

Candidate Forename						Candidate Surname					
Centre Number						Candidate Number					

ADVANCED SUBSIDIARY GCE

2882/AB

ECONOMICS

Market Failure and Government Intervention

WEDNESDAY 3 JUNE 2009: Afternoon

DURATION: 1 hour

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

Candidates answer in this Designated Answer Booklet

OCR SUPPLIED MATERIALS:

Question Paper 2882

OTHER MATERIALS REQUIRED:

None

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- **Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes on the first page.**
- **Use black ink. Pencil may be used for graphs and diagrams only.**
- **Read each question carefully and make sure that you know what you have to do before starting your answer.**
- **Answer ALL the questions.**
- **Write your answer to each question in the space provided, however additional paper may be used if necessary.**

INFORMATION FOR CANDIDATES

- **The number of marks is given in brackets [] at the end of each question or part question.**
- **The total number of marks for this paper is 45.**
- **The quality of your written communication will be taken into account in marking your answers to the question labelled with an asterisk (*).**

(a) (i) Define the term ‘external cost’.

[2]

(ii) Using the article, identify ONE possible external cost which might arise from the expansion of Stansted Airport.

[1]

(b) Explain why air travel is classed as a private good.

[4]

(c) (i) Define the term ‘productive efficiency’.

[2]

(ii) Using a production possibility curve diagram, identify ONE possible point of productive efficiency. [3]

(iii) Define the term ‘allocative efficiency’.

[2]

(iv) Explain how the existence of external costs causes allocative INEFFICIENCY.

[3]

- (d) The production of some goods and services causes negative externalities. One possible solution to this market failure would be to tax the production of such goods and services.**

Use a diagram to analyse how a tax on production may correct the market failure arising from negative externalities.

[10]

[illegible]

*** (f) Two other forms of government intervention to correct market failure are regulation and the use of tradeable pollution permits.**

Discuss how effective ONE of these policies might be in correcting market failure.

[illegible]

[illegible]

[illegible]



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