demand curve for a good is drawn?
- A The price of the good
 - B The price of complementary goods
 - C The price of substitutes
 - D Disposable income

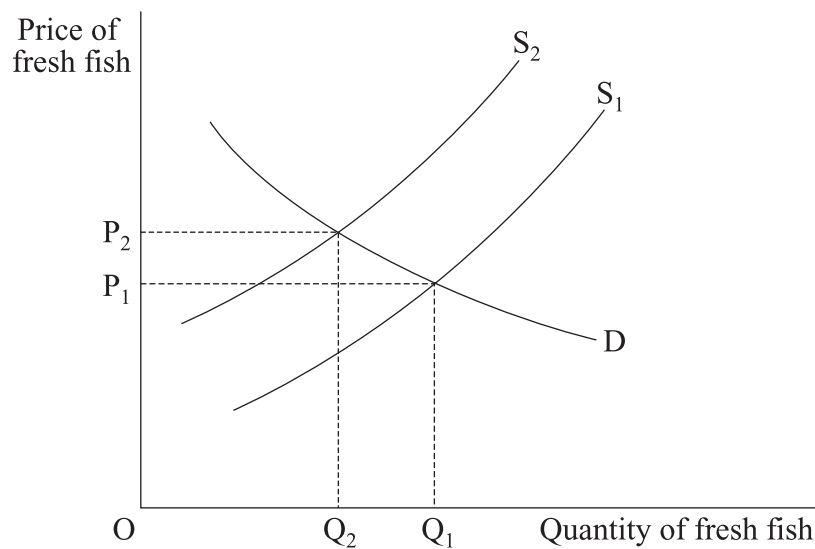
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- 13 The table below shows the cross elasticities of demand for the products of four companies with respect to the prices of their closest substitutes.

Product of	Cross elasticity of demand
Company A	+2.0
Company B	+1.0
Company C	+0.5
Company D	+0.1

Which one of the above companies is likely to possess the greatest market power?

- A Company A
 - B Company B
 - C Company C
 - D Company D
- 14 The diagram below shows the market for fresh fish.



The shift of the supply curve from S_1 to S_2 is most likely to have resulted from

- A an increase in the wages of fishermen.
- B improved technology in the fishing industry.
- C an increased preference for fresh fish by the consumer.
- D a fall in the price of frozen fish.

- 15** To work out the percentage change in quantity demanded for a good following a change in its price, the price elasticity of demand should be
- A** divided by the percentage change in price.
 - B** divided by the percentage change in quantity.
 - C** multiplied by the percentage change in price.
 - D** multiplied by the percentage change in quantity.

**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