1. Market failure means the free market:

   ☐ always sets prices too high

   ☐ allocates resources inefficiently

   ☐ has no buyers

   ☐ is illegal

2. A public good is under-provided by markets because of:

   ☐ government bans

   ☐ high prices

   ☐ the free-rider problem

   ☐ too much competition

3. An indirect tax on a good shifts the supply curve:

   ☐ not at all

   ☐ left (supply falls)

   ☐ right (supply rises)

   ☐ downward and right

4. A maximum price (price ceiling) set below equilibrium causes a:

   ☐ higher equilibrium price

   ☐ surplus

   ☐ fall in demand

   ☐ shortage

5. A Gini coefficient of 0 represents:

   ☐ perfect equality

   ☐ perfect inequality

   ☐ high inflation

   ☐ full employment

6. A positive externality (like vaccination) tends to be under-produced by the free market.

   ☐ True ☐ False

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☐ True ☐ False

8. A Pigouvian tax should be set equal to the firm's total production cost to reach the social optimum.

   ☐ True ☐ False

9. Government failure occurs when intervention creates unintended consequences that worsen welfare.

   ☐ True ☐ False

10. A progressive tax takes the same percentage of income from every earner.

    ☐ True ☐ False

1. **allocates resources inefficiently**

   It produces too much or too little of a good for society – an inefficient allocation.

2. **the free-rider problem**

   Non-excludability lets people free-ride, so private firms can't profit from supplying it.

3. **left (supply falls)**

   A tax raises firms' costs, reducing supply at every price – a leftward shift.

4. **shortage**

   Below equilibrium, demand exceeds supply → a persistent shortage.

5. **perfect equality**

   Gini runs from 0 (perfect equality) to 1 (one person has all income).

6. **True**

   Social benefit exceeds private benefit, so the market produces too little.

7. **True**

   E.g. a used-car seller knows the car's faults better than the buyer.

8. **False**

   False. A Pigouvian tax is set equal to the marginal external cost. This internalises the externality and cuts output to the social optimum; taxing the whole production cost would cut output far too much.

9. **True**

   E.g. rent caps can reduce the supply of housing over time.

10. **False**

    False. That is a proportional (flat) tax. A progressive tax takes a larger percentage of income from higher earners, which is why it is used to reduce inequality.

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