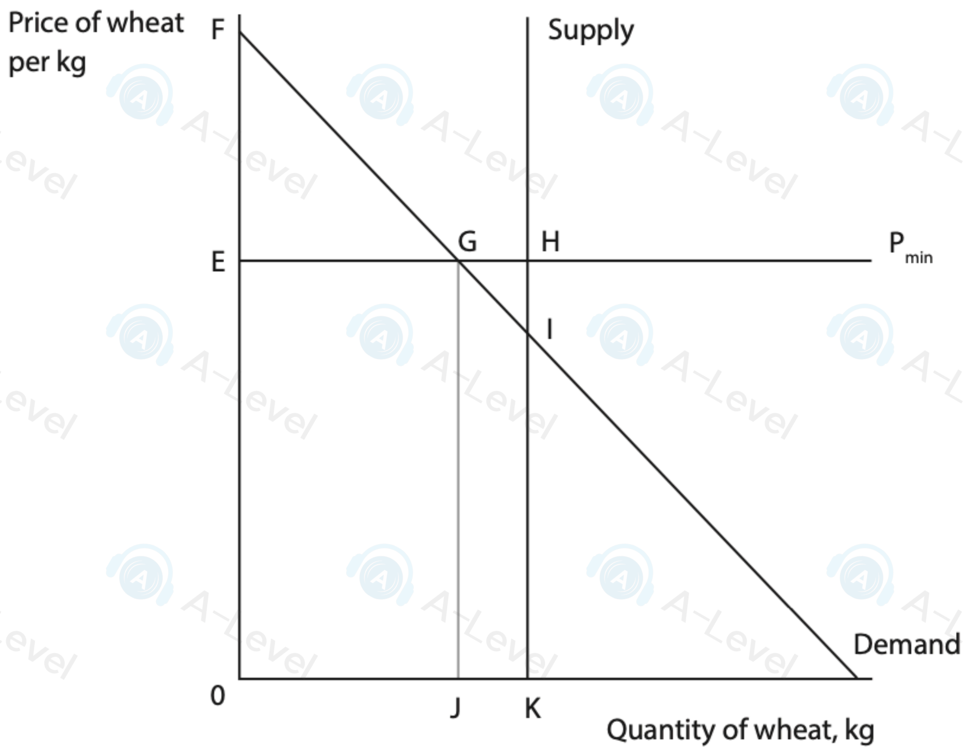
4 The diagram represents the market for wheat in India. The Government of India operates a minimum price scheme for wheat. It agrees to buy any surpluses from farmers at the minimum price of 0E.



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)

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)

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)

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)

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

- ☒ **A** Government provision of flood defences that is greater than the social optimum output
- ☒ **B** Doctors prescribe too many medicines because the cost is covered by health insurance
- ☒ **C** Lower prices create an incentive for firms to switch production to more profitable activities
- ☒ **D** Unintended consequences that follow the introduction of an indirect tax

(Total for Question 3 = 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)

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 A report identified that Hong Kong is the city with the highest risk of experiencing a housing market bubble. House prices in Hong Kong increased by 10% per year between 2012 and 2018.

With reference to the Hong Kong housing market, explain what is meant by a 'market bubble'.

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.

7 In Myanmar the price of rice was 250 000 kyats per tonne in October 2021. However, many rice farmers made a loss because of rising costs of production. In response, the Myanmar Government introduced a minimum price for rice of 270 000 kyats per tonne.

Draw a diagram to illustrate the impact of the introduction of this minimum price for rice.

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.

13 In 2019 the price of a litre of diesel was 65% higher in Thailand than in Malaysia. The price difference was because of higher taxation on diesel in Thailand. This led to illegal smuggling. For example, on one night, Thai authorities seized 300 000 litres of diesel that was illegally imported from Malaysia.

Evaluate possible causes of government failure in a market of your choice.

(Total for Question 13 = 20 marks)