2 In 2015 the Government of Thailand set a maximum price below the market equilibrium price for flights within the country. In 2023 the Government of Thailand increased the maximum price by 3.75%.

Ceteris paribus, which **one** of the following is the most likely result of increasing the maximum price of flights within Thailand?

- ☒ **A** An increase in excess supply
- ☒ **B** A decrease in excess supply
- ☒ **C** An increase in excess demand
- ☒ **D** A decrease in excess demand

(Total for Question 2 = 1 mark)

3 Which **one** of the following is a cause of government failure?

- ☒ **A** Excessive administrative costs involved in meeting environmental regulations.
- ☒ **B** A market bubble causing the price to rise excessively.
- ☒ **C** The existence of free riders leading to the under-production of public goods.
- ☒ **D** Under-production of foods with external benefits.

(Total for Question 3 = 1 mark)

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

- ☒ **A** Government intervention leads to a net welfare gain
- ☒ **B** A new environmental regulation leads to excessive administrative costs
- ☒ **C** Speculators cause a market bubble to emerge in the housing market
- ☒ **D** Free riders lead to the underprovision of public goods

(Total for Question 1 = 1 mark)

5 A relatively high rate of indirect taxation on fuel in the Philippines leads to the smuggling of fuel from neighbouring countries. This results in the Philippine Government losing $750 million of tax revenue a year.

Smuggling is an example of which **one** of the following concepts?

- ☒ **A** Government failure
- ☒ **B** Market failure
- ☒ **C** Unobtainable production
- ☒ **D** Consumer inertia

(Total for Question 5 = 1 mark)

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

☒ **A** The free-rider problem that results in the underprovision of public goods

☒ **B** Higher prices create an incentive for firms to increase the production of a good

☒ **C** New government regulations that result in excessive administration costs

☒ **D** Government provision of healthcare to move towards the social optimum output

(Total for Question 3 = 1 mark)

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

☒ **A** Market forces eliminating excess supply of a product by enabling its price to fall

☒ **B** A market bubble emerging in the value of shares on the stock exchange

☒ **C** The introduction of a tax that causes a decrease in external costs

☒ **D** The introduction of a tax that causes an increase in smuggling

(Total for Question 1 = 1 mark)

7 In 2022 the average price of renting a house increased by 14.6% to $480 per week in Brisbane, Australia. There is pressure on the Australian Government to decrease rents by introducing a maximum price.

With reference to the house rental market in Brisbane, draw a diagram to illustrate the introduction of a maximum price for renting a house.

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.

9 In Oregon, USA, research was conducted in which 10 000 citizens were given health insurance and 45 000 citizens were not. On average, the 10 000 citizens with health insurance had far more hospital admissions and emergency department visits.

Explain why the result of this research is an example of moral hazard.

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.

9 In 2017 the Government of the Philippines imposed a 50% tax on the import of cars with a price above $74 000. Since then the Government has seized smuggled cars. For example, in July 2018, it removed 800 smuggled cars from the market.

Explain why this tax on imported cars is an example of government failure.

12 (a) Define the term 'base rate of interest' (Figure 1).

(2)

(b) With reference to Figure 2, explain the term 'recession'.

(4)

(c) With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments.

(6)

(d) With reference to the information provided, examine the likely impact of inflation on the economy of Argentina.

(8)

(e) Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption.

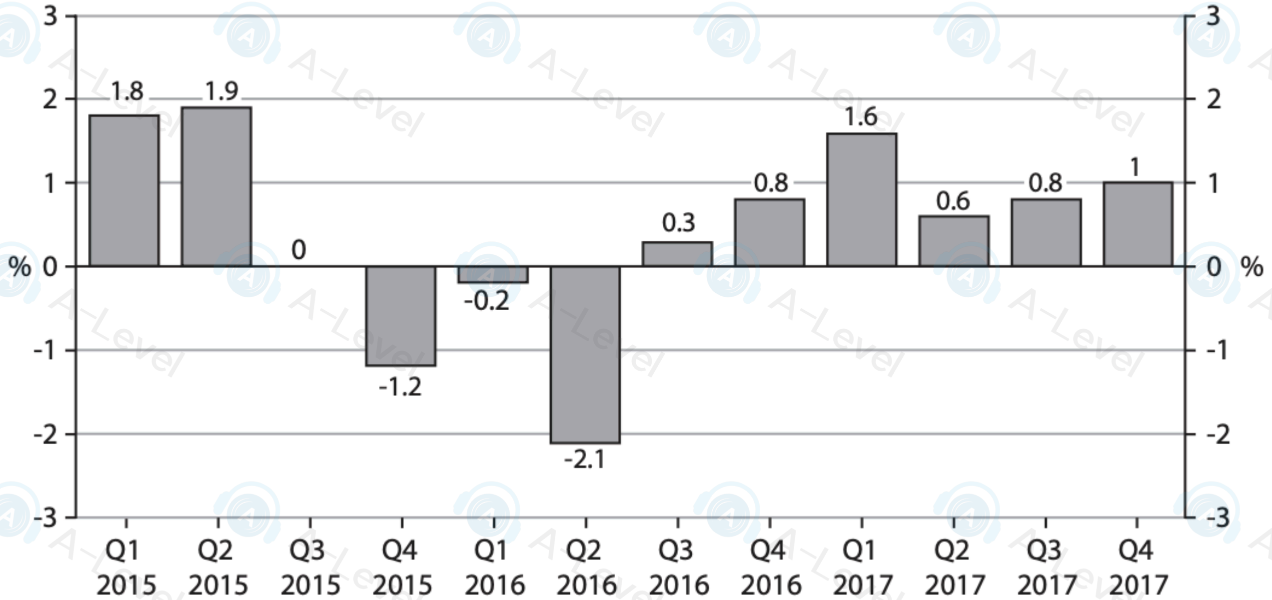
(14)

Sources for use with Section C.

The economy of Argentina

Figure 1 The base rate of interest for Argentina, April 2013 – April 2018

Figure 2 Quarterly GDP growth rate (%), 2015 – 2017



Extract A The problems facing the economy

Argentina is South America's second largest economy. Mauricio Marci was elected as its President in 2015. He faced the difficult task of controlling inflation which was between 30%–40% per year. He also needed to reduce the large budget deficit which was 7.1% of GDP. Between the end of 2015 and the beginning of 2016 the economy went into recession. This was caused by a significant reduction in government spending in an attempt to balance the budget. The purchasing power of consumers declined as wages fell and the rate of inflation rose to 40%. A fall in demand for Argentina's exports also contributed to the decrease in economic growth.

Extract B Improving economic outlook

Since coming out of recession in 2016, economic growth in Argentina has stabilised at an annual rate of around 3% per year. However, high inflation is still a major problem. Inflation was 25% in 2017. The effect of this inflation is damaging to both households and businesses. Rising prices have reduced domestic business investment as firms are unsure about future costs. One of the Argentinian Government's key economic policies is to stabilise prices to encourage consumption and investment.

A fall in the value of the Argentinian currency, the peso, against the dollar also caused inflationary pressure. In 2018 the peso lost around 12% of its value against the dollar. This makes importing goods from the USA very expensive. At the same time there was a decrease in the value of commodity exports, causing a current account deficit. In an attempt to reduce the rate of inflation and to stabilise the currency, the Central Bank of Argentina increased the base rate of interest to 40%.

However, the situation is not all bad. Real wages are rising in many sectors and consumer spending is increasing. Also, the Government plans to spend US$14 billion on infrastructure. These positive changes have helped Argentina to attract investment from Japanese transport companies such as Mitsubishi and Marubeni Corp, and the American technology company, Apple.

Figure 2 Plastic bag use per person in selected countries, 2010