1 What is the definition of moral hazard?

A An increase in the likelihood of taking risks because another party is paying for these risks.

B The loss of social welfare arising from the consumption of a good.

C When buyers and sellers have different amounts of information regarding product quality.

D When costs and benefits are taken into account when a decision is being made.

6 An economist undertakes a cost–benefit analysis of the pollution resulting from a manufacturing process.

Which outcome is most likely to guide any recommendation about the optimal level of manufacturing output?

A that the marginal social cost of manufacturing equals the marginal social benefit

B that the marginal cost of pollution is zero

C that the total revenue of manufacturing equals the total cost

D that the total benefit of pollution is maximised

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7 A firm is operating at a level of output which corresponds to the point where MR = 0.

What objective is the firm achieving?

A maximising consumer surplus

B maximising profit

C maximising sales

D maximising revenue