

General Certificate of Education
January 2006
Advanced Subsidiary Examination



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

Wednesday 18 January 2006 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 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.

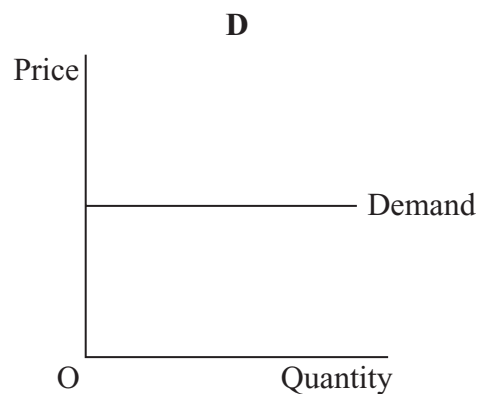
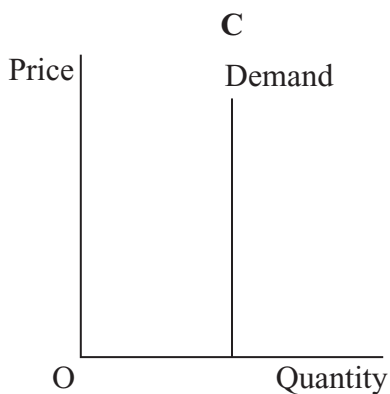
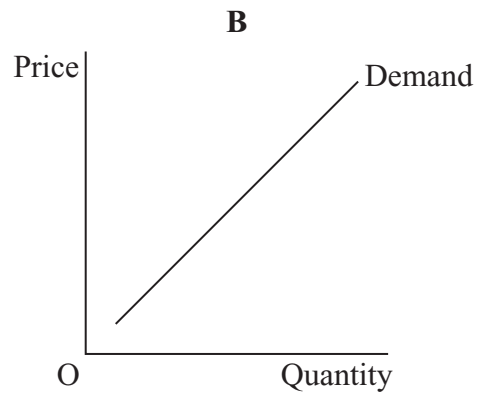
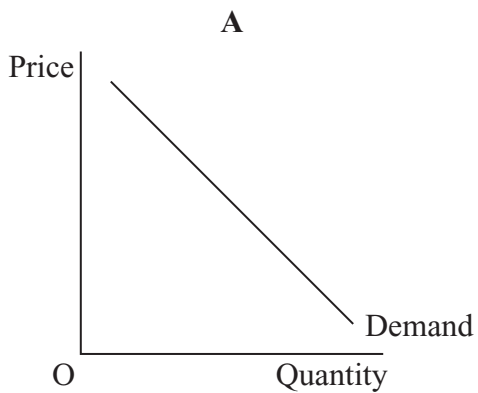
- 1** The demand curve for a normal good will shift to the left if
 - A** there is a successful advertising campaign for the good.
 - B** the price of the good increases.
 - C** the price of a complementary good increases.
 - D** the tax on the good increases.

- 2** Resources are allocated through the market mechanism partly by
 - A** the existence of external costs.
 - B** the signalling function of prices.
 - C** the provision of public goods.
 - D** over-supply of merit goods.

- 3** Cross elasticity of demand measures the extent to which a change in
 - A** the price of one good affects the demand for another good.
 - B** consumers' incomes affect the demand for a good.
 - C** the demand for one good affects the price of another good.
 - D** the demand for a good affects the amount supplied.

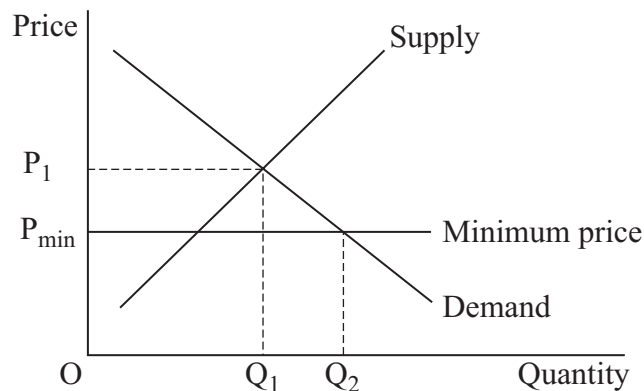
- 4** Which one of the following necessarily represents a market failure?
 - A** Rising costs of production
 - B** Prices rising because of changed conditions of demand
 - C** Firms closing down because the goods they produce are no longer needed
 - D** Producers being unable to charge a price for the external benefits they create

- 5 One reason why specialization raises labour productivity is because
- A specialization shifts the production possibility boundary to the left.
 - B labour replaces capital to produce goods and services.
 - C specialization allows an economy to produce on its production possibility boundary.
 - D the division of labour makes it cost-effective to provide workers with specialist equipment.
- 6 Which one of the diagrams below shows a demand curve that has a price elasticity of demand of zero?



Turn over ►

- 7 Choice is an important element in the basic economic problem because
- A wants increase with income.
 - B resources are distributed equally.
 - C limited resources have alternative uses.
 - D high demand leads to high prices.
- 8 Five years ago Emma bought a guitar for £150 but has never learnt how to play it. The price of a new guitar is now £300. Emma could sell hers for £120. What is the present opportunity cost of keeping the guitar?
- A 0
 - B £120
 - C £150
 - D £180
- 9 The diagram below shows the supply and demand curves for sugar.



Price is initially at P_1 . If the producers now set a minimum price of OP_{\min} , what effect would this have?

- A Equilibrium price and quantity remain at OP_1 and OQ_1 .
- B It encourages suppliers to increase production from OQ_1 to OQ_2 .
- C The amount sold increases from OQ_1 to OQ_2 .
- D The market price falls from OP_1 and OP_{\min} .

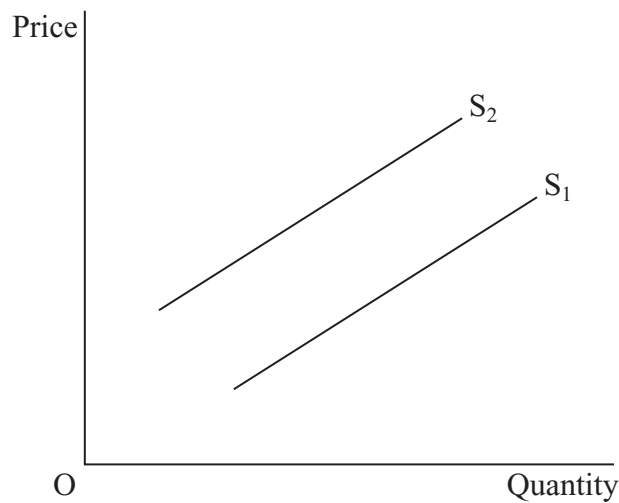
- 10 A misallocation of resources is most likely to occur in monopoly if
- A other firms enter the industry.
 - B higher prices are charged than under competitive conditions.
 - C market output increases.
 - D there are economies of scale.
- 11 The quantity supplied of a product onto a market increases when the price of the product increases. This shows that
- A wants are infinite.
 - B the product has few substitutes.
 - C the supply of the product is price inelastic.
 - D prices perform an incentive function in resource allocation.
- 12 Which one of the following, **A**, **B**, **C** or **D**, distinguishes merit goods from public goods?

| | Merit goods | Public goods |
|----------|----------------------------------|--|
| A | Provided by governments | Provided by companies |
| B | Provided at a cost | Provided at no cost |
| C | Limited in supply | Have an infinite supply |
| D | Consumption reduces availability | Consumption does not reduce availability |

- 13 Government intervention in a market economy can lead to an increase in economic welfare if
- A the market mechanism fails to allow for externalities.
 - B it leads to an increase in the consumption of demerit goods.
 - C the price elasticity of supply of private goods is high.
 - D the demand for inferior goods rises as incomes increase.

Turn over ►

14 The diagram below shows a shift in the supply curve for computers.



The shift in the supply curve for computers from S_1 to S_2 can result from

- A a decrease in the demand for computers.
- B increased economies of scale in the computer manufacturing industry.
- C a decline in the price of computers.
- D an increase in wages in the computer manufacturing industry.

15 The table below shows the costs and benefits of building a new factory.

| | |
|-------------------|-------------|
| Private costs | £50 million |
| External costs | £15 million |
| Private benefits | £60 million |
| External benefits | £10 million |

From the data, it can be concluded that

- A social costs exceed social benefits.
- B the factory should not be built.
- C social benefits exceed social costs.
- D the social costs equal £35 million.

**QUESTION 15 IS THE LAST
QUESTION IN THE PAPER**

**On your answer sheet
ignore rows 16 to 60**

END OF TEST

There are no questions printed on this page