Candidate Name	Centre Number	Candidate Number

OCR
RECOGNISING ACHIEVEMENT

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS 2882/AB

MARKET FAILURE AND GOVERNMENT INTERVENTION

Friday **10 JUNE 2005** Afternoon 1 hour

Additional materials:
Separate question paper.
Candidates answer in this designated Answer Booklet.

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** the questions.

Write all your answers on the separate answer booklet provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

This answer booklet consists of 5 printed pages and 3 lined pages.

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(a) **(i)** Define the term negative externality.

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.....[2]

(ii) Using the extract, identify and explain **one** negative externality that may result from the building of the dam.

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.....[3]

(iii) Using the extract, identify and explain **one** positive externality that may result from the building of the dam.

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.....[3]

(b) Define the terms productive, allocative and Pareto efficiency.

Productive efficiency .....

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Allocative efficiency .....

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Pareto efficiency .....

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.....[6]

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(c) Using a diagram, analyse how the existence of negative externalities leads to market failure.

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.....[10]

(d) One policy the Chinese government could use to encourage families to relocate is to give a subsidy to companies constructing new homes away from the dam.

(i) State **two** costs and **two** benefits of using a subsidy in this way.

Cost 1 .....

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Cost 2 .....

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Benefit 1.....

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Benefit 2.....

.....[4]

(ii) Comment on the likely effectiveness of this policy.

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***(e)** In deciding whether to build the dam, the Chinese government could have used cost-benefit analysis. Discuss how cost-benefit analysis could be applied in the case of the building of a dam, such as the Three Gorges.

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If you use the following lined pages or additional sheets to complete an answer to any question, the question number must be clearly shown.

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