

General Certificate of Education
January 2005
Advanced Subsidiary Examination



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

Tuesday 18 January 2005 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.
- 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.

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 is a normative economic statement?
 - A If the government cuts the state old age pension, poverty will increase.
 - B The government should cut the state old age pension.
 - C If state old age pensions are cut, resources can be used elsewhere in the economy.
 - D Free-market economists recommend that private pensions should replace state pensions.

- 2 Which of the following is a measure of productivity?
 - A The amount produced.
 - B The quantity of capital employed divided by its price.
 - C Output divided by employment.
 - D The percentage increase in production.

- 3 Evidence suggests that the cross elasticity of demand between private and public transport, whilst positive, is very low. Therefore, it follows that
 - A a fall in the demand for private transport would cause a small rise in the demand for public transport.
 - B a fall in the price of private transport would cause a slight rise in the demand for public transport.
 - C a fall in the demand for private transport would cause a small rise in the price of public transport.
 - D a rise in the price of private transport would cause a small rise in the demand for public transport.

- 4 When demand is income inelastic, the percentage change in
- A income is greater than the percentage change in quantity demanded.
 - B the quantity demanded is greater than the percentage change in income.
 - C income is less than the percentage change in quantity demanded.
 - D quantity demanded is the same as the percentage change in income.
- 5 The annual demand and supply schedules for an agricultural good are shown in the table below.

Price (£s)	Quantity demanded (000s of units)	Quantity supplied (000s of units)
20	4	12
18	6	10
16	8	8
14	10	6
12	12	4

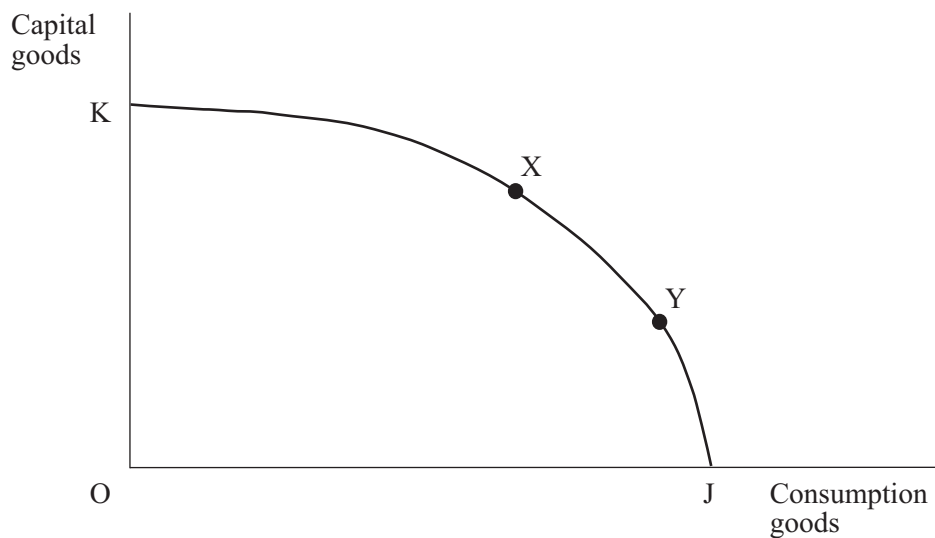
The government fixes the minimum price at £18 to be maintained by intervention. How much will such an action cost the government each year?

- A £180 000.
 - B £144 000.
 - C £108 000.
 - D £72 000.
- 6 “Increasing carbon dioxide emissions from aviation are a potentially significant contributor to climate change and the cause of increasing concern about the growing environmental impact of air travel.”
(Source: adapted from *Financial Times*, 16 December 2002)
- The environmental damage caused by air travel, referred to in the above passage, would be reduced if
- A airlines charged passengers for the negative externalities caused by air travel.
 - B air travel created positive as well as negative externalities.
 - C government policy increased competition in the airline industry.
 - D air travel was a public good.

Turn over ►

- 7 A difference between a merit good and a public good is that
- A a merit good is always provided by the private sector whilst a public good is always provided by the public sector.
 - B a merit good has a cost attached to it whilst a public good is provided without cost to anybody.
 - C a merit good is in limited supply whilst the supply of public goods is infinite.
 - D consumption of a merit good reduces the amount available for others whilst an individual's consumption of public goods leaves the amount available for others unaffected.

- 8 The diagram below shows an economy's production possibility frontier, KJ.



The movement along the production possibility frontier from point X to point Y means that

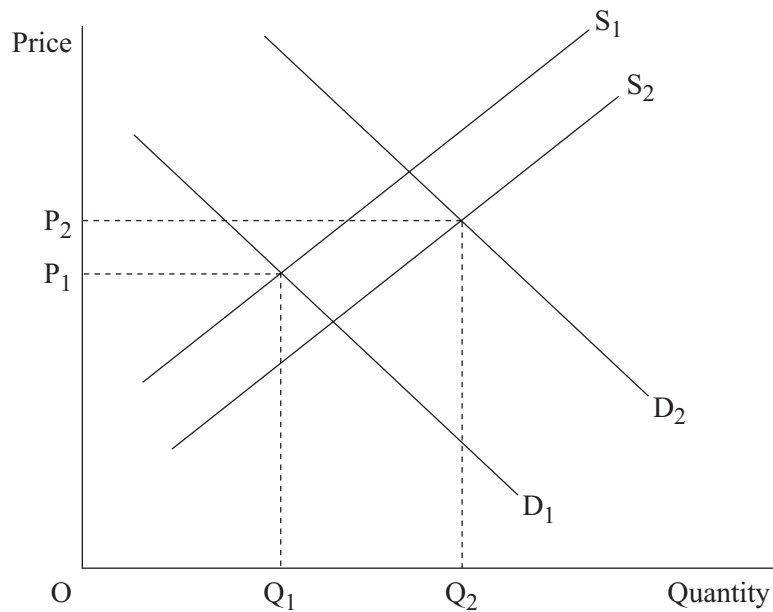
- A the economy has become more productively efficient.
- B more of the economy's resources are being utilised.
- C the economy benefits from economies of scale.
- D there is an increase in the opportunity cost of consumption goods.

- 9 An increase in the price of good X results in a fall in demand for good Y. This result implies that the two goods
- A are in joint supply.
 - B are complementary goods.
 - C have elastic demand curves.
 - D are produced by competing firms.
- 10 The price mechanism helps to allocate resources efficiently because
- A it results in lower rewards being paid to factors of production when demand for the output they produce increases.
 - B it will lead to a distribution of output amongst individuals on the basis of greatest need.
 - C the prices of non-renewable resources will tend to rise as the stock of such resources nears depletion.
 - D it will always ensure that competition between firms prevents high profits being earned.
- 11 The price elasticity of supply of a product will depend on
- A the extent to which the product is advertised.
 - B the availability of factors of production.
 - C whether the product is a luxury or a necessity.
 - D the proportion of income spent on the product.

TURN OVER FOR THE NEXT QUESTION

Turn over ►

- 12 The diagram below shows the demand and supply curves of a consumer good where P_1 is the initial equilibrium price.



The increase in price from P_1 to P_2 may be caused by

- A an increase in the price of substitutes and a fall in raw material costs.
 - B a fall in incomes and a rise in interest rates.
 - C an increase in the wages paid to all workers.
 - D an increase in income tax and value added tax.
- 13 Government intervention to correct market failure will **not** necessarily improve the allocation of resources because
- A the marginal social cost of production does not necessarily equal the marginal private cost.
 - B the cost of government action may exceed the benefit.
 - C the provision of most private goods is best left to the free market.
 - D certain products are non-excludable.

- 14 Which one of the following creates an incentive for firms to reduce pollution?
- A An increase in negative externalities as firms increase their output.
 - B The failure of the government to tax firms that cause pollution.
 - C Government subsidies paid to firms that increase their output.
 - D A tax levied on firms that cause pollution.
- 15 “According to Ofgem, the electricity industry regulator, household electricity prices have fallen by 28 per cent since 1990, a year after the industry was privatised.”
(Source: adapted from *Financial Times*, 4 February 2002)

The decline in the price of electricity, referred to in the above passage, is most likely to have been caused by

- A an increase in the market power of firms supplying electricity.
- B an increase in the price of gas.
- C a reduction in the price of domestic electrical goods.
- D a reduction in the cost of generating electricity.

**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

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