

General Certificate of Education  
June 2007  
Advanced Subsidiary Examination



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

Friday 8 June 2007 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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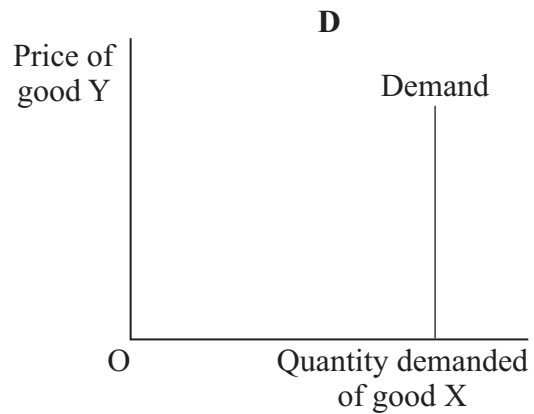
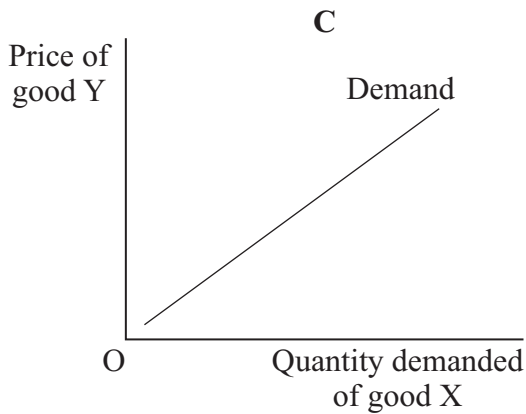
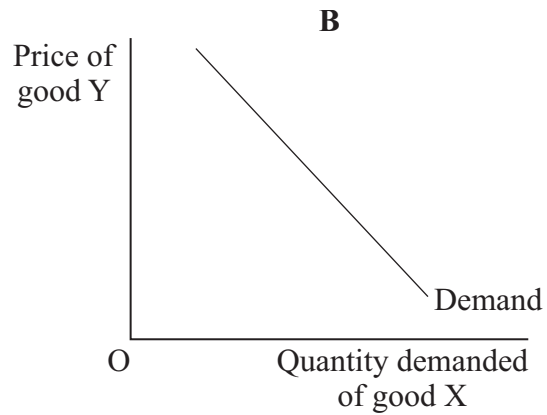
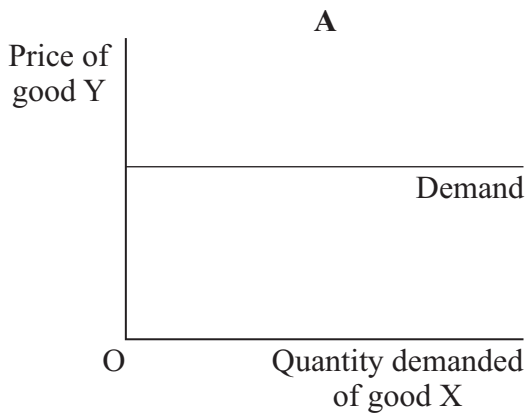
- 1** The fundamental economic problem facing all societies is
- A** what, how and for whom, goods and services should be produced.
  - B** the existence of unemployed resources.
  - C** a significant divergence between social and private costs of production and consumption.
  - D** inequalities in the distribution of income and wealth.
- 2** All other things being equal, in agricultural markets
- A** all prices are supported by the government.
  - B** all that is produced is sold on the open market.
  - C** the release of all stocks onto the market is likely to depress prices.
  - D** there is always excess supply because of government intervention.
- 3** The table below shows the distribution of total income in an economy in 2000 and 2006.

<b>Quintile groups of households</b>					
<b>Year</b>	<b>Bottom fifth %</b>	<b>Next fifth %</b>	<b>Middle fifth %</b>	<b>Next fifth %</b>	<b>Top fifth %</b>
2000	10	14	18	23	35
2006	7	11	17	24	41

From the table it may be concluded that, over the period in question,

- A** there was an improvement in resource allocation.
- B** the distribution of income became more unequal.
- C** all income groups became better off.
- D** the distribution of wealth became more unequal.

- 4 Which one of the diagrams below, **A**, **B**, **C** or **D**, illustrates that the two goods, X and Y, are complementary goods?



- 5 Specialisation requires the existence of

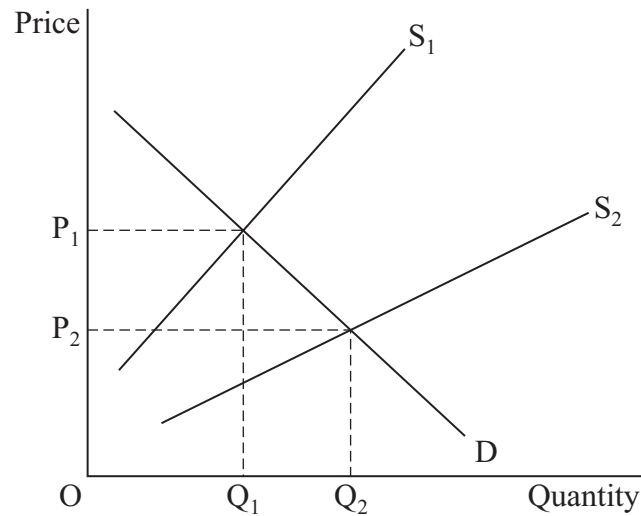
- A** economies of scale.
- B** economic efficiency.
- C** a system of exchange.
- D** rising productivity.

- 6 A small firm is able to buy any amount of a raw material on world markets at the same price. This means that it faces a perfectly

- A** elastic demand curve for the raw material.
- B** inelastic demand curve for the raw material.
- C** elastic supply curve for the raw material.
- D** inelastic supply curve for the raw material.

**Turn over ▶**

7 The diagram below shows the market for a certain product.



The rightward shift of the supply curve from  $S_1$  to  $S_2$  could be caused by

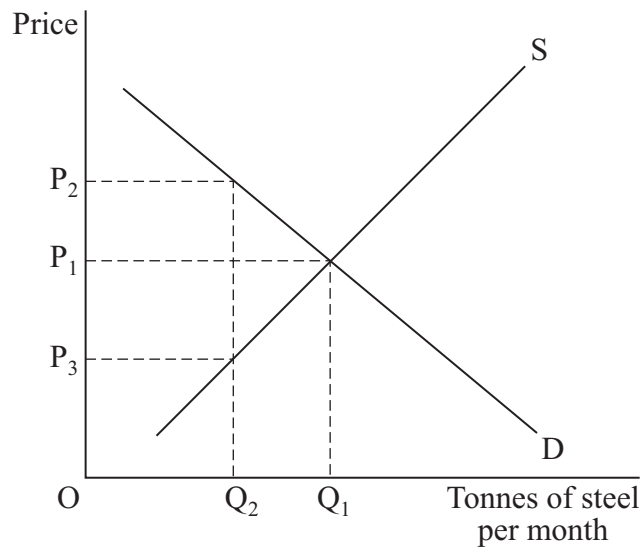
- A an increase in the demand for the good.
  - B the creation of a monopoly by the firms in the industry supplying the good.
  - C a reduction in the rate of Value Added Tax (VAT) applied to the good.
  - D an increase in the cost of the raw materials used in the production of the good.
- 8 The table below shows the world prices (\$/tonne) of various grains for a two-year period.

	Year 1	Year 2
Wheat	120	85
Barley	160	115
Oats	95	82
Maize	170	130

Which one of the following is supported by the data?

- A The earnings of wheat producers will have decreased between Year 1 and Year 2 if the demand for wheat is price elastic.
- B The change in the price of barley between Years 1 and 2 will encourage producers of barley to increase output.
- C The price elasticity of demand is lowest for oats.
- D Total revenue from the sale of maize will fall between Years 1 and 2 if the demand for maize is price inelastic.

9 The diagram below shows the market for steel in the UK.

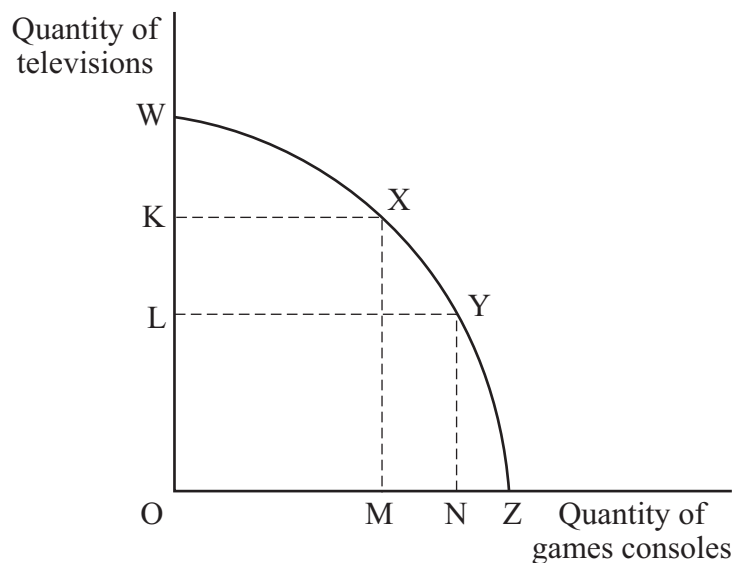


The government recognises that steel production creates negative externalities in the form of carbon dioxide emissions that are associated with global warming. To comply with international treaties, the government agrees to limit the production of steel, reducing the industry output from  $OQ_1$  to  $OQ_2$  per month. To achieve this end, the government could

- A offer a subsidy to the steel industry equal to  $P_2P_1$  per tonne of steel produced.
  - B set and enforce a maximum price on steel of  $OP_2$  per tonne.
  - C set and enforce a minimum price on steel of  $OP_3$  per tonne.
  - D introduce a specific tax on steel of  $P_2P_3$  per tonne of steel produced.
- 10 Government intervention in a free market economy is most likely to improve the allocation of resources if
- A a shortage has led to a rise in the price of a product.
  - B the price of a product has been increased as a result of an increase in production costs.
  - C the market is under-supplying a product that produces a positive externality.
  - D firms cut back on production in response to a fall in demand.

Turn over ►

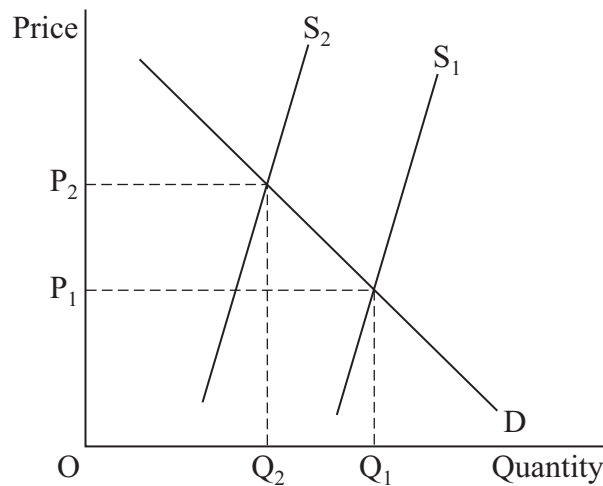
- 11** The cross elasticity of demand between two products measures the extent to which a change in the
- A** demand for one product affects the price of the other product.
  - B** price of one product affects the demand for the other product.
  - C** demand for one product affects the quantity sold of the other product.
  - D** quantity sold of one product affects the demand for the other product.
- 12** The diagram below shows a production possibility boundary for a firm producing electrical goods which is initially operating at point X.



The decision to increase the output of games consoles from OM to ON gives rise to an opportunity cost to the firm equivalent to

- A** NZ
  - B** KL
  - C** KW
  - D** OM
- 13** Governments might adopt strong anti-monopoly legislation because they believe that
- A** large firms are uncompetitive in international markets.
  - B** inefficiency, due to lack of competition, outweighs the benefits from economies of scale.
  - C** small firms should be encouraged to achieve economies of scale.
  - D** entry barriers are low in competitive markets.

14 The diagram below shows the world market for coffee beans.



After a poor harvest, the supply curve shifts from  $S_1$  to  $S_2$ . Which one of the following policies would be most appropriate for stabilising the price of coffee beans at  $OP_1$ ?

- A Selling from a buffer stock
- B Imposing a minimum price
- C Imposing a tax on producers
- D Intervention buying

15 Market failure arises when

- A prices rise in response to excess demand.
- B positive externalities exist in consumption.
- C firms make zero profits.
- D costs increase as firms expand production.

**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**