

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ECONOMICS

2882

MARKET FAILURE AND GOVERNMENT INTERVENTION

Friday

10 JUNE 2005

Afternoon

1 hour

Additional materials:

Designated Answer Booklet [2882/AB].

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

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 question paper consists of 4 printed pages.

Answer all parts of this question in the accompanying answer booklet.

Government intervention and efficiency

Governments intervene in the economy in order to correct market failure and to promote greater economic efficiency. When discussing the term economic efficiency, economists usually refer to productive, allocative and Pareto efficiency.

The extract below looks at how the Chinese government has intervened in its economy to achieve faster economic growth through the building of the Three Gorges Dam.

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‘1.5 Million people to be moved by Chinese dam’

The controversial Three Gorges.....

An extract has been removed due to third party copyright restrictions

Details:

An extract from the BBC news about the Three Gorges Dam.
Found here: <http://news.bbc.co.uk/1/hi/world/asia-pacific/2579663.stm>

.....ever reap the rewards.

Source: BBC News, December 2002 (amended)

- (a) (i) Define the term negative externality. [2]
- (ii) Using the extract, identify and explain **one** negative externality that may result from the building of the dam. [3]
- (iii) Using the extract, identify and explain **one** positive externality that may result from the building of the dam. [3]
- (b) Define the terms productive, allocative and Pareto efficiency. [6]
- (c) Using a diagram, analyse how the existence of negative externalities leads to market failure. [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. [4]
- (ii) Comment on the likely effectiveness of this policy. [5]
- ***(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. [12]

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