

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

General Certificate of Education
January 2004
Advanced Subsidiary Examination



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

Friday 16 January 2004 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.

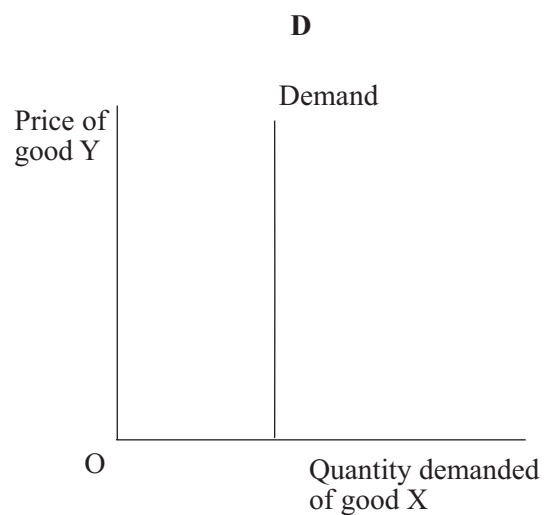
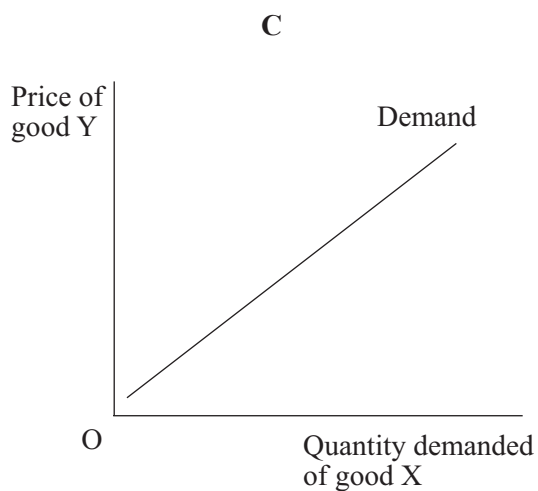
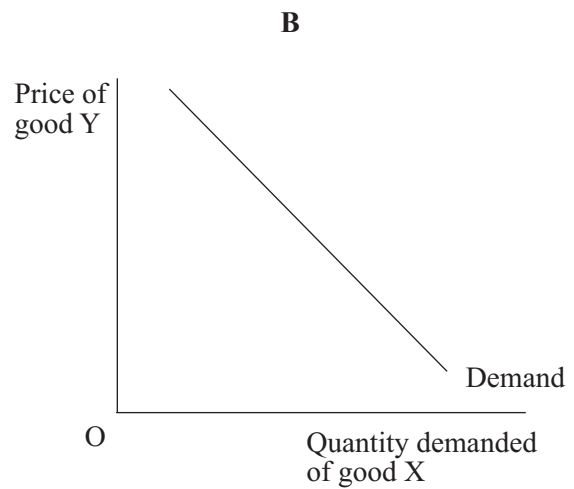
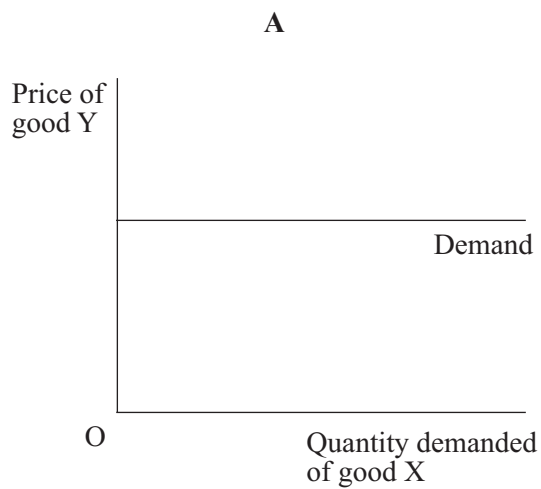
Each item consists of a question or an incomplete statement followed by four suggested answers or completions. You are to select the most appropriate answer in each case.

- 1 Which one of the following statements involves a value judgement?
- A The government must devote more resources to health care.
 - B More of a good is demanded at a lower price.
 - C The public sector has increased in size since 2000.
 - D The higher the income the higher the level of household saving.
- 2 “Carbon dioxide emissions from UK aviation are set to rise by 30% this decade, according to government predictions, which is likely to fuel concerns about the growing environmental impact of air travel.”
(Financial Times, 16 December 2002)
- Which of the following explains why increased atmospheric pollution is a cause for concern about the growing environmental impact of air travel?
- A Air travel is a public good.
 - B The opportunity cost of air travel is zero.
 - C Air travel creates positive externalities.
 - D The environment is a scarce resource.
- 3 The income elasticity of demand for bus travel is -2.0 . This means that
- A a 10 per cent increase in fares will lead to a 20 per cent decrease in passengers.
 - B for most people bus travel is an inferior good.
 - C buses are likely to have a negative cross elasticity of demand.
 - D as unemployment falls more people will use their local buses.

4 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.

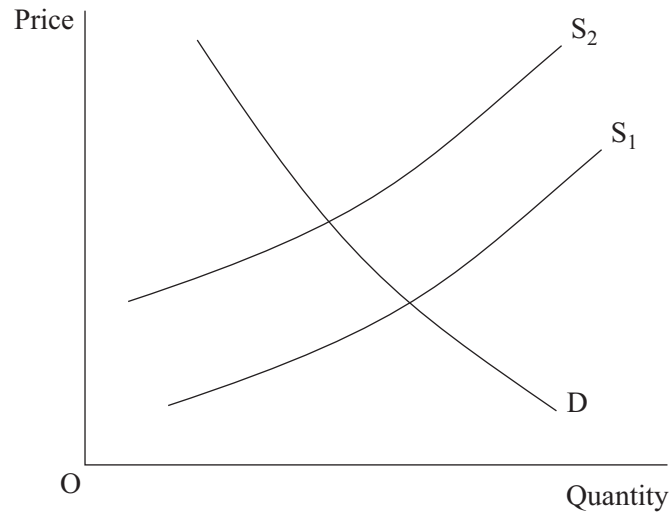
5 Which of the diagrams below illustrates that the two goods, X and Y, are complementary goods?



Turn over ►

- 6** Specialisation requires the existence of
- A** economies of scale.
 - B** economic efficiency.
 - C** a system of exchange.
 - D** rising productivity.
- 7** In December 2001, Powergen announced an increase in the price of its gas of almost 9%. Assuming a 9% increase in price, what is Powergen's estimate of the value of the price elasticity of demand for its gas if the company is predicting that demand will fall by 2.7%, all other things being equal?
- A** -0.3
 - B** +0.3
 - C** +3.33
 - D** -3.33
- 8** The price mechanism improves resource allocation
- A** through the signalling function of prices.
 - B** in the non-market sector of the economy.
 - C** by protecting monopolies.
 - D** by providing free goods.
- 9** Because of the existence of economies of scale
- A** most businesses in the UK are large firms.
 - B** some markets are dominated by monopolies.
 - C** unit costs in the service sector have increased.
 - D** all small firms are inefficient.

10 The diagram below shows the demand and supply curves for golf balls.



Which of the following could explain the shift of the supply curve from S_1 to S_2 ?

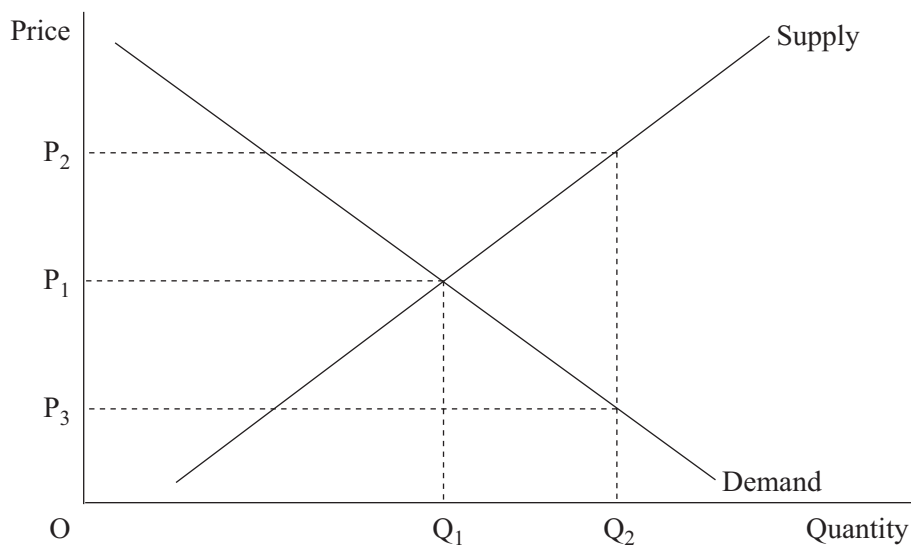
- A An improvement in the technology for making golf balls.
 - B The granting of a subsidy to golf ball producers.
 - C An increase in the price of a complement.
 - D An increase in wages in the industry.
- 11 Which of the following is an example of government failure?
- A The government overproducing a merit good.
 - B All government provision of national defence.
 - C All subsidies given to private sector firms.
 - D The government allowing free market forces to raise the price of oil.

Turn over ►

12 The government is considering the introduction of road tolls to reduce motorway congestion. Charging motorists for using motorways will help to reduce congestion if

- A the income elasticity of demand for cars is high.
- B the government reduces the tax on petrol.
- C it leads to an increase in the cost of public transport.
- D the price elasticity of demand for motorway use is high.

13 The diagram below shows the demand and supply curves of a merit good.



To increase consumption from OQ_1 to OQ_2 , the government could

- A tax producers by P_3P_2 per unit of the good.
- B subsidise producers by P_3P_2 per unit of the good.
- C impose a maximum price of OP_3 .
- D impose a minimum price of OP_2 .

14 When applied to a public good, 'non-rival' means that

- A there is a single monopoly supplier of the good.
- B the resources used in its production could not have been used to produce other goods.
- C if the good is provided for one person it must be provided for others.
- D consumption of the good by one person does not reduce the amount of the good available to others.

- 15** Continued government subsidies to an industry can be justified if the industry
- A** is more efficient compared with other countries.
 - B** creates a positive externality for consumers.
 - C** has a large share of the market.
 - D** is subject to diseconomies of scale.

**QUESTION 15 WAS 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

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-owners have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future if notified.

Copyright © 2004 AQA and its licensors. All rights reserved.