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?

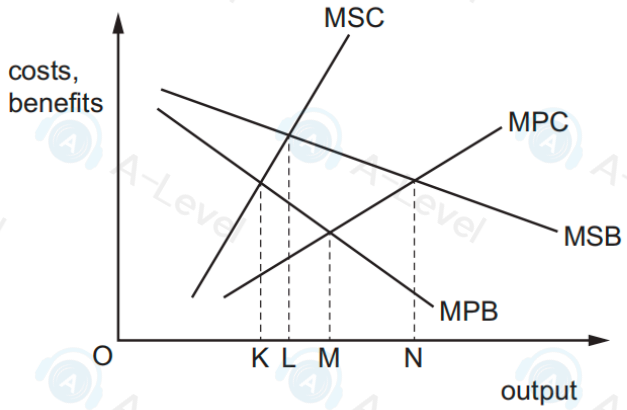
A Additional benefit might be gained as the disease no longer spreads.

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.

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

7 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

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.

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

8 Which action would produce a positive externality of production?

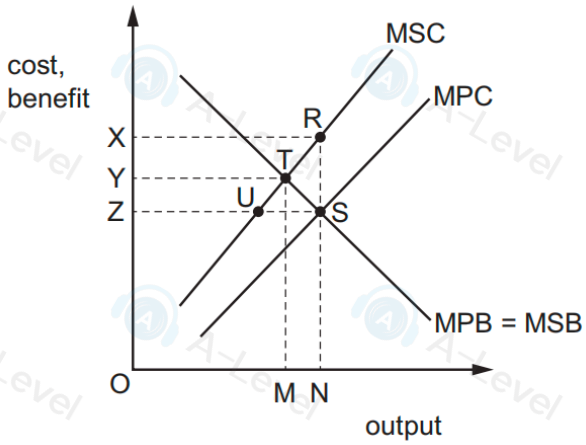
A A child is vaccinated against measles.

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.

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

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

2 What is the most likely combination of circumstances leading to a good being under-consumed?

	the good is a demerit good	there are external benefits in consumption
A	no	no
B	no	yes
C	yes	yes
D	yes	no

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?

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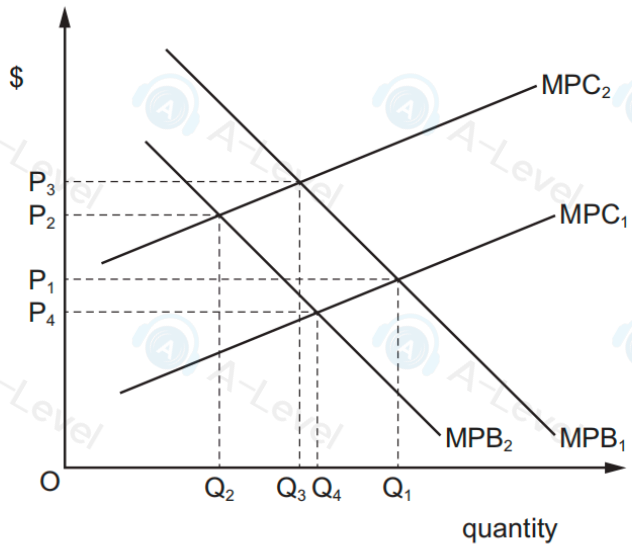
4 The diagram shows the marginal private costs (MPC) and marginal private benefits (MPB) of a product. Consumers initially estimate that marginal private costs are at MPC_1 and marginal private benefits are at MPB_1.



What is the impact on the market demand for the product if the consumer realises they have underestimated the MPC of buying the product but **not** the MPB?

A The consumer underconsumes the product by Q_1Q_2.

B The consumer underconsumes the product by Q_1Q_3.

C The consumer overconsumes the product by Q_1Q_3.

D The consumer overconsumes the product by Q_1Q_4.

9 What is an example of an external cost?

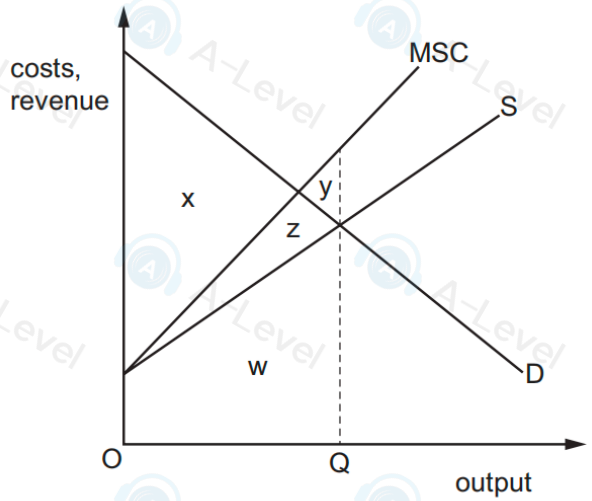
A distribution costs

B energy costs

C labour costs

D road congestion costs

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

9 What is an example of an external cost?

A distribution costs

B energy costs

C labour costs

D road congestion costs

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.

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

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 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

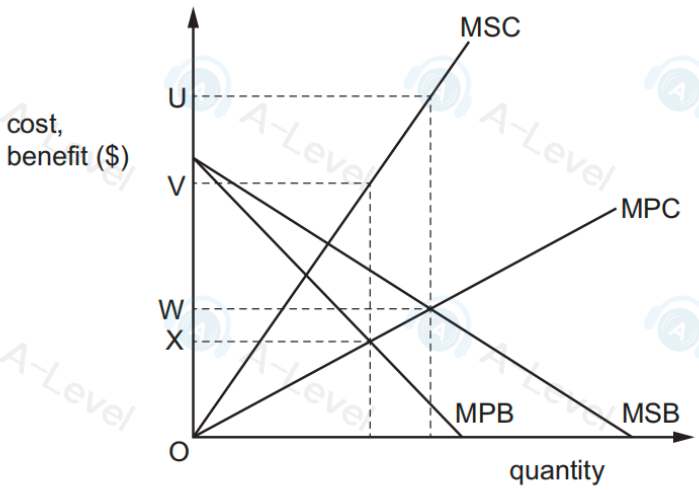
B reduced car emissions

C reduced safety standards

D reduced traffic queues

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

10 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

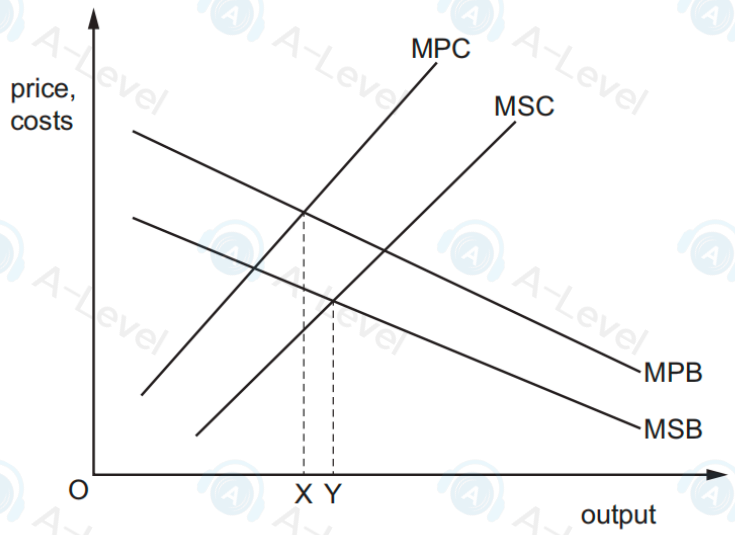
C social costs plus external costs

D social costs plus private costs

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

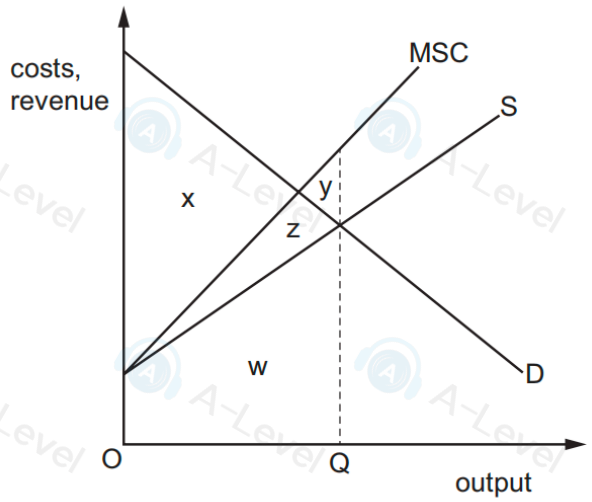
4 The diagram shows positive and negative externalities of production and consumption.



Which row shows the correct combination of production and consumption externality when economic welfare is maximised?

	position of economic welfare	production externality	consumption externality
A	X	negative	negative
B	Y	positive	negative
C	X	negative	positive
D	Y	positive	positive

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

9 In recent years, the fuel cost of operating a jet aircraft has declined. Over the same period, improved design has led to much quieter aircraft.

How would this affect the marginal private cost (MPC) and the marginal external cost (MEC) of air travel?

A a downward shift of both the MPC and the MEC curves

B a downward shift of the MPC curve and a movement left along the MEC curve

C a movement left along both the MPC and the MEC curves

D a movement left along the MPC curve and a downward shift of the MEC curve

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

A private benefit is zero.

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C social cost is positive.

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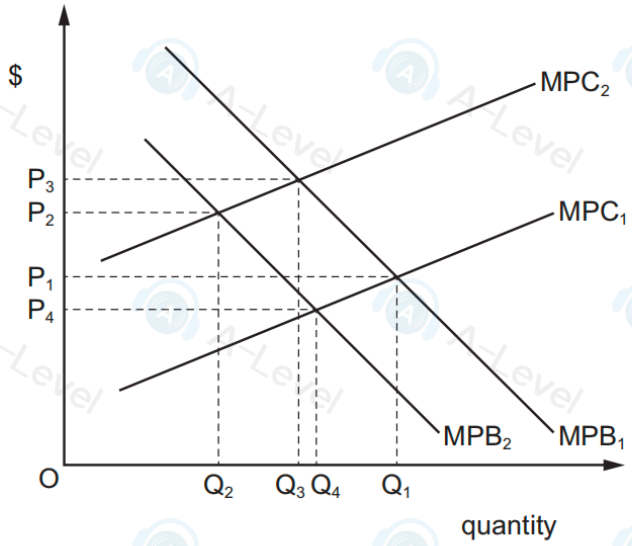

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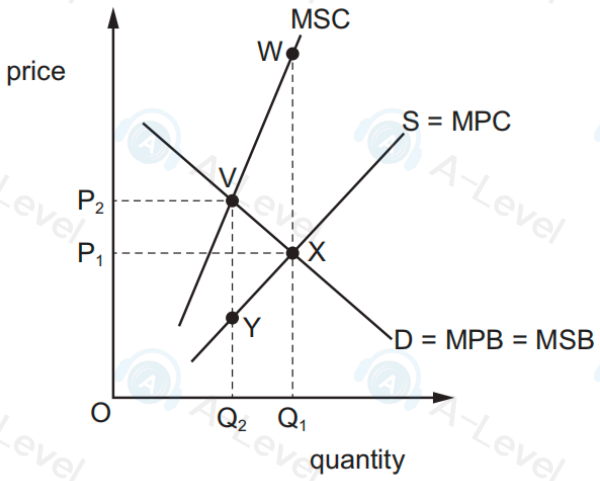
B The consumer underconsumes the product by Q_1Q_3.

C The consumer overconsumes the product by Q_1Q_3.

D The consumer overconsumes the product by Q_1Q_4.

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 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