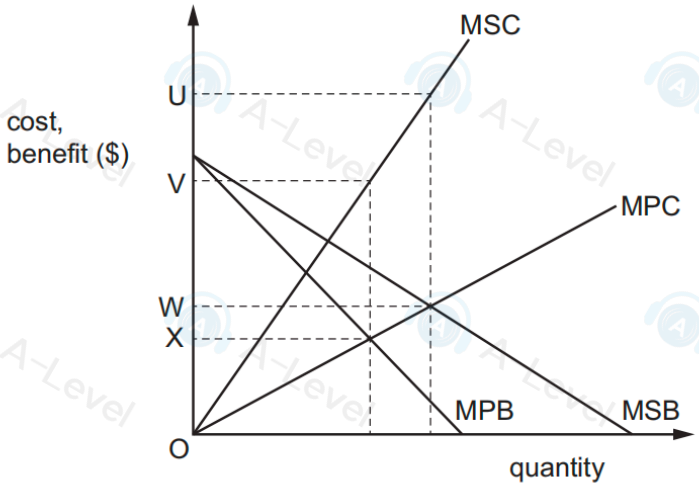
16 Under which circumstances will a subsidy from the government be most beneficial if there are externalities from producing good X?

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

3 The diagram shows the marginal costs and marginal benefits of producing a good in a free market.

What is the marginal external cost when the free market is in equilibrium?



A UW **B** UO **C** VX **D** VO

9 A privately owned sole supplier of gas operates in an unregulated market with high barriers to entry and exit.

Which row is most likely to indicate the economic efficiency resulting from the firm's position in this market?

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

9 What is an example of an external cost?

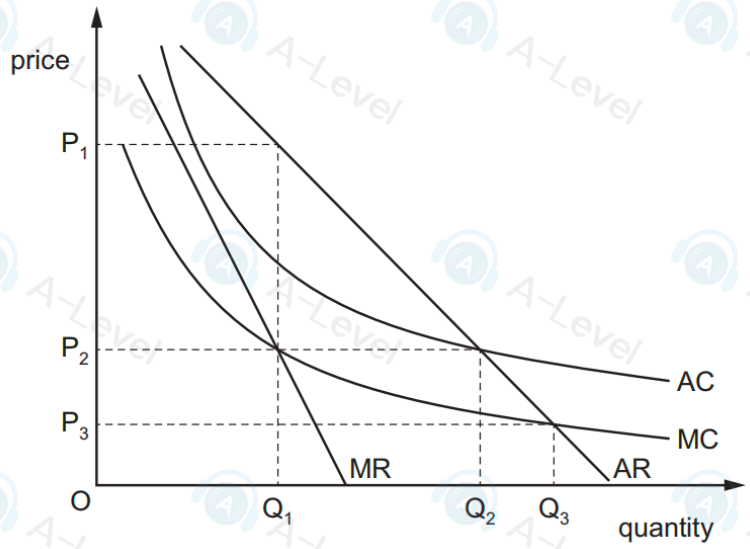
A distribution costs

B energy costs

C labour costs

D road congestion costs

2 The diagram shows the cost and revenue curves for a natural monopoly.



Which statement is correct?

A P_2 and Q_2 will achieve both allocative efficiency and productive efficiency.

B P_2 and Q_1 will achieve productive efficiency but not allocative efficiency.

C P_3 and Q_3 will achieve allocative efficiency but not productive efficiency.

D P_3 and Q_3 will achieve both allocative efficiency and productive efficiency.

10 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

1 Why would an economy wish to achieve economic efficiency?

A to achieve an equal distribution of income

B to achieve full employment

C to ensure resources are not wasted

D to ensure international competitiveness

8 Assuming there are no externalities, where would a nationalised firm set output to maximise social welfare?

A where average revenue equals average cost

B where average revenue equals marginal cost

C where marginal revenue equals marginal cost

D where marginal revenue is zero

2 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

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

Which benefit of this change would be considered a private benefit?

A faster journeys for those who continued to go by car

B faster journeys for those who switched to motorcycles

C increased safety for cyclists

D reduced levels of air pollution for pedestrians

8 What might help achieve allocative efficiency?

A differentiated products

B government subsidies

C monopsony

D supernormal profits

6 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 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

3 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.

7 In which market structure is dynamic efficiency **least** likely to occur?

A oligopoly

B monopolistic competition

C monopoly

D perfectly competitive

4 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.

8 How is dynamic efficiency represented on a diagram?

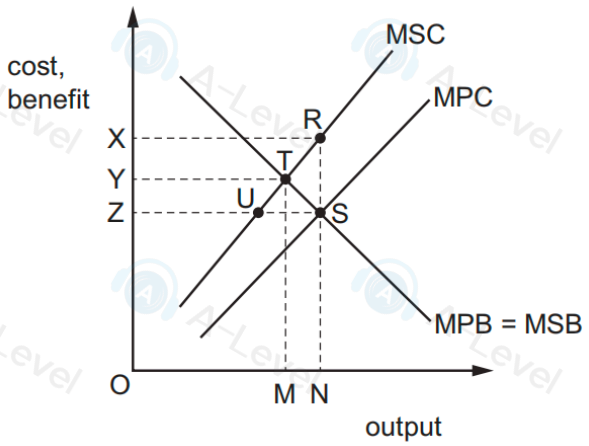
A a downward move to the minimum point of a long-run average cost curve

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

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

2 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?

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12 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?

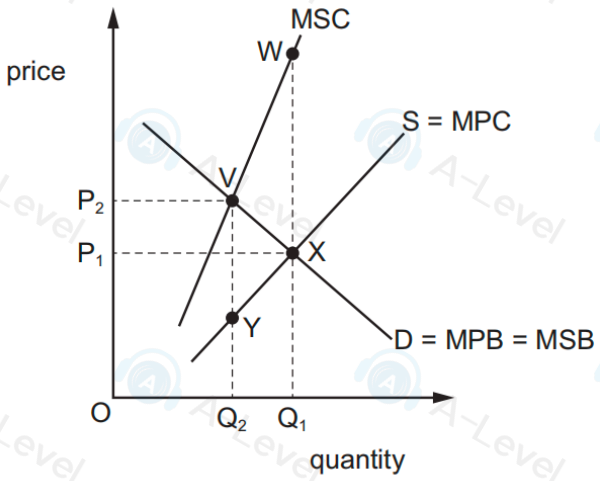
A The materials needed to build the stadium will need to be imported.

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.

6 The diagram shows market failure caused by negative production externalities.



Identify the correct combination of the result of the market failure and the area on the diagram that shows deadweight welfare loss.

	result of market failure	area showing deadweight welfare loss
A	overproduction	VWX
B	overproduction	XYV
C	underproduction	VWX
D	underproduction	XYV

3 Negative externalities, such as air pollution due to car emissions, can cause damage to people's health in cities.

Which response is most likely to occur from this situation?

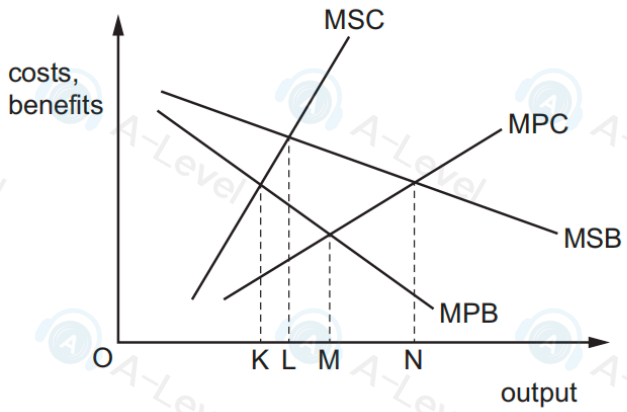
A car manufacturers will automatically bear any external costs

B market failure will be resolved when private costs equal external costs

C most people will decide to use buses rather than cars

D some form of government intervention to improve economic efficiency

6 The diagram shows the private and social costs and benefits of production in a free market that result in market failure.



Which change in output would be necessary to overcome this market failure?

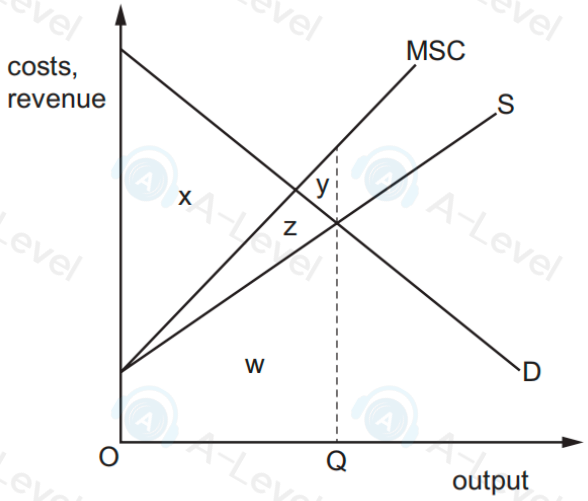
A from K to M

B from M to N

C from M to L

D from N to L

10 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

5 What is most likely to lead to a Pareto-optimal outcome?

A offering bulk-buy discounts to customers who join a loyalty scheme

B switching labour from producing low-priced products to producing high-priced products

C switching production from labour-intensive products to capital-intensive products

D training low-skilled workers to operate machinery effectively

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6 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 A firm increases its production.

When will this result in allocative efficiency?

A when the cost of producing the last extra unit equals the value the consumers place on it

B when the cost of producing the last extra unit is at a minimum

C when the total cost of production equals the value that consumers place on the total product

D when the total revenue reaches a maximum

6 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.

3 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