

8. Government microeconomic intervention (A Level)

Starter Quiz ·

A-Level Economics

Name: _____ Score: _____

1. To correct a negative externality, a government would typically use a:
 - ☐ subsidy
 - ☐ free provision
 - ☐ price floor
 - ☐ tax
2. Equity in economics means:
 - ☐ fairness (which may not be equality)
 - ☐ maximising GDP
 - ☐ zero taxation
 - ☐ everyone receiving exactly the same
3. The demand for labour is described as "derived demand" because it depends on:
 - ☐ the weather
 - ☐ the exchange rate
 - ☐ the demand for the goods labour produces
 - ☐ the money supply
4. A minimum wage set above the equilibrium wage can cause:
 - ☐ no change at all
 - ☐ lower wages
 - ☐ a shortage of labour
 - ☐ a surplus of labour (unemployment)
5. Tradable pollution permits work by:
 - ☐ subsidising polluters
 - ☐ banning all pollution
 - ☐ capping total pollution and letting firms buy/sell allowances
 - ☐ fixing the price of output
6. Heavy redistribution can reduce incentives to work – the equity-efficiency trade-off.
 - ☐ True ☐ False

7. More productive workers tend to command higher wages.

☐ True ☐ False

8. Trade unions use collective bargaining to try to raise wages and improve conditions.

☐ True ☐ False

9. Taxes are the usual policy tool for encouraging goods with positive externalities, like vaccines.

☐ True ☐ False

10. Taxing those who can afford to pay more is an example of _____ equity.

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Answers ·

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1. **tax**

A tax raises the price and cuts the over-produced quantity toward the optimum.

2. **fairness (which may not be equality)**

Equity = fairness; equality = the same for everyone. They are not identical.

3. **the demand for the goods labour produces**

Firms hire workers to make goods that are themselves demanded – hence derived.

4. **a surplus of labour (unemployment)**

A binding price floor leaves quantity supplied above quantity demanded – excess labour.

5. **capping total pollution and letting firms buy/sell allowances**

A cap-and-trade system limits total emissions and prices them via a permit market.

6. **True**

High taxes/benefits can blunt incentives, trading some efficiency for greater equity.

7. **True**

Higher productivity raises the value of a worker to the firm, increasing labour demand.

8. **True**

Unions bargain on behalf of members for better pay and conditions.

9. **False**

False. Subsidies are used to encourage such goods: they lower the price and raise consumption towards the social optimum. Taxes discourage goods with negative externalities.

10. **vertical**

Vertical equity: the better-off contribute more.