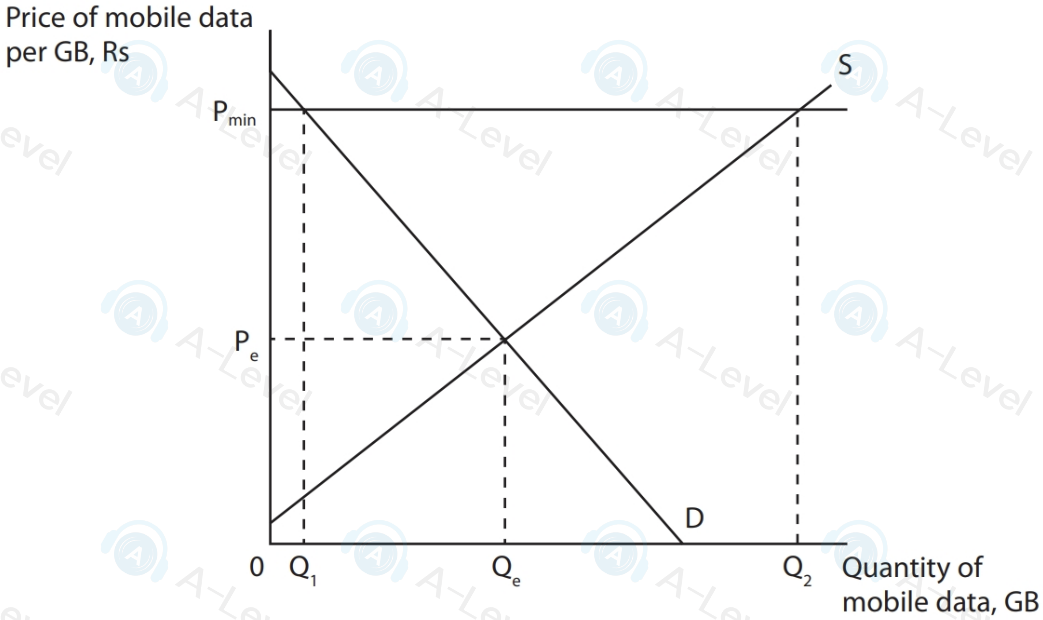
5 In India, Vodafone has requested that the government imposes a minimum price for mobile data of Rs35 per gigabyte (GB). The current market price is Rs5. The diagram shows the possible impact of a minimum price introduced at Pmin.



Which **one** of the following can be deduced from the diagram following the imposition of the minimum price?

- ☒ **A** Excess supply is Q_1Q_2
- ☒ **B** Excess demand is Q_1Q_2
- ☒ **C** Supply contracts from Q_e to Q_2
- ☒ **D** Demand extends from Q_e to Q_1

(Total for Question 5 = 1 mark)

1 Which **one** of the following is an example of government failure?

- ☒ **A** Overconsumption of sugar that creates external costs
- ☒ **B** Smuggling of petrol resulting from the introduction of an indirect tax
- ☒ **C** An increase in the price of timber that creates an incentive to increase its production
- ☒ **D** Government provision of flood defences to resolve the free rider problem

(Total for Question 1 = 1 mark)

1 Which **one** of the following is an example of a market failure?

- ☒ **A** Unintended consequences
- ☒ **B** A market bubble in the housing market
- ☒ **C** Excessive administration costs resulting from regulation
- ☒ **D** A firm exiting the market because it was making a loss

(Total for Question 1 = 1 mark)

3 Which **one** of the following is an example of market failure?

☒ **A** Lower prices create an incentive for firms to switch production to more profitable activities

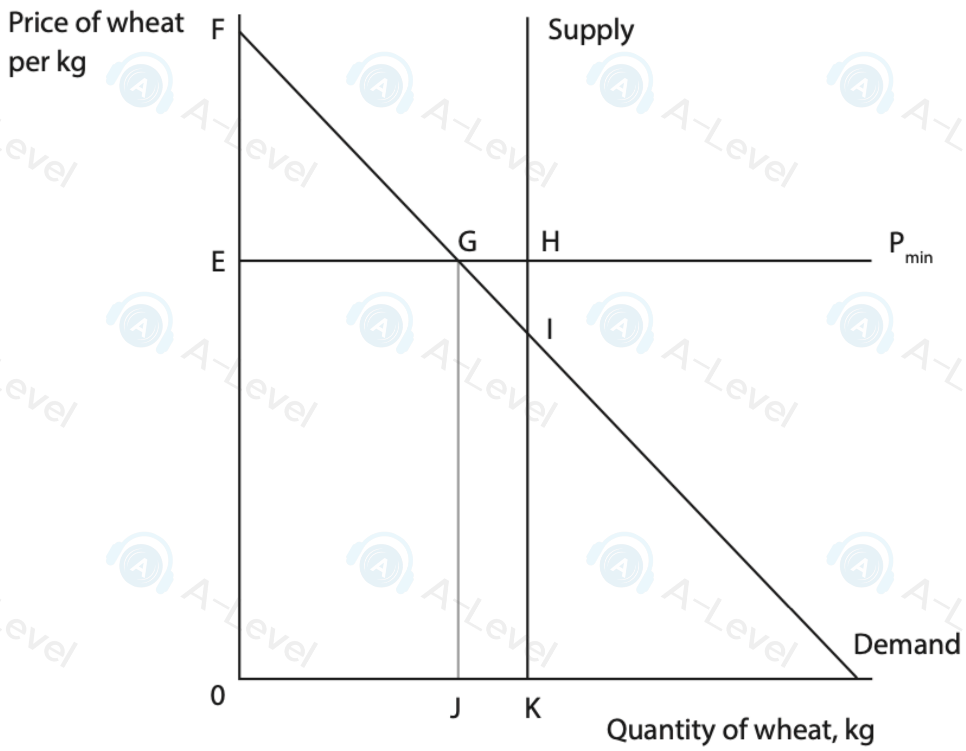
☒ **B** Excessive administrative costs are involved in meeting environmental regulations

☒ **C** Government provision of street lights that is greater than the social optimum output

☒ **D** Insured consumers take more risks in the knowledge that the insurer will pay any resulting costs

(Total for Question 3 = 1 mark)

4 The diagram represents the market for wheat in India. The Government of India operates a minimum price scheme for wheat. It agrees to buy any surpluses from farmers at the minimum price of 0E.



Which **one** of the following can be deduced from this information?

☒ **A** The Government will spend GHKJ

☒ **B** The Government will spend EFG

☒ **C** The Government will spend GHI

☒ **D** The Government will spend EHK0

(Total for Question 4 = 1 mark)

2 Which **one** of the following is an example of government failure?

- ☒ **A** The non-provision of public goods by private sector firms
- ☒ **B** External costs of production in the manufacture of Tesla cars
- ☒ **C** Asymmetric information between a private dental practice and its patients
- ☒ **D** Excessive administrative costs in the provision of state-owned services

(Total for Question 2 = 1 mark)

9 In the USA 92% of people had private health insurance in 2021. It is estimated that, in the USA, $200 billion per year is spent on unnecessary operations.

Explain **one** microeconomic reason why people might have unnecessary operations in the USA.

11 In 2022 the minimum price of milk was set above the equilibrium price in Canada. On 1 February 2023 the Canadian Government increased the minimum price of milk by 2.2%.

Ceteris paribus, explain the likely impact on excess supply of this increase in the minimum price.

Illustrate your answer with a supply and demand diagram.

7 In the UK the average student debt was £46 000 for graduates completing their courses in 2017. The UK Government considered reducing the maximum price of university tuition fees from £9 250 to £6 000 per year.

Draw a diagram to illustrate the impact of a decrease in the maximum price of university tuition fees in the UK.

7 Romania plans to impose a maximum price in the market for gas below the current equilibrium price.

Draw a diagram to illustrate the impact of the introduction of the maximum price on the market for gas in Romania.

8 Between 1970 and 2020 the Maldives experienced 30 major flood events. One contributing factor was under-investment in flood defences.

Builders of new hotels are required to complete extensive paperwork to show how they plan to minimise flood risk. This results in excessive administrative costs.

With reference to the Maldives, explain the difference between 'market failure' and 'government failure'.