Past-paper walk-through

Government policies to achieve efficient resource allocation and correct market failure ▪ 8.1

eXercise

Questions in this set

- 9708/31 N25 Q9 ▪ 1 mark
- 9708/31 N25 Q11 ▪ 1 mark
- 9708/31 N25 Q13 ▪ 1 mark
- 9708/31 N25 Q26 ▪ 1 mark
- 9708/32 N25 Q11 ▪ 1 mark
- 9708/33 N25 Q3 ▪ 1 mark
- 9708/33 N25 Q11 ▪ 1 mark
- 9708/34 N25 Q6 ▪ 1 mark

Question 9

9708/31 N25 ▪ Q9 ▪ 1 mark

9 Which government policy is intended to correct a negative externality?

A guaranteed minimum prices for farmers producing certain agricultural products

B imposition of taxes on factories releasing pollutants into rivers

C rent controls on housing occupied by low-income individuals

D the provision of free books for children of poorer households

Solution 9

Answer: **B**

Why

- A negative externality means the social cost exceeds the private cost.
- A tax raises the private cost towards the social cost, so output falls to the optimum.
- A guaranteed minimum price supports producers instead, which does nothing about the externality.

Question 11

9708/31 N25 ▪ Q11 ▪ 1 mark

11 Extra fishing boats start to operate from a local harbour which depends on fishing for its main income.

Which action by the local authority is an example of nudge theory?

A insisting that all fish caught are sold to local people

B increasing the licence fees for new boats

C distributing leaflets about the need to safeguard fish stocks

D restricting the areas in which boats can fish

Solution 11

Answer: **C**

Why

- Nudge theory changes behaviour by altering the way choices are presented, not by banning or taxing.
- So it must leave the choice available while making the desired option easier or more salient.
- A licence limit or a tax is direct regulation, not a nudge.

Question 13

9708/31 N25 ▪ Q13 ▪ 1 mark

13 What is an advantage of pollution permits, when compared with an alternative policy of taxes levied on the quantity of pollutants emitted by firms?

A firms cannot sell any surplus permits

B no monitoring of firms' emissions is required

C pollution levels can be reduced to zero

D the reduction in the level of pollution is more predictable

Solution 13

Answer: **D**

Why

- Pollution permits cap the *total* quantity of pollution, which a tax does not.
- Firms can trade them, so abatement happens where it is cheapest.
- That flexibility is the advantage: the environmental outcome is certain while the cost is minimised.

Question 26

9708/31 N25 ▪ Q26 ▪ 1 mark

26 Which statement describes a multinational company (MNC)?

A A firm that avoids paying indirect taxes.

B A firm that conducts operations in different countries.

C A firm that experiences diseconomies of scale at low levels of output.

D A firm that trades internationally.

Solution 26

Answer: **B**

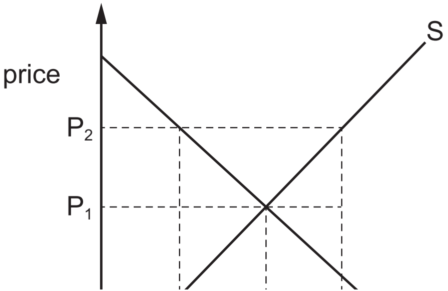
Why

- A multinational company is defined simply by where it operates.
- It produces or trades in more than one country.
- Its tax behaviour or its size may be notable, but they are not what makes it multinational.

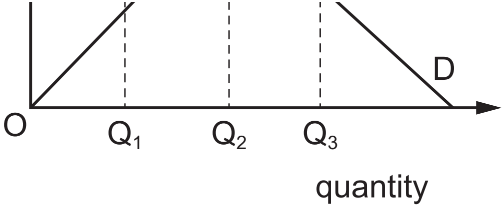
Question 11

9708/32 N25 ▪ Q11 ▪ 1 mark

11 A government introduces a maximum price for rice of P_2.



Question 11



What is the effect of this?

A Government spending will increase.

B The price of rice will be unchanged.

Question 11

C There will be a shortage of rice.

D There will be a surplus of rice.

Solution 11

Answer: **B**

Why

- A maximum price below equilibrium keeps the price down but creates excess demand.
- Quantity supplied falls to Q_1 while quantity demanded rises to Q_3.
- So there is a shortage, and the good has to be rationed some other way – queues or black markets.

Question 3

9708/33 N25 ▪ Q3 ▪ 1 mark

3 A dentist is found to have charged patients for treatment they did **not** need.

What is the likely cause of this market failure?

A a minimum price

B asymmetric information

C non-excludability

D productive inefficiency

Solution 3

Answer: **B**

Why

- The patient cannot judge whether the treatment is needed, but the dentist can.
- That imbalance of knowledge is asymmetric information.
- It lets the better-informed party exploit the other, which is why the market fails.

Question 11

9708/33 N25 ▪ Q11 ▪ 1 mark

11 Some governments introduce rent controls (maximum prices) on houses rented from private landlords. They impose such rent controls to improve living standards for individuals with low incomes.

What might be the effects of rent controls in the long run?

A The long-run supply of rental houses will contract.

B The number of unoccupied privately rented houses will increase over time.

C The price of owner-occupied houses will increase.

D There will be no effect on the supply of rental housing.

Solution 11

Answer: **A**

Why

- A maximum rent below equilibrium creates a shortage of rented housing.
- Landlords withdraw properties or let them deteriorate, so supply falls.
- So the policy can leave the intended beneficiaries worse off – fewer homes available, and rationed by queue.

Question 6

9708/34 N25 ▪ Q6 ▪ 1 mark

6 What is the most likely evidence that an economy has reached a position of Pareto optimality?

A price volatility

B a large current account deficit

C a regressive taxation system

D full employment

Solution 6

Answer: **D**

Why

- Pareto optimality means no one can be made better off without making someone worse off.
- So it shows up as productive and allocative efficiency together.
- Price volatility, a trade deficit or a regressive tax system say nothing about whether that condition holds.