Surname					Other Names			
Centre Number					Candidate Number			
Candidate Signature								

General Certificate of Education
January 2003
Advanced Subsidiary Examination

AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

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

Friday 17 January 2003   Morning Session

In addition to this paper you will require:
- an objective test answer sheet;
- a blue or black ball-point pen;
- the question paper for Part 2 (ECN1/2).

You may use a calculator.

Time allowed: 1 hour 30 minutes for papers ECN1/1 and ECN1/2 together

Instructions
- Use a blue or 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 25 marks.
- Each question carries one mark. No deductions will be made for wrong answers.

Advice
- You are advised to spend no more than 30 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 30 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   If the income elasticity for a good is positive, this means that this good must be

    A   an inferior good.

    B   a complementary good.

    C   a public good.

    D   a normal good.

2   A production possibility curve can be used to show all the following **except**

    A   the different combinations of two goods that can be produced from available inputs.

    B   the different combinations of two goods that a household can purchase with available income.

    C   all the productively-efficient combinations of output that can be produced from available inputs.

    D   the opportunity cost of producing more of a particular good.

3   Health care is a merit good because

    A   it is non-excludable and non-rival.

    B   markets cannot provide it.

    C   it yields positive externalities when consumed.

    D   it incurs private costs of consumption that are less than the social costs of consumption.

4   The extent to which demand for one good responds to a change in the price of another good is measured by

    A   price elasticity of demand.

    B   income elasticity of demand.

    C   cross elasticity of demand.

    D   a change in the conditions of demand.

5 The diagram below shows two supply curves for orange juice.
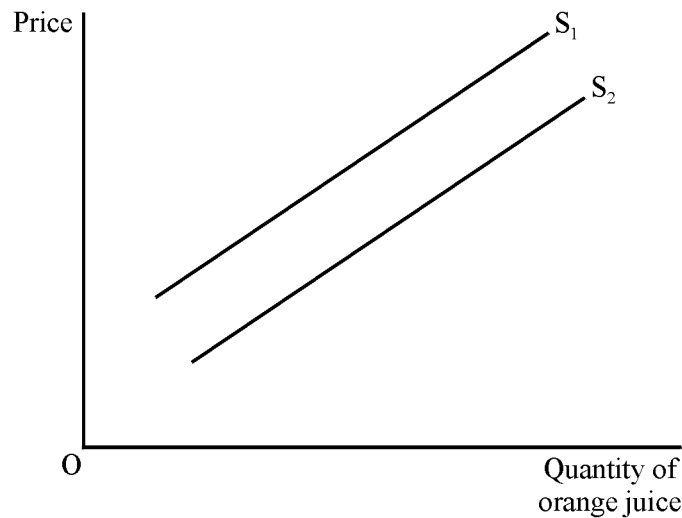
The shift from S_1 to S_2 could have been caused by an increase in

A   the cost of oranges.

B   incomes of consumers.

C   the level of tax on orange juice.

D   government subsidies on orange juice.

6 In a market economy, the market mechanism can achieve all the following **except**

A   signalling changes in consumer tastes.

B   causing supply to respond to changes in demand.

C   eliminating excess supply and demand.

D   ensuring a fair distribution of all types of good.

7 It was reported in December 2001 that De Beers, the world's biggest diamond dealer, was trying to restore the image of diamonds as the ultimate status symbol (*Daily Mail*, 27 December 2001).

If the company estimated that the income elasticity of demand for diamonds was +2.0, by how much might De Beers have expected the demand for diamonds to change if average incomes had risen by 5%?

A   -2.5%

B   +2.5%

C   +10.0%

D   -10.0%

Turn over ▶

8   When a minimum price which is above the free-market equilibrium price is imposed on a good by the government,

A   excess supply will result.

B   trading will continue at the equilibrium price.

C   excess demand will result.

D   firms will sell the quantity they wish at this price.

**9**   The following information gives details of the price elasticity of demand for certain goods and services.

	Price elasticity of demand
Cars	- 1.5
Telephone calls	- 1.0
Cinema tickets	- 0.4
Matches	0.0

Given this information, an increase in the price of each item by 1% would result in an increase in sales revenue in the case of

A   cars only.

B   cars and telephone calls only.

C   cinema tickets and matches only.

D   matches only.

10   Without government intervention, which one of the following is most likely to be under-produced in a market economy?

A   Normal goods.

B   Merit goods.

C   Luxury goods.

D   Inferior goods.

11 Which one of the following is most likely to result from increased specialisation?

    A   Lower production.

    B   Higher unit costs.

    C   Lower wages per worker.

    D   Higher productivity.

12 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.

13 The diagram below shows a maximum rent imposed on flats in central Edinburgh.
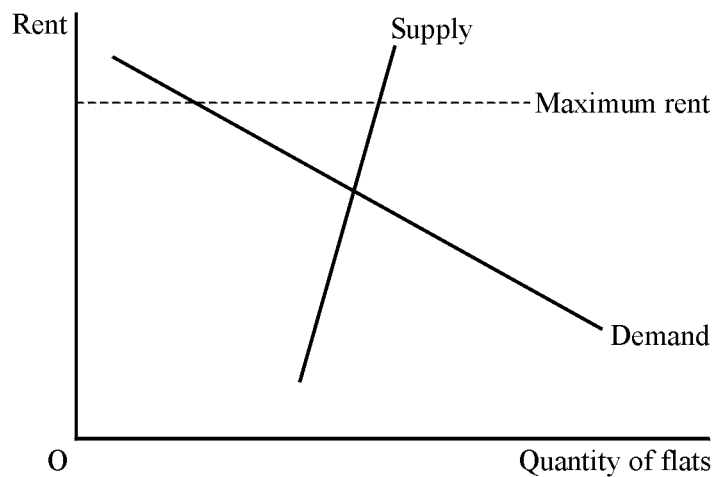
This will lead to

    A   trading at the equilibrium rent in the market.

    B   a shortage of flats for rent in Edinburgh.

    C   excess supply.

    D   waiting lists for flats in Edinburgh.

Turn over ▶

14 A misallocation of resources is mostly 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.

15 The government was recently advised that a 20% increase in the price of alcoholic drink would reduce consumption by the rich by 3% and consumption by the poor by 10%. It can be inferred from this that

    A   the rich enjoy alcoholic drinks more than the poor.

    B   for the rich, alcoholic drink is an inferior good.

    C   demand is price inelastic for both rich and poor.

    D   the demand of the poor is price elastic while that of the rich is price inelastic.

16 An economy is only productively efficient when

    A   all wants are satisfied.

    B   all firms benefit from economies of scale.

    C   it is producing both private and public goods.

    D   it operates on its production possibility boundary.

17 Which of the following necessarily represent 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.

18 The production possibility schedule for motor cars and tractors is as follows.

Motor cars	Tractors
18	0
17	1
16	2
15	3
12	4
9	5
6	6
0	7

The opportunity cost of increasing production of tractors from 0 to 3 is

A   1 motor car.

B   2 motor cars.

C   3 motor cars.

D   13 motor cars.

19 A positive externality exists when

A   the social cost of consumption exceeds the private cost of consumption.

B   the private benefit of production exceeds the social benefit of production.

C   the consumption of the product provides benefits to third parties.

D   the production of the product imposes costs on third parties.

20 Which one of the following is **not** held constant when a demand curve for a good is drawn?

A   The price of the good.

B   The price of complementary goods.

C   The price of substitutes.

D   The price of factors of production.

Turn over ▶

21 In an article written in September 2001, an EU official commented that "Scrapping the Common Agricultural Policy (CAP) would be disastrous; the gap between the EU's domestic and world prices would put significant downward pressure on EU farm prices and farm income".

On the basis of this statement it may be inferred that within the European Union

A   citizens benefited from cheap domestic food supplies.

B   farmers were protected from foreign competition.

C   farming was more efficient than elsewhere in the world.

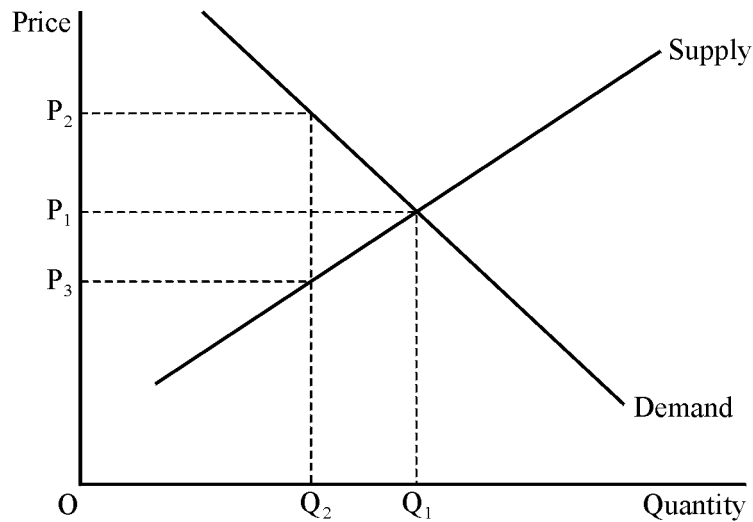**D**   CAP increased the welfare of consumers.

22 The diagram below shows the market for beef.
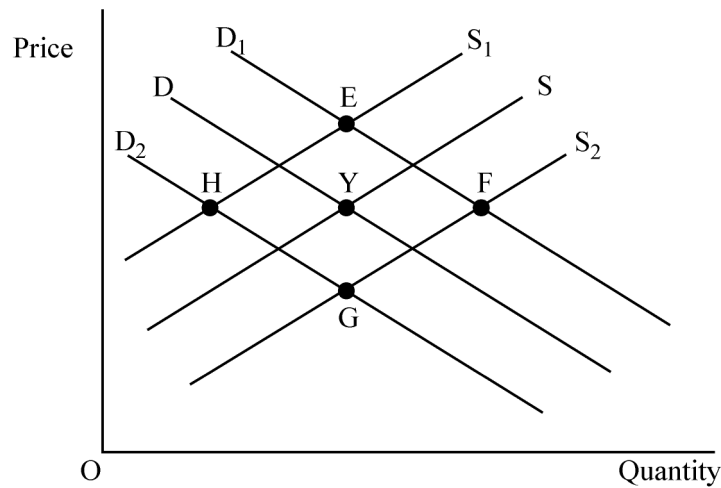
If the initial equilibrium is indicated by point Y, what will be the new equilibrium position if the cost of producing beef rises and the price of chicken falls?

A   E

B   F

C   G

D   H

23 The diagram below shows the free market equilibrium for a demerit good.

To reduce the consumption of the good from OQ_1 to OQ_2 the government could introduce a

A   maximum price of OP_2 per unit supplied.

B   tax of P_3P_2 per unit supplied.

C   subsidy of P_3P_2 per unit supplied.

D   a minimum price of OP_3 per unit supplied.

24 Government intervention in the market

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

B   is always undertaken when there are externalities present.

C   is best achieved through the use of taxes.

D   is undertaken when the risk of government failure is minimal.

25 Which of the following would **not** be included in a definition of the factor of production, land?

A   Farmland.

B   Timber.

C   Fossil fuels.

D   Factories.

Turn over ▶

**QUESTION 25 WAS THE LAST
QUESTION IN THE PAPER**

**ON YOUR ANSWER SHEET
IGNORE ROWS 26 TO 50**

END OF TEST