Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- an **external cost** is a cost of an activity that falls on a **third party**, not the person doing it (K)

2.2

- a **merit good** is under-consumed because people undervalue its benefit (education) (K)
- a **demerit good** is over-consumed because people underestimate its harm (cigarettes) (K)

2.3

- a **public good** is one everyone can use and no one can be stopped from using, so the market provides none (e.g. street lighting) (K)

3.1 B

- pollution from a factory is an **external cost** (K)
- A is a benefit to others; C and D are types of good, not this spillover

3.2

- buyers of a demerit good think only of their **private benefit**, not the harm (K)
- they value it too highly, so they consume **too much** (An)
- the market **over-produces** it (An)

3.3

- a public good is **non-excludable** and **non-rival** (K)
- people can use it without paying (**free riders**), so a firm earns no revenue (An)
- it makes no profit and supplies none → the **government** must provide public goods (An)