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

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|---|
| **For this paper you must have:**<br>• an objective test answer sheet<br>• a black ball-point pen<br>• the question paper for Part 2 (ECN1/2).<br>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

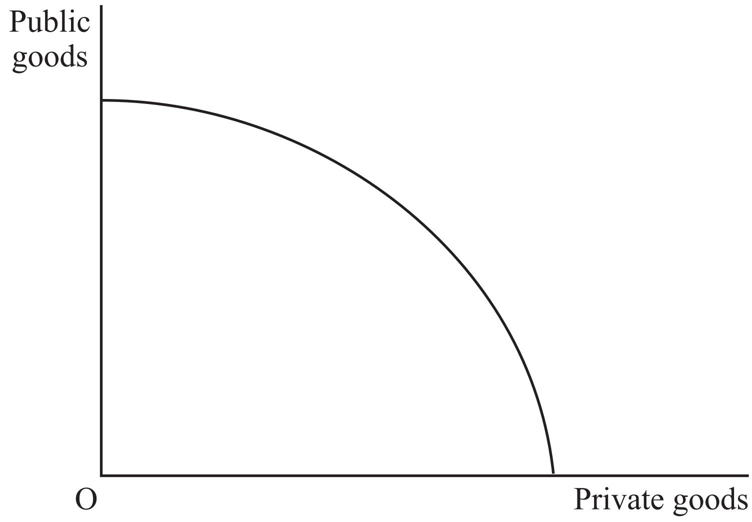
**A** the industry uses scarce factor inputs.

**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.

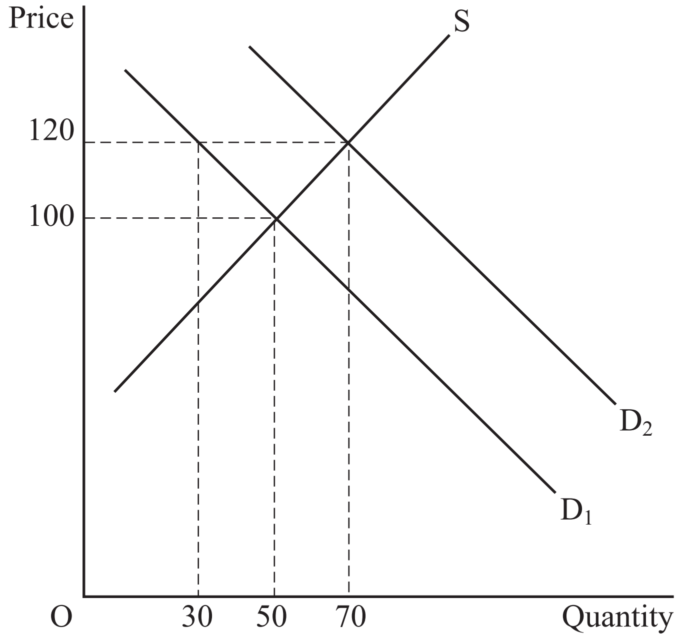
**D** the demand for one good depends on the demand for another.

**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 |

**Turn over ▸**

**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

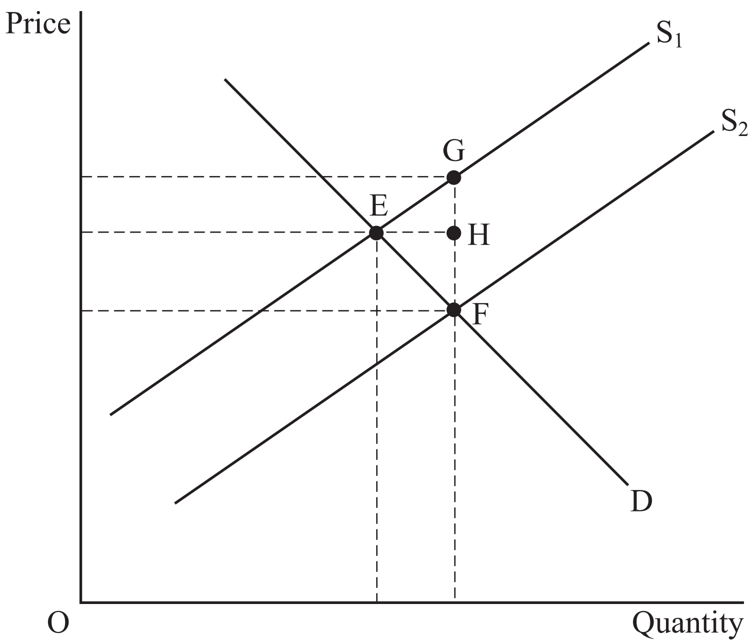
**A** is the market-clearing price.

**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

**Turn over**

**14** Government intervention in markets

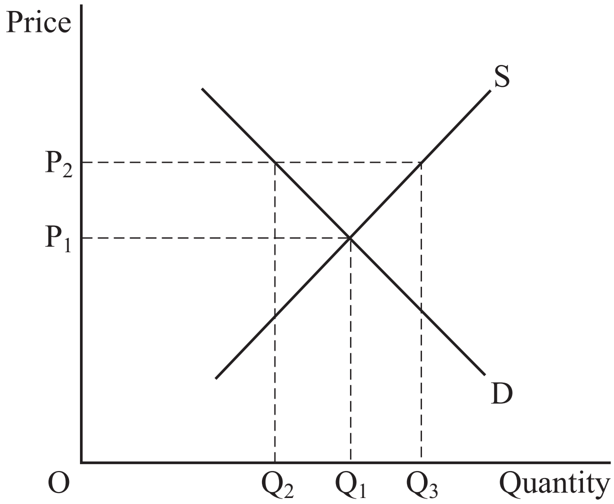
**A** does not necessarily result in an improvement in economic welfare.

**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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