

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

General Certificate of Education
June 2004
Advanced Subsidiary Examination



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

Monday 14 June 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.

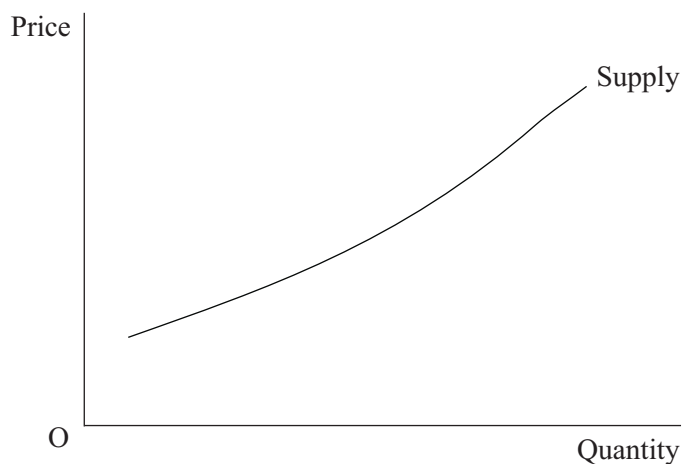
- 1 A subsidy on a good usually
- A lowers its price.
 - B reduces positive externalities from its consumption.
 - C shifts the demand curve for the good to the left.
 - D offsets a tax imposed on the good.
- 2 Which one of the following would be included in the economist's definition of physical capital?
- A A professional soccer player.
 - B North Sea oil.
 - C The Amazonian rainforest.
 - D An engineer's electric drill.
- 3 The production possibility schedule for mobile phones and computers is as follows:

Mobile phones	Computers
16	0
15	1
14	2
13	3
11	4
9	5
7	6
0	7

The opportunity cost of the second computer in terms of mobile phones is

- A 1.
- B 2.
- C 7.
- D 14.

- 4 An economy can be described as productively efficient if it
- A continually increases its average standard of living.
 - B can only produce more of one good by producing less of another.
 - C is operating with full employment of labour.
 - D maximises investment in capital goods.
- 5 The following diagram illustrates the short run market supply curve for sports shoes.



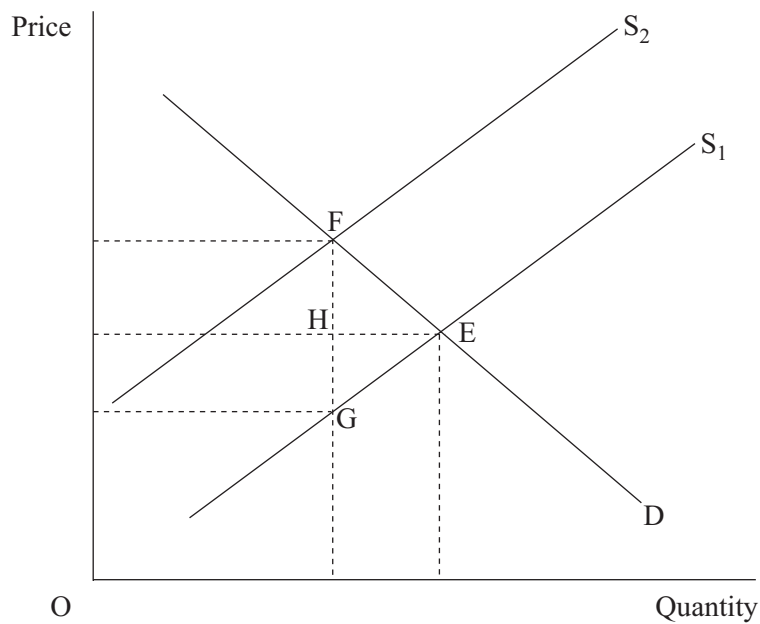
The upward slope of the supply curve can be explained by

- A a high elasticity of supply of sports shoes.
 - B increased economies of scale in sports shoe production.
 - C higher prices providing a profit incentive to increase production.
 - D a high degree of monopoly power in the sports shoe industry.
- 6 The equilibrium price in a market
- A is the market-clearing price.
 - B changes when demand equals supply.
 - C is achieved only when either the demand or supply curve shift.
 - D is the balance of excess demand and excess supply.

Turn over ►

- 7 Which one of the following is a likely consequence of the abuse of market power by a monopolist?
- A A misallocation of resources.
 - B Positive externalities in consumption.
 - C Increased competition between firms.
 - D Over-production of merit goods.
- 8 In a free market, the rationing function of the price mechanism means that
- A an increase in demand, leading to a rise in price, will encourage new firms to enter the market.
 - B when there is a shortage of a product, the price will rise and deter some consumers from buying the product.
 - C changes in price provide information to both producers and consumers about changes in market conditions.
 - D if a product is scarce, a rise in price is likely to make the shortage worse.
- 9 Two products are in joint supply when
- A a fall in the output of one product is accompanied by a decrease in the output of the other product.
 - B an increase in the demand for one product reduces the supply of the other product.
 - C a rise in the quantity supplied of one product reduces the supply of the other product.
 - D a fall in the price of one product reduces the cost of supplying the other product.
- 10 The cross elasticity of demand between two products measures the extent to which a change in the
- A demand for one product affects the price of the other product.
 - B price of one product affects the demand for the other product.
 - C demand for one product affects the quantity sold of the other product.
 - D quantity sold of one product affects the demand for the other product.

- 11 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 tax paid on each unit of the good sold is

- A GH.
 B HF.
 C GF.
 D EF.
- 12 The state provides some merit goods free of charge because
- A they can only be produced by monopolists.
 B it is considered unacceptable that people on low incomes may be unable to afford them.
 C the consumption of merit goods results in negative externalities.
 D merit goods are both non-excludable and non-rival.

Turn over ►

- 13** A manufacturer reduces the price of its washing machines by 5% and, as a result, the volume of sales of washing machines rises by 4%. The price elasticity of demand for the good is
- A +1.25
 - B -1.25
 - C -1.0
 - D -0.8
- 14** 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.
- 15** The European Union has recommended switching from subsidies for intensive farming to environmentally friendly farming methods and protection of the landscape.
- From this recommendation it may be concluded that
- A the social benefits of food subsidies exceed the social cost.
 - B intensive farming methods result in positive externalities.
 - C the net external benefits of subsidies for care of the environment exceed those from subsidising intensive food production.
 - D reduced government financial support for farming will lead to lower food prices and an increase in external benefits.

**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

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Unit 1 Part 1 Objective Test: Markets and Market Failure

Part 2 Data Response: Markets and Market Failure

**Monday 14 June 2004 Morning Session
(1 hour for ECN1/1 and ECN1/2 together)**

Enclosed

- Question Papers for Unit 1 Part 1 (ECN1/1) and Unit 1 Part 2 (ECN1/2)
(Part 2 is an insert to Part 1.)

To be provided by the Invigilator

- One objective test answer sheet per candidate for Unit 1 Part 1 (ECN1/1)
- One 8-page answer book per candidate for Unit 1 Part 2 (ECN1/2)

To be provided by the candidate

- A black ball-point pen

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- Candidates may use a calculator.

5 copies of ECN1/1



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