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

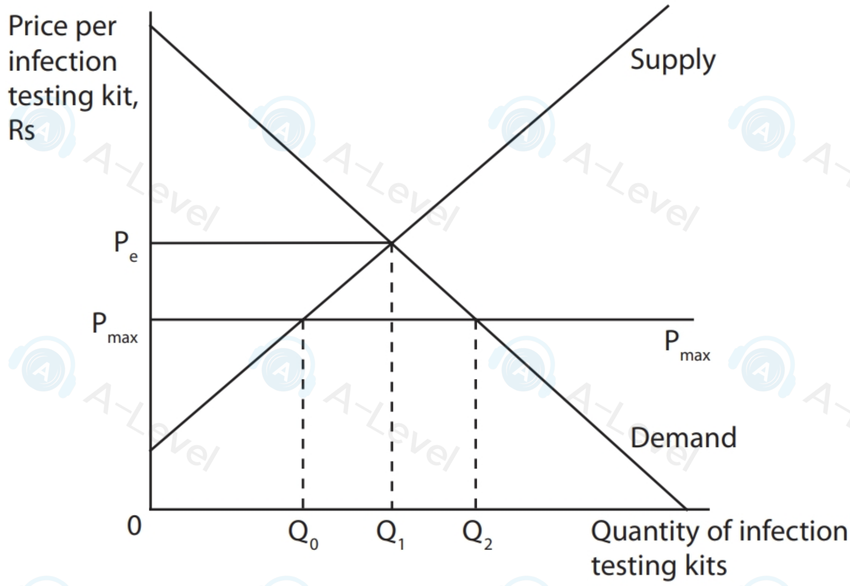
☒ **B** Excessive administrative costs are involved in meeting environmental regulations

☒ **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)

5 The diagram shows the market for infection testing kits in Odisha, India.



The Government in Odisha imposed a maximum price, P_{max}, on infection testing kits.

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

☒ **A** Quantity supplied extends from Q_0 to Q_1

☒ **B** Quantity demanded contracts from Q_2 to Q_1

☒ **C** Excess demand will be equal to Q_0Q_2

☒ **D** Excess supply will be equal to Q_0Q_2

(Total for Question 5 = 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

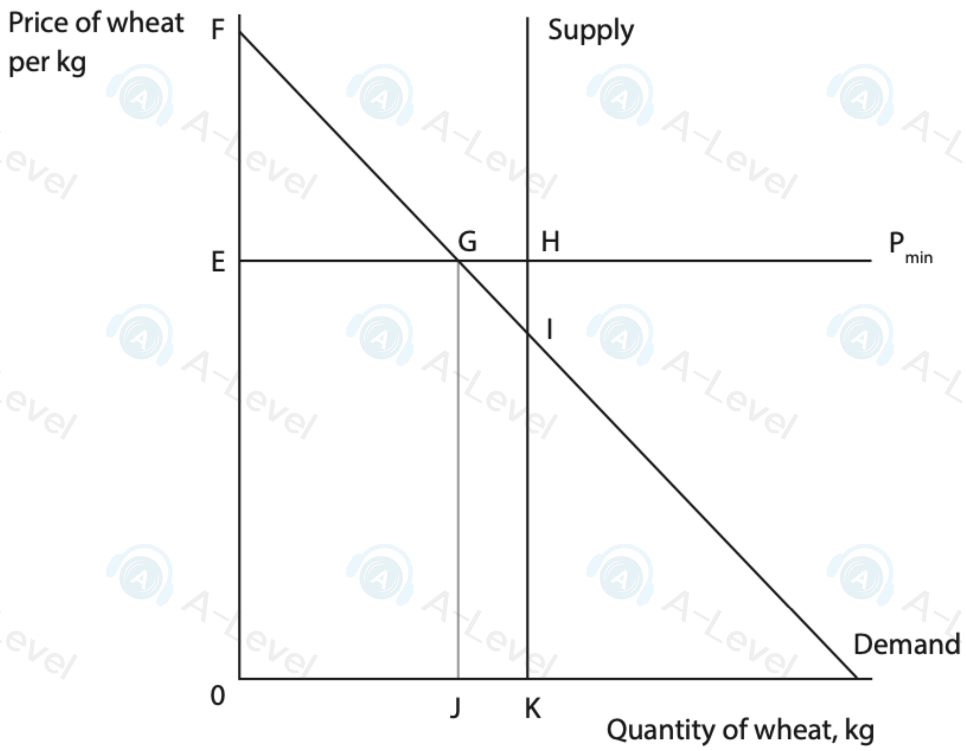
(Total for Question 2 = 1 mark)

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)

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)

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.

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.

8 In 2020 the German city of Munich had the highest risk of a housing market bubble in the world. Between 2010 and 2020 the average price of a house more than doubled.

With reference to Munich's housing market, explain what is meant by a 'market bubble'.

8 In the USA research found that 68% of those without health insurance and 88% of those with health insurance visited a dentist.

With reference to health insurance, explain what is meant by 'moral hazard'.

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.

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.

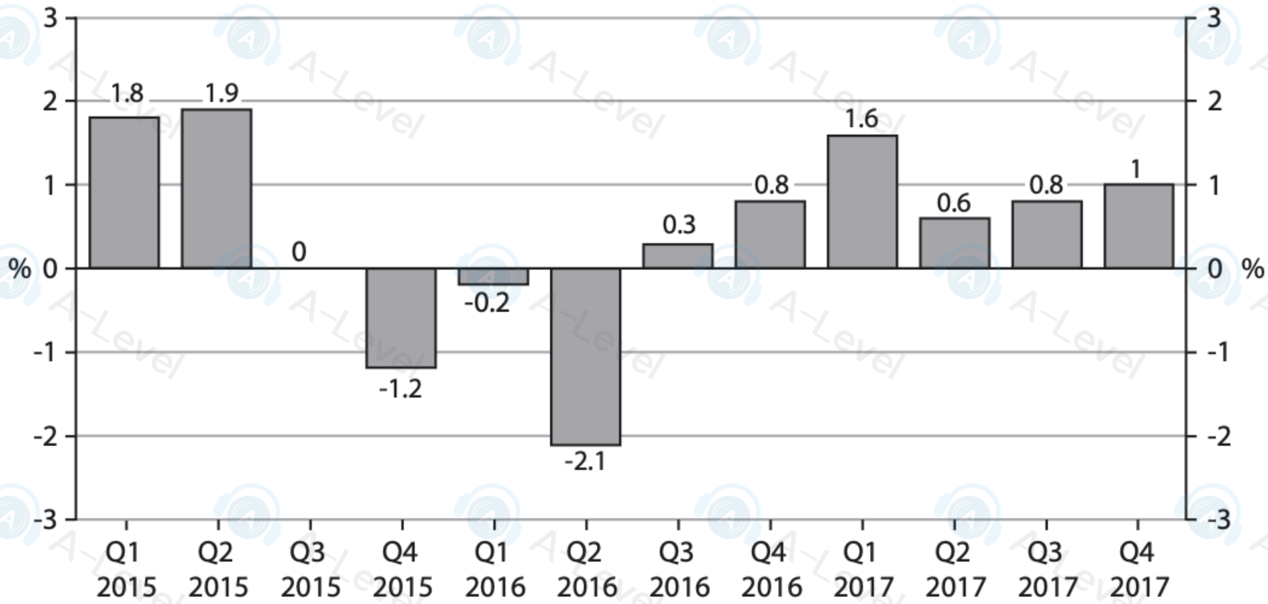
(14)

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.

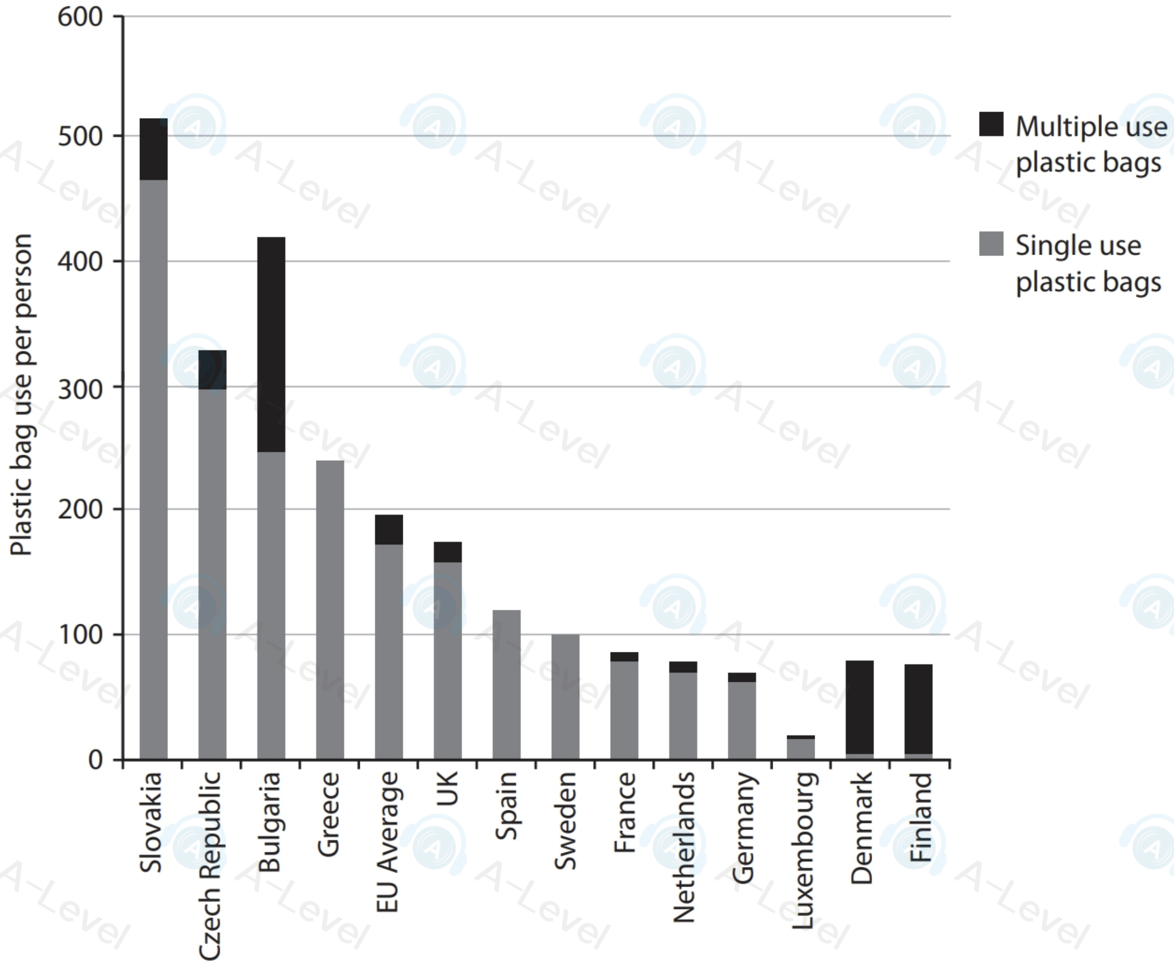
Extract B Improving economic outlook

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



13 In the UK the maximum price for a unit of electricity for domestic consumers was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022.

Evaluate the microeconomic effects of an increase in the maximum price of electricity.

(Total for Question 13 = 20 marks)

14 Many consumers do not buy travel insurance before going on holiday abroad, despite the likely substantial costs if they need medical care.
Many car drivers do not provide complete and accurate information to car insurance companies when insuring their cars.

Evaluate the microeconomic effects of imperfect information on insurance markets.

(Total for Question 14 = 20 marks)