10 The price elasticity of demand for a product is –0.6.

The supplier wants to clear all surplus stock of a product and reduces the price of a good by 50%.

What is the effect of this price change on the quantity purchased and the expenditure on the good?

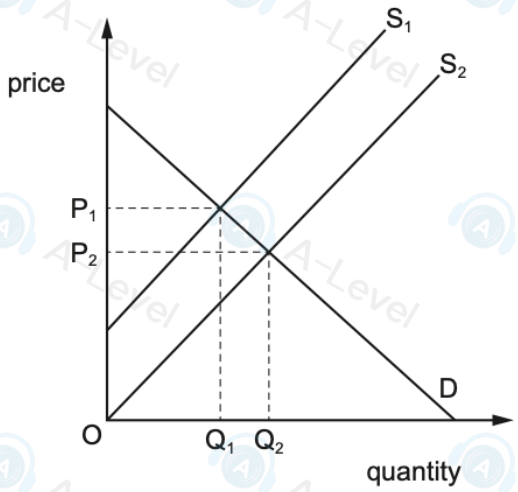
	quantity demanded	expenditure
A	rises by 30%	falls
B	rises by 30%	rises
C	rises by 60%	falls
D	rises by 60%	rises

7 A family is willing to pay a maximum of $600, $500 and $400 for air tickets for the mother, father and daughter to attend a wedding in another city. The airline announces a promotional air fare of $450 per ticket, provided at least three tickets are purchased.

What will be the consumer surplus gained by the family if they use the promotional offer?

A $100 **B** $150 **C** $200 **D** $250

9 The diagram shows the demand for and supply of a product.



What could cause supply to shift from S_1 to S_2?

A a fall in the price of the product

B a fall in labour costs

C a rise in the price of the product

D a rise in labour costs

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9 What is the likely nature of the price elasticity of supply of a crop such as rice?

A highly elastic in both the short and the long run as rice is an essential product

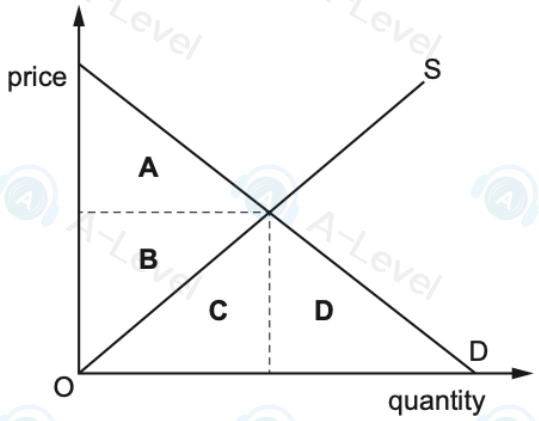
B highly elastic in the short run and more inelastic in the long run as production methods improve

C highly inelastic in both the short and the long run as the land area of a country is fixed

D highly inelastic in the short run and more elastic in the long run as it takes time to plant rice

10 The diagram shows the demand for and supply of a product.

Which area shows producer surplus?



3 The table shows different combinations of rings and bracelets that can be produced by Luke and Zoe in the same time period.

Luke		Zoe	
rings	bracelets	rings	bracelets
18	0	20	0
12	6	16	8
6	12	12	16
0	18	8	24

Which statement is **not** correct?

A Luke has a larger opportunity cost than Zoe for making bracelets.

B The opportunity cost of producing rings is constant for both Luke and Zoe.

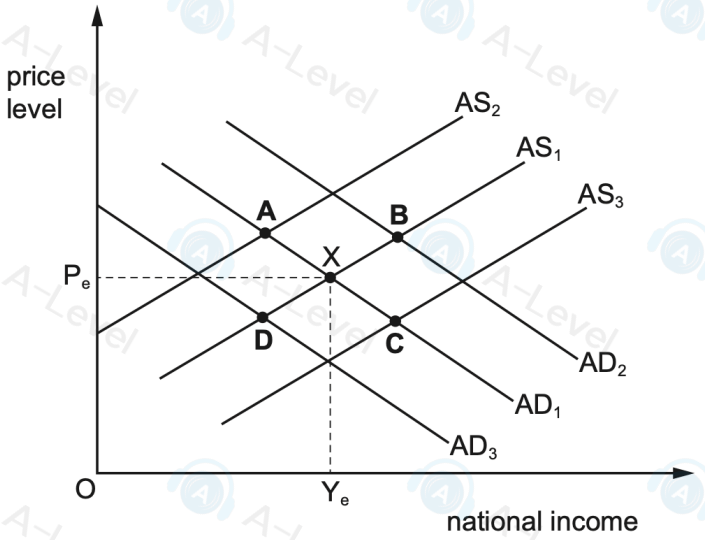
C Zoe should specialise in making rings.

D Zoe's opportunity cost for each bracelet is 2 rings.

21 The original equilibrium in the economy is represented by point X, the intersection of AD_1 and AS_1, on the AD / AS diagram shown.

The government decreases the money supply.

What is the new equilibrium point?



6 The supply curve for a firm is a horizontal straight line.

What can be concluded from this statement?

A Quantity supplied is infinite at the given price.

B Quantity supplied is infinite below the given price.

C Quantity supplied remains constant at all prices.

D Quantity supplied is perfectly inelastic.

9 The supply, S, of a product is determined by the equation

$$S = 10 + 10P$$

where P is the price of the product in $.

What is the product's price elasticity of supply when its price rises from $1 to $2?

A 0.5 **B** 1.0 **C** 2.0 **D** 5.0

8 The cross elasticity of demand between bus travel and rail travel is +2. A rise in the price of bus fares caused the demand for rail travel to rise by 10%.

Which change in bus fares would have caused this?

	from (cents)	to (cents)
A	20	21
B	30	33
C	40	45
D	50	60

4 What is most likely to be an advantage of the division of labour?

A an increase in labour force creativity

B an increase in labour productivity

C an increase in workforce flexibility

D an increase in worker satisfaction

5 Price plays a number of functions in the allocation of resources.

Which statement best illustrates the function that relies upon consumer choice (sometimes known as the incentivising function)?

A A price fall can show consumers that a good is becoming less popular.

B A price fall tends to persuade some producers not to stay in the market for the good.

C A price rise means consumers cannot afford to buy so much of a good.

D A price rise tends to reduce competitiveness in the market for a good.

2 Governments in many countries are promoting policies that reduce the impact of the negative externalities.

Evaluate, using appropriate diagram(s), the extent to which **two** policies used to reduce negative externalities can also improve allocative efficiency. [20]

9 What is true for income elasticity of demand but **not** for price elasticity of demand?

A It helps firms differentiate between goods with elastic and inelastic demand.

B It helps firms differentiate between normal and inferior goods.

C It helps firms predict the changes in the quantity demanded.

D It helps firms predict the changes in sales revenues.

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6 Along which axis can the market demand curve be aggregated from individual demand curves?

A both the horizontal and the vertical axis

B the horizontal axis only

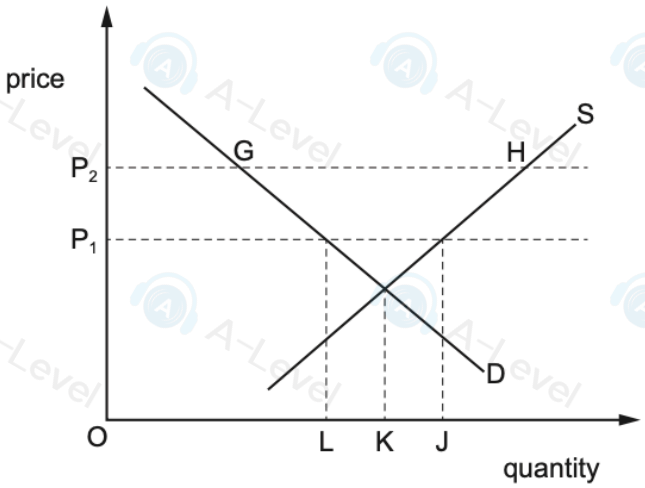
C the horizontal or the vertical axis but not both

D the vertical axis only

3 Subnormal and supernormal profits are only experienced in the short run and only by firms in perfect competition.

With the help of diagrams, evaluate this statement. [20]

13 To help achieve price stability, the government in country F operates a buffer stock scheme, with a minimum price of P_1 and a maximum price of P_2. The current demand and supply in the market is shown.



What should the government do to ensure the scheme is effective?

A buy an amount equal to GH

B buy an amount equal to KJ

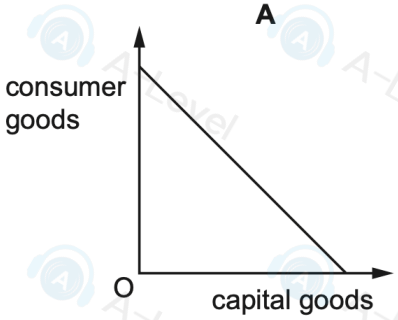
C buy an amount equal to LJ

D do nothing as the equilibrium price is below P_1

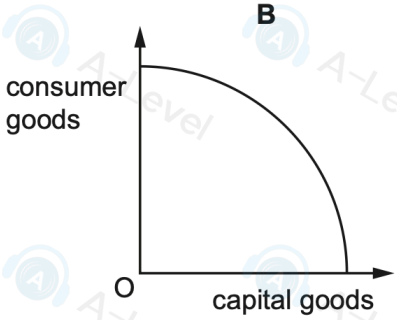
4 The diagrams show production possibility curves.

Which diagram shows constant opportunity costs?

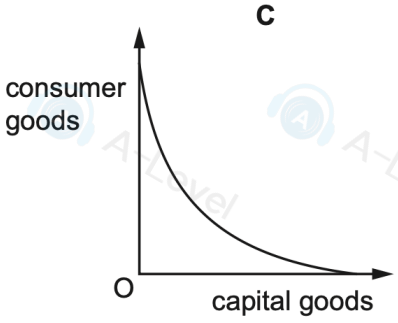
A



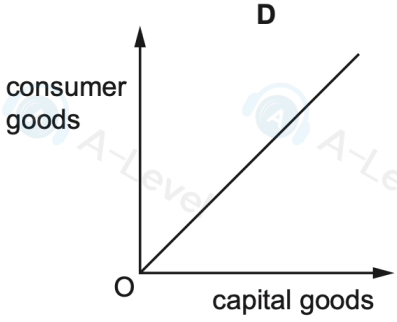
B



C



D



8 Which statement is correct?

A Demand for an inferior good has a positive relationship to income and a negative relationship to price.

B Demand for an inferior good has a negative relationship to income and a negative relationship to price.

C Demand for a normal good has a positive relationship to income and a positive relationship to price.

D Demand for a normal good has a negative relationship to income and a positive relationship to price.

6 What is consumer surplus?

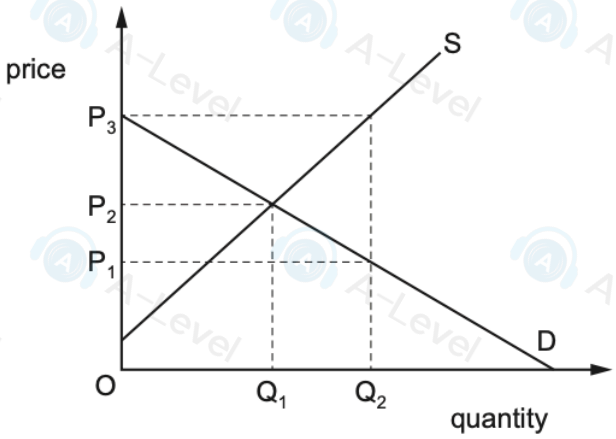
A the amount of a consumer's income less the amount paid in income tax

B the amount of a consumer's income less the amount paid for goods and services

C the amount of a consumer's income received in bonuses and overtime pay

D the amount a consumer is willing to pay for a product less the amount actually paid

14 The diagram shows the demand for and supply of eye tests provided by opticians.



Which policy would enable the government to increase the number of eye tests from OQ_1 to OQ_2?

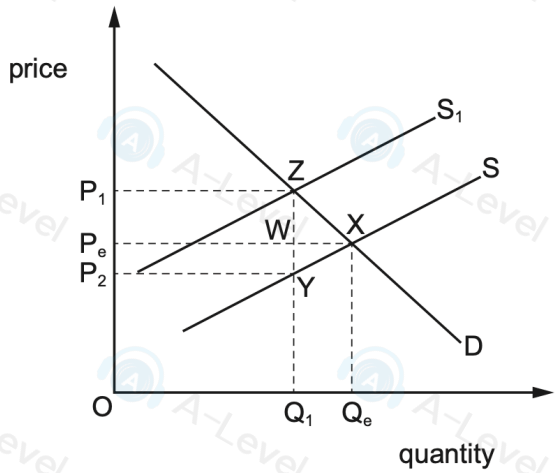
A a maximum price of OP_3 per test

B a minimum price of OP_2 per test

C a subsidy paid to opticians of P_3-P_2 per test

D a subsidy paid to opticians of P_3-P_1 per test

13 The diagram shows the effect of an indirect tax imposed on cigarettes. The market is initially in equilibrium at point X.



Which area represents the incidence of the tax on consumers?

A P_1ZYP_2 **B** P_1ZWP_e **C** P_eWYP_2 **D** P_eXZP_1

24 General equilibrium in the macroeconomy is achieved when total injections are equal to total leakages.

What is most likely to cause disequilibrium in the macroeconomy in the short run?

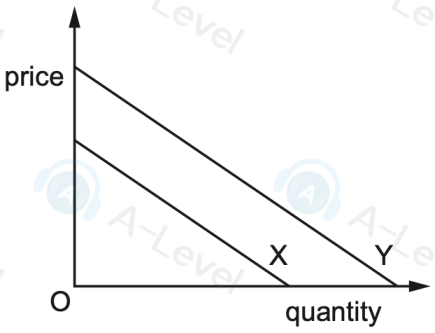
A an increase in government spending of $10bn and a decrease in exports of $10bn

B an increase in investment of $30bn and a decrease in household savings of $30bn

C an increase in spending on imports of $40bn and an increase in government spending of $40bn

D an increase in taxation of $40bn and a decrease in spending on imports of $40bn

8 The diagram shows two straight line demand curves, X and Y.



What is correct about curves X and Y?

A Both X and Y are unit price elastic over their whole length.

B Both X and Y have the same elasticity at every price.

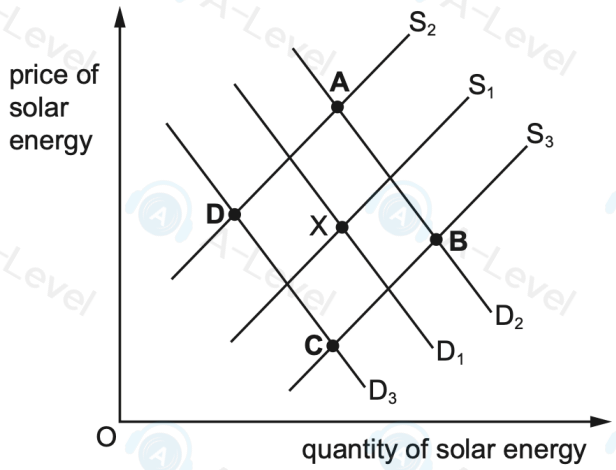
C X has a higher price elasticity than Y at every price.

D Y is more likely to have substitutes than X.

11 The diagram shows the demand and supply curves for solar energy in India. The initial equilibrium point is at X.

The Indian government increases the subsidy to solar energy producers. At the same time, there is a rise in the price of alternative sources of energy.

What is the new equilibrium position?



6 What will influence the value of the price elasticity of supply of a good?

A the level of producer surplus

B the time period under consideration

C the total income spent on the good

D whether the good is a necessity

13 To improve the health of people, a government puts a tax on the sale of drinks that contain sugar.

What are the likely effects of this tax on **both** the prices of the drinks that contain sugar and the price of sugar?

	prices of drinks	price of sugar
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

13 A specific tax is imposed on a product for which the elasticity of supply is zero.

Which statement is correct?

A The burden of this tax will fall entirely on consumers.

B The burden of this tax will fall entirely on suppliers.

C The burden of this tax will fall mainly on consumers.

D The burden of this tax will fall mainly on suppliers.