



Skoolumy

**CAMBRIDGE A LEVEL ECONOMICS TOPICAL
MULTIPLE CHOICE QUESTIONS**

MARKET FAILURE, EFFICIENCY AND INTERVENTION

PAST QUESTIONS

1 A medical team provides vaccinations for children to prevent an outbreak of an infectious disease.

Why would this be described as a positive externality?

A Additional benefit might be gained as the disease no longer spreads.

B Any kind of medical help will improve the condition of the children.

C No action would be taken unless the medical team intervened.

D The social benefits of vaccination are less than the social costs.

2 An economic activity definitely creates a net social benefit when the value of social benefit minus

A private benefit is zero.

B private benefit is negative.

C social cost is positive.

D social cost is negative.

3 The government can use policies to try and reduce the environmental damage caused by the amount of rubbish (garbage) created by firms and households.

Which policy to reduce rubbish is most likely to lead to government failure?

A an incentive payment for firms who reduce the levels of rubbish

B a tax on the amount of rubbish a firm or household creates

C an advertising campaign about the problems created by rubbish

D government grants to firms researching how to safely dispose of rubbish

4 What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

A fewer destinations served by trains and buses

B lower fares

C more frequent services to all destinations

D more people employed in public transport services

5 Singapore has one of the highest population densities in the world. It discourages car use through a high tax on second cars.

Which additional policy would help to relieve road congestion in the short run?

A limiting the total number of car licences issued

B encouraging restrictions on the size of families

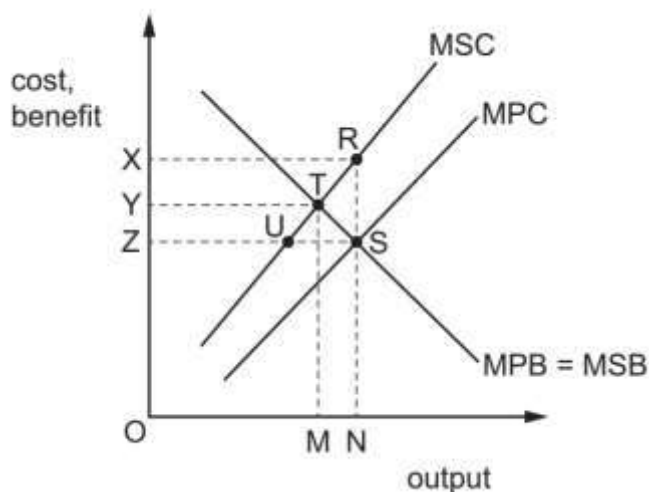
C improving infrastructure by building new roads

D replacing diesel cars by electric cars

6 Which combination of costs and benefits will lead to an increase in net social costs?

	private benefits	external benefits	private costs	external costs
A	falls	falls	no change	no change
B	no change	increases	falls	no change
C	no change	increases	falls	falls
D	increases	increases	no change	falls

7 The diagram shows the costs and benefits of producing steel in a free market.



Which area measures the deadweight loss of economic welfare?

- A** RTS **B** RUS **C** TUS **D** YTUS

8 A government wants to introduce a policy that will reduce the pollution caused by the production of a good.

Which policy would not make use of market forces?

- A** a quota to limit the production of the good
B a regulation to ban the production of the good
C a tax on the production of the good
D a tradable pollution permit system for producers of the good

9 The table shows the total amount consumers are willing to pay for different quantities of good X and the total external benefits that arise from the consumption of X.

quantity of good X (000 units)	consumers' willingness to pay (\$000)	total external benefits (\$000)
1	100	20
2	180	38
3	240	54
4	280	68
5	300	80

What is the value of the marginal social benefit when 5000 units are consumed?

A \$12 000 B \$32 000 C \$80 000 D \$380 000

10 A government wishes to use market forces to remove a negative externality in the consumption of a good.

Which policy is likely to be the most effective?

A It should provide information about the undesirable side-effects of the good.

B It should give producers a subsidy, to allow consumers to purchase the product more cheaply.

C It should impose an indirect tax on consumers, to reduce consumption to the socially efficient level.

D It should not interfere at all, to allow the free market to generate maximum efficiency.

11 A government decides to replace a private company with its own company to collect household waste.

Why could such action be justified?

A Waste collection is a public good.

B Costs of waste collection are bound to be lower if paid out of local taxes.

C Private companies are always less efficient than government companies.

D Private companies might put profits before customer needs.

12 What is a failure of government microeconomic intervention?

A An indirect tax equal to external costs is imposed on cigarettes and the demand falls.

B Limits are placed on a trade union's restrictions that increase labour mobility.

C Price controls on bread are removed which allow a free market to operate.

D Tariffs are imposed on imported goods which cause the Gini coefficient to increase.

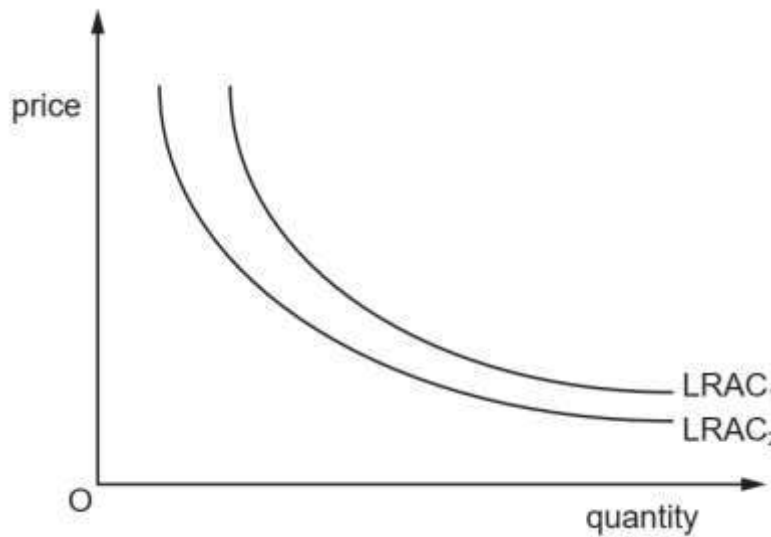
13 The initial allocation of goods between three consumers is shown.

consumer 1	consumer 2	consumer 3	total
2	5	10	17

Which row shows a Pareto improvement in the allocation of goods between consumers?

	consumer 1	consumer 2	consumer 3	total
A	2	5	11	18
B	4	5	9	18
C	4	4	10	18
D	6	6	6	18

14 Which type of efficiency is shown by the shift from long-run average cost curve 1 ($LRAC_1$) to long-run average cost curve 2 ($LRAC_2$)?

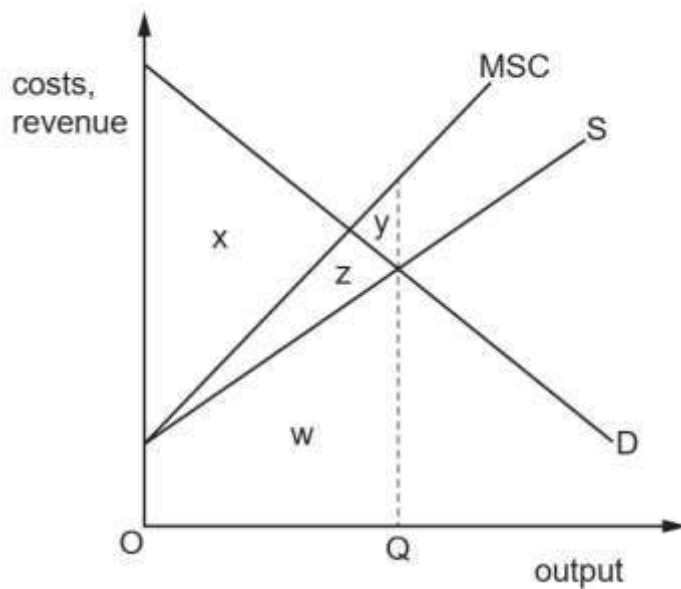


- A allocative
- B dynamic
- C Pareto
- D productive

15 What is an example of an external cost?

- A distribution costs
- B energy costs
- C labour costs
- D road congestion costs

16 The diagram shows the demand for and supply of a good and the marginal social costs (MSC) for that good.



Assuming there are no external benefits, which area measures the net social benefit at output OQ?

- A x B $x - y$ C $x + y$ D $x - y - z$

17 One reason for market failure is the existence of public goods.

Which policy option is appropriate for addressing such a market failure?

- A direct provision of the good by the government
 B provision of detailed information to consumers
 C subsidising firms that currently produce the good
 D the adoption of maximum price controls

18 In 2020, the governor of California issued an order to ban the sale of new vehicles from 2035 that are powered by petrol or diesel fuel.

Which type of government policy is this?

- A a nudge

B a permit to pollute

C nationalisation

D regulation

19 A reason for government intervention in the workings of the economy is to attempt to correct a market failure. Sometimes, though, government failure may occur.

What is not a possible reason for government failure?

A Governments may have to make decisions on the basis of out-of-date information.

B Governments may make decisions that reduce negative externalities.

C The extent of the market failure may be difficult to judge.

D When circumstances change, a government may be unable to respond quickly.

20 Studies show that some dentists replace patients' teeth more often than is necessary. Which factor helps to explain why excessive dental treatment may take place?

A the existence of asymmetric information

B the existence of dynamic efficiency

C the existence of positive externalities

D the existence of social benefits

21 Which statement is correct?

A External benefit minus private benefit equals social benefit.

B Private benefit minus external benefit equals social benefit.

C Social benefit minus external benefit equals private benefit.

D Social benefit plus private benefit equals external benefit.

22 What can be done to help to overcome moral hazard?

A charging the same insurance premium to all people in the same age group

B designing insurance contracts so that the insurance company and client share any loss

C giving unconditional financial support to banks to protect jobs

D guaranteeing jobs for bank managers to provide a sense of security

23 Which action would produce a positive externality of production?

A A child is vaccinated against measles.

B A consumer donates products to a local food bank.

C A firm rebuilds a local road when constructing its new factory.

D A government pays a subsidy to firms producing cars.

24 A government hopes to build an athletics stadium to hold the World Games. The stadium would have high private and external costs, but it would increase national pride.

Why would it be difficult to use cost-benefit analysis to decide whether to build the stadium?

A The materials needed to build the stadium will need to be imported.

B The external costs of clearing land for building will outweigh the private costs.

C The stadium will not be used much for athletics after the World Games.

D The valuation of national pride will be complex to assess.

25 A government imposes a maximum price for electricity.

Which statement justifying this measure might be considered valid on economic grounds?

A It will encourage electricity suppliers to invest in additional capacity.

B It will increase the incentive for consumers to conserve energy.

C It will prevent the monopolistic exploitation of consumers.

D It will prevent the rationing of electricity through power cuts.

26 What is likely to help create dynamic efficiency?

A Entry barriers are reduced to increase competition in the market.

B Firms are legally bound to produce where price equals marginal cost.

C Taxes on profits are raised to encourage firms to produce where price equals average cost.

D Taxes on retained profits are reduced to encourage investment in new technology.

27 The world's largest pharmaceutical companies developed and distributed an effective vaccine to combat a dangerous virus.

What can be associated with this vaccine programme?

A demerit good and negative production externality

B imperfect competition and positive consumption externality

C perfect competition and negative consumption externality

D public good and negative production externality

28 The result of a cost-benefit analysis of a proposed government road-building project is that there will be a positive net social benefit of \$50 million.

Why might the government not proceed with the project?

A The project would not be profitable for a private firm.

B The project would cause negative externalities.

C There is limited capital available for government projects.

D There would be more who lost than gained.

29 If the marginal cost of a good is lower than its price, allocative efficiency has not been achieved.

What is likely to remedy this situation?

	production of the good	price of the good
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

30 A government wishes to reduce the use of cars in cities.

Which policy should be used?

A a decrease in parking charges

B lowering tax on petrol (gasoline)

C restricting cycling

D subsidising public transport

31 What can be deduced about an economy where no-one can be made better off without making someone else worse off?

A Firms succeed in maximising profits.

B Production causes no external costs or benefits.

C The distribution of income and wealth is perfectly equal.

D The resources of the economy are allocated efficiently.

32 What is equivalent to social benefits?

- A the amount that the government spends on social security benefits
- B the benefit gained by society from total government spending
- C the benefit to third parties from household consumption of a good
- D the private and external benefits from household consumption of a good

33 A government wishes to reduce the negative externalities caused by the use of coal.

Which policy should the government use?

- A Impose an indirect tax on the production of hydroelectric power.
- B Increase income tax.
- C Remove any restrictions on coal production.
- D Subsidise wind-powered electricity production.

34 What would be an example of 'nudge' theory?

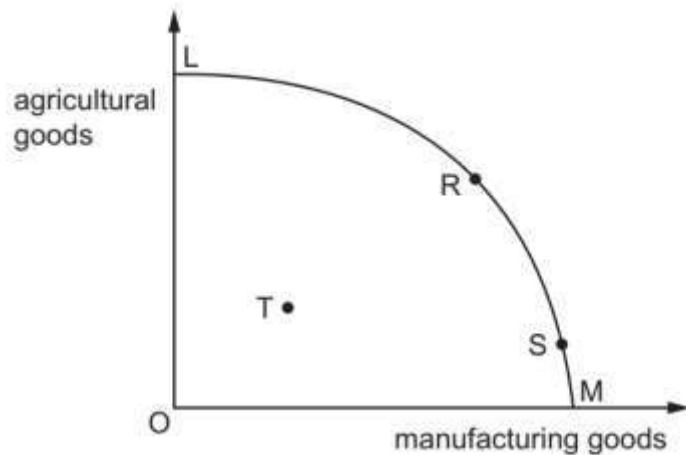
- A a subsidy on fresh fruit to increase demand
- B a unit tax on unhealthy food to reduce demand
- C banning all unhealthy food to reduce demand
- D putting fresh fruit at eye level in shops to increase demand

35 Which statement identifies the condition necessary to achieve Pareto optimality?

- A All consumers maximise their utility subject to their available income.
- B It is not possible to produce greater output with the resources available.
- C It is not possible to reallocate resources to make someone better off without someone else becoming worse off.

D Potential losers from any reallocation of resources cannot be compensated by those who gain.

36 The diagram shows a production possibility curve (LM) for an economy producing agricultural goods and manufacturing goods.



What can be concluded from the diagram?

- A The economy must be allocatively efficient at point R.
- B The economy is Pareto efficient at point T.
- C The economy is productively efficient at point S.
- D The opportunity cost is constant as we move from L to M.

37 The private benefit of an activity is greater than the private cost. The social benefit of the same activity is less than the social cost.

What must be true of the activity?

- A external benefit = external cost
- B external benefit > external cost
- C external benefit < external cost
- D external benefit > private benefit

38 In which circumstance would direct provision of a product by the government be least likely?

A when fixed costs are very high

B when the demand for the product is very high but unit costs are low

C when the industry faces large natural barriers to entry

D when the minimum efficient scale of production is above the level of demand at current prices

39 What is not a source of market failure?

A imperfect information

B income inequality

C monopoly

D non-excludability

40 A government issues free non-tradeable pollution permits to firms. They specify the maximum amount of polluting gases these firms are allowed to emit. In a change in legislation, the permits can be traded with other firms.

Assuming that all other costs and revenues remain the same, what will be the impact on the profits of the firms that are now buyers or sellers of the permits?

	profits of buyers of permits	profits of sellers of permits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

41 What is an example of 'nudge' theory when applied to encouraging healthy eating?

- A advertising the benefits of healthy eating
- B increasing tax on sugary foods
- C introducing a subsidy for fruit growers
- D supermarkets putting fruit near cash registers

42 The generation of electricity causes external costs.

Who bears these external costs?

- A the distributors who sell the electricity
- B the electricity company that produces the electricity
- C the government that subsidises the production of electricity
- D the people living in the area where the electricity is generated

43 What might reduce dynamic efficiency in an economy?

- A government expenditure on enterprise education
- B reinvestment of profits
- C rising shareholder dividends
- D the increase in innovation

44 In many countries, health authorities are concerned about the harmful effects of smoking cigarettes.

Governments have imposed high sales taxes on cigarettes and have conducted anti-smoking campaigns.

Why might the quantity of cigarettes demanded remain high?

- A Better knowledge of health hazards is changing behaviour.
- B Cigarette smoking will be replaced by cheaper alternatives.
- C Consumer behaviour is irrational due to addiction.
- D The income effect of a price rise makes consumers worse off.

45 To reduce road congestion caused by parked cars, a local government introduced a system of tradable parking permits. Households were given a permit allowing them to park one car at the roadside. Households with more than one car could buy extra permits from households with no cars.

What is the most likely reason for this policy to fail?

- A Fines for drivers parking in the area without a permit will internalise the externality.
- B The local government has a monopoly over the issue of parking permits.
- C Those suffering from too many parked cars are compensated by the households owning extra cars.
- D Too many households own cars so the market in permits is very small.

46 What is not an example of the application of 'nudge' theory?

- A A chain of coffee shops offers its customers a larger coffee if they bring their own reusable cup.
- B A government imposes an indirect tax on the purchase of sugary snacks, to try to reduce childhood obesity.
- C A government introduces an opt-out system for organ donation, to try to increase the number of organs donated.
- D A restaurant chain introduces smaller-sized main courses on its menu, to try to reduce the volume of food wastage.

47 Over time the average total cost curve of a firm is lowered.

Which form of efficiency does this represent?

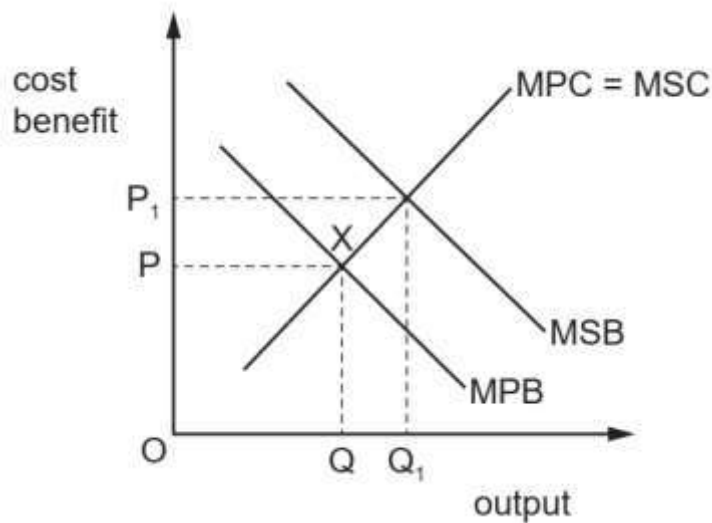
A allocative

B dynamic

C Pareto

D productive

48 The diagram shows the private and social marginal costs and benefits curves for the antibiotics market. The market equilibrium is at point X.



Why does market failure occur?

A There is overconsumption and overpricing.

B There is overproduction and under-pricing.

C There is underconsumption and under-pricing.

D There is underproduction and overpricing.

49 The table shows the results of a cost-benefit analysis of the construction of a new airport.

	US\$ million
private cost	400
private benefit	440
social cost	450
social benefit	480

What is the total value, in US\$ million, of all the externalities created by construction of the new airport?

A 30 B 40 C 50 D 90

50 The diagram shows a sign beside a busy road.



What is this an example of?

A free good

B government regulation

C merit good

D nudge theory

51 Recent research has shown that consumption of some foods might be harmful. A government committee considers how to intervene in the markets.

Which intervention is most likely to reduce consumption of these foods without reducing income equality?

- A a minimum price for the harmful foods
- B a subsidy for substitute foods
- C an ad valorem tax on the harmful foods
- D an indirect tax on the harmful foods

52 What is a negative consumption externality associated with chewing gum?

- A better dental hygiene from chewing gum
- B costs of the ingredients in chewing gum
- C discarded chewing gum on pavements
- D smells from chewing gum factories

53 A firm produced its goods at an average cost of \$14. It then produces the same output at a lower average cost by different methods of production. The price remains above the marginal cost.

In which ways is this firm now more efficient?

	allocative efficiency	dynamic efficiency
A	no	no
B	no	yes
C	yes	no
D	yes	yes

54 In 2008 Beijing held the Olympic Games and built a new stadium and infrastructure. 1.5 million people lost their homes and were relocated far away from their communities. Factories were closed during the games to reduce air pollution. Today, the stadium is a major tourist attraction and the athletes' accommodation is used as apartments.

For which group is the likely excess of marginal social benefit over marginal social cost the greatest?

- A construction workers who built the site
- B factory workers who returned to their jobs after the games
- C residents who were rehoused far away from Beijing
- D those who live in the former athletes' accommodation

55 When there are positive externalities in consumption, what can be concluded about the output of the market?

- A Output must be above the allocative efficient level.
- B Output must be at the allocative efficient level.
- C Output must be below the allocative efficient level.
- D Output can be above or below the allocative efficient level.

56 A Belgian traffic study concluded that there would be significant benefits if 10% of car drivers switched to using motorcycles during peak traffic times.

Which result would be considered a cost of this change?

- A reduced travel times
- B reduced car emissions
- C reduced safety standards
- D reduced traffic queues

57 Which government policy would not be classified as regulation?

- A a ban on cocaine consumption
- B compulsory wearing of seatbelts in cars
- C licences for the extraction of water from rivers
- D taxation of cigarettes

58 A government removes a subsidy on a rural school bus service.

What is the effect of this on the market for this bus service?

- A Deadweight loss decreases.
- B Private marginal costs increase.
- C Private marginal benefit decreases.
- D Social marginal costs decrease.

59 How is dynamic efficiency represented on a diagram?

- A a downward move to the minimum point of a long-run average cost curve
- B a downward shift in the long-run average cost curve
- C a move from a point inside a production possibility curve to a point on it
- D a reduction in marginal revenue so that it equals long-run marginal cost

60 A city council is considering building a passenger terminal at its port so that the city can benefit from large cruise ships that could then dock there. It undertakes a cost–benefit analysis.

What would be included as an external cost in the city council's cost–benefit analysis?

- A the cost of a ticket for a passenger to travel on a cruise ship

- B the cost of fuel to operate the cruise ships
- C the costs paid by cruise ships when they dock at the port
- D the cost to a fishing fleet of relocating to another port

61 Some multinational oil companies extracting oil in developing countries are now required to repair the damage they do to the environment.

What best describes the total costs incurred by the oil companies in such circumstances?

- A external costs
- B private costs plus external costs
- C social costs plus external costs
- D social costs plus private costs

62 Which statement is not an example of government failure?

- A government intervention leading to a less efficient allocation of resources
- B government intervention leading to a net loss of economic welfare
- C government intervention leading to an increase in consumer surplus
- D government intervention leading to social costs exceeding social benefits

63 Under which circumstances will a subsidy from the government be most beneficial if there are externalities from producing good X?

	externality caused by good X	price elasticity of demand of good X
A	negative	<1
B	negative	>1
C	positive	<1
D	positive	>1

64 Which policy to counter climate change is considered to be regulatory rather than market based?

- A the introduction of carbon taxes on pollution
- B the operation of tradable pollution permits
- C the provision of government subsidies
- D the setting of industrial emission standards

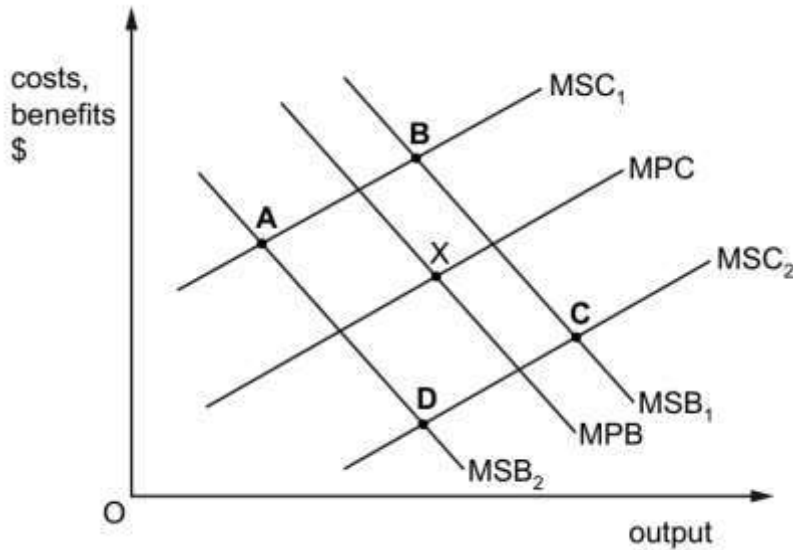
65 In an economy, no-one can be made better off without making someone else worse off.

What can be deduced from this?

- A Individuals are the best judges of their own well-being.
- B Individuals can be relied upon to behave rationally.
- C The distribution of income is socially optimal.
- D The economy's resources are allocated efficiently.

66 The diagram shows the costs and benefits of producing a good. The good has negative externalities in production and positive externalities in consumption. The free market equilibrium is at point X.

What is the new equilibrium point when the externalities are taken into consideration?



67 The Airports Commission in the UK recommended an expansion of airport X rather than airport Y.

In considering the social costs and benefits of this decision, what would be taken into account when calculating the external cost?

- A the additional noise pollution suffered by residents local to airport X
- B the financial loss suffered by airlines operating at airport Y
- C the increase in profits of the firm operating airport X
- D the monetary cost of the construction to expand airport X

68 Too many flights in the airline industry cause unnecessary damage to the environment.

Which measure is most likely to result in the socially optimal number of flights?

- A a complete ban on flights removing all private and external costs
- B greater deregulation of the global airline industry
- C publishing information to highlight the negative effects of flying on the environment

D the payment of a subsidy per passenger equal to the difference between the private and social benefit

69 A government wishes to increase economic efficiency in the country. It raises the rate of income tax which leads to the emigration of high-earning skilled workers that the country needs.

How would this outcome be described?

	government failure	market failure	negative externality
A	no	no	yes
B	no	yes	no
C	yes	yes	no
D	yes	no	no

70 What is a necessary condition required to achieve Pareto efficiency?

A when it is not possible for some people to become better off without others becoming worse off

B when it is possible to produce greater output with the same quantity of inputs

C when resources have spare capacity

D when resources can be re-allocated and total consumer satisfaction can be increased

71 What is an example of a negative externality?

A the non-provision of public goods by the market

B indirect taxation that fails to internalise the external cost

C monopoly power leading to reduced output and a higher price

D the production of a good that has a harmful effect on a third party

72 A government deregulates several industries with the aim to increase allocative and productive efficiency.

Which change makes it less likely that the government will meet its aim?

A an increase in the availability of cheap loans to start new businesses

B an increase in merger and takeover activity in the industries

C an increase in information about prices for consumers available on the internet

D a reduction in fixed costs in the deregulated industries

73 To tackle pollution, some governments set standards, such as production limits, while others use tradeable pollution permits.

What is a correct comparison of the two approaches?

A Standards give more incentive for continued pollution reduction.

B Standards make greater use of the market mechanism.

C Tradeable pollution permits are simpler to devise and administer.

D Tradeable pollution permits provide a more equitable treatment of firms.

MARK SCHEME

1 A

2 C

3 B

4 A

5 A

6 A

7 A

8 B

9 B

10 C

11 D

12 D

13 A

14 B

15 D

16 B

17 A

18 D

19 B

20 A

21 C

22 B

23 C

24 D

25 C

26 D

27 B

28 C

29 C

30 D

31 D

32 D

33 D

34 D

35 C

36 C

37 C

38 B

39 B

40 B

41 D

42 D

43 C

44 C

45 D

46 B

47 B

48 C

49 D

50 D

51 B

52 C

53 B

54 D

55 C

56 C

57 D

58 B

59 B

60 D

61 B

62 C

63 D

64 D

65 D

66 B

67 A

68 C

69 D

70 A

71 D

72 B

73 D

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