

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

General Certificate of Education
June 2003
Advanced Subsidiary Examination



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

Friday 6 June 2003 Morning Session

In addition to this paper you will require:

- 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: 1 hour for papers ECN1/1 and ECN1/2 together

Instructions

- Use a 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 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.
- 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 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.

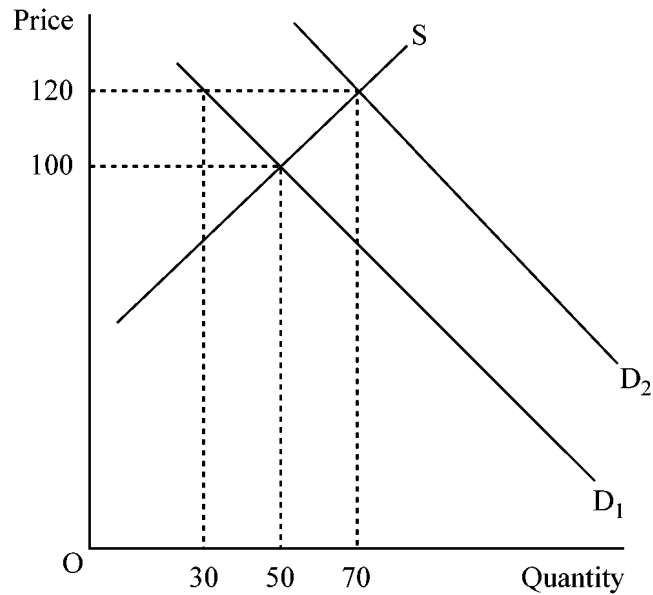
- 1** On a supply and demand diagram, other things remaining the same, an increase in production costs will normally shift
 - A** the demand curve to the right.
 - B** the supply curve to the right.
 - C** the demand curve to the left.
 - D** the supply curve to the left.

- 2** Government intervention in the economy to correct a market distortion may fail because
 - A** governments can only supply public goods.
 - B** the opportunity cost of government intervention is zero.
 - C** the laws of supply and demand do not apply to governments.
 - D** of incomplete information relating to all the costs of intervention.

- 3** Which of the following can be efficiently allocated between competing uses by the price mechanism?
 - A** Private goods.
 - B** Public goods.
 - C** Free goods.
 - D** Externalities.

- 4** In 2001 the government of Majorca and Ibiza proposed a tax of up to £1.25 per tourist for every night spent in hotel accommodation. The government would be most likely to justify this in terms of
 - A** the external benefits of tourism.
 - B** the external costs of tourism.
 - C** the private costs of tourism.
 - D** the private benefits of tourism.

5 The diagram below shows an increase in the demand for fish.



It can be concluded that when price rises from 100p to 120p

- A the price elasticity of demand for fish is positive.
 - B there will be excess supply of fish.
 - C the price elasticity of supply of fish is +2.
 - D fish is a luxury good.
- 6 Income elasticity of demand for a commodity measures the responsiveness of
- A income to changes in quantity demanded.
 - B price to changes in income.
 - C income to changes in price.
 - D quantity demanded to changes in income.
- 7 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.

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- 8 In December 2001, British Airways announced that it was “slashing fares on thousands of tickets worldwide” (*Daily Mail*, 29 December 2001).

Given a fare reduction of 35%, what would be the expected percentage rise in demand for those flights if the company has estimated their price elasticity of demand is -2.0 ?

- A 17.5
- B 175.0
- C 7.0
- D 70.0
- 9 Which of the following is an example of government intervention to correct a market failure?
- A An increase in teachers’ salaries.
- B An increase in the rate of VAT on all goods and services.
- C The taxation of goods with negative externalities.
- D The taxation of public goods.
- 10 Which of the following is **least** likely to be a feature of monopoly?
- A In the long run, no profits will be earned.
- B Choice for the consumer will be restricted.
- C It will be protected by barriers to entry.
- D Price may be higher than in a more competitive market.
- 11 Price elasticity of supply measures the responsiveness of the quantity supplied to a change in
- A demand.
- B price.
- C cost.
- D production.

12 The table below shows benefits and costs of a new motorway.

Benefits and costs of a new motorway (£ millions)

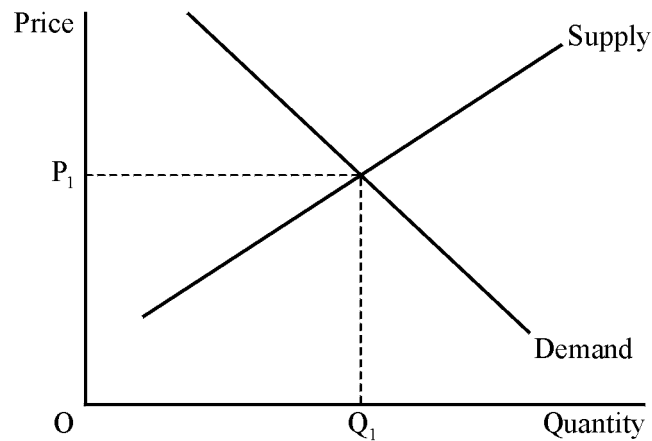
Private benefits	130	Private costs	110
External benefits	20	External costs	30

From the table it can be concluded that

- A the social costs are £80 million.
 - B the social costs are less than the private costs.
 - C the social costs are less than the social benefits.
 - D social benefits are £20 million.
- 13 If an economy is operating on its production possibility curve, the most likely effect of an increase in the output of capital goods is that the output of consumer goods will
- A increase in the short run but fall in the long run.
 - B fall in the short run but increase in the long run.
 - C fall in both the short and the long run.
 - D increase in both the short and the long run.

TURN OVER FOR THE NEXT QUESTION

14 The diagram below shows the free market equilibrium for wheat.



The supply curve for wheat shifts its position each year with variations in the harvest. To stabilise the price of wheat at OP_1 , the government could

- A set a price ceiling of OP_1 .
 - B introduce a buffer stock scheme.
 - C introduce a subsidy of OP_1 per unit.
 - D set a minimum price above OP_1 .
- 15 Which one of the following is a normative economic statement?
- A The government should spend more on the National Health Service.
 - B Building a new hospital has an opportunity cost.
 - C The government regards health care as a merit good.
 - D Some medicinal drugs are ineffective.

**QUESTION 15 WAS THE LAST
QUESTION IN THE PAPER**

**ON YOUR ANSWER SHEET
IGNORE ROWS 16 TO 50**

END OF TEST