

General Certificate of Education  
January 2009  
Advanced Subsidiary Examination



**ECONOMICS** **ECN1/1**  
**Unit 1 Part 1 Objective Test: Markets and Market Failure**

Friday 16 January 2009 9.00 am to 10.00 am

**For this paper you must have:**

- an objective test answer sheet
- a black ball-point pen
- the question paper for Part 2 (ECN1/2).

You may use a calculator.

Time allowed: the total time for papers ECN1/1 and ECN1/2 together is 1 hour

**Instructions**

- Use a black ball-point pen. Do **not** use pencil.
- Answer **all** questions.
- For each question there are four alternative responses. When you have selected the response which you think is the best answer to a question, mark this response on your objective test answer sheet. If you wish to change your answer to a question, follow the instructions on your objective test answer sheet.
- Do all rough work in this book, **not** on your answer sheet.

**Information**

- The maximum mark for this paper is 15 marks.
- Each question carries one mark. No deductions will be made for wrong answers.

**Advice**

- You are advised to spend no more than 15 minutes on paper ECN1/1.
- You should not spend too long on any question. If you have time at the end, go back and answer any question you missed out.

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**OBJECTIVE TEST QUESTIONS**

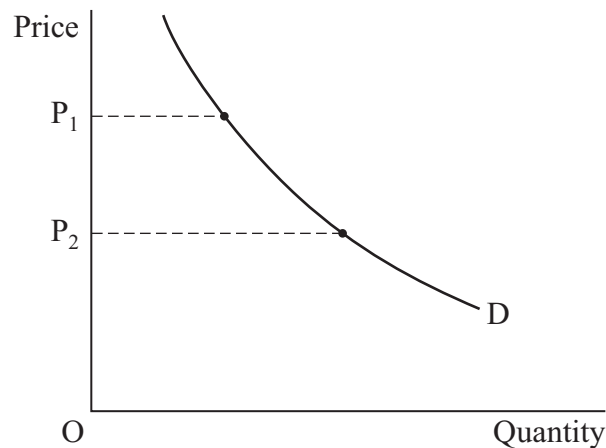
You are advised to spend no more than 15 minutes on these questions.

Each question is followed by four responses, **A**, **B**, **C** and **D**.  
For each question select the best response and mark its letter on the answer sheet provided.

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- 1** Choice is an important element in the basic economic problem because
- A** wants increase with income.
  - B** incomes are distributed unequally.
  - C** high demand leads to high prices.
  - D** limited resources have alternative uses.
- 2** A misallocation of resources is most likely to occur in monopoly if
- A** other firms enter the industry.
  - B** higher prices are charged than under competitive conditions.
  - C** market output increases.
  - D** there are economies of scale.
- 3** An economy is always productively efficient if it
- A** continually increases its average standard of living.
  - B** maximises investment in capital goods.
  - C** is operating with full employment of labour.
  - D** can only produce more of one good by producing less of another.
- 4** Which one of the following would shift the supply curve for a good to the left?
- A decrease in
- A** demand for the good
  - B** subsidies granted to producers
  - C** the rate of growth of labour productivity
  - D** the elasticity of supply of the good

- 5 Negative externalities exist in a market for a good giving rise to a misallocation of resources. This misallocation is most likely to have resulted from
- A the product being over-priced.
  - B over-production of the product.
  - C too little consumption of the product.
  - D too few resources devoted to producing the product.
- 6 In a buffer-stock scheme
- A an organisation might buy in the open market to maintain a minimum price in the market for a product.
  - B governments restrict supplies of a product coming onto an open market in order to lower prices of the product.
  - C buffer stocks are kept to sell if the price of a product starts to fall.
  - D buffer stocks are sold when there are surpluses in the market.
- 7 The diagram below shows the market demand curve for apples.



Assuming  $OP_1$  to be the original equilibrium price, a decrease in price to  $OP_2$  could have been caused by a decrease in

- A the wages of apple pickers.
- B real incomes in the economy.
- C the price of substitutes.
- D the popularity of apples.

**Turn over ▶**

- 8 The table below shows estimates of UK consumers' income elasticity of demand for holidays in four different countries.

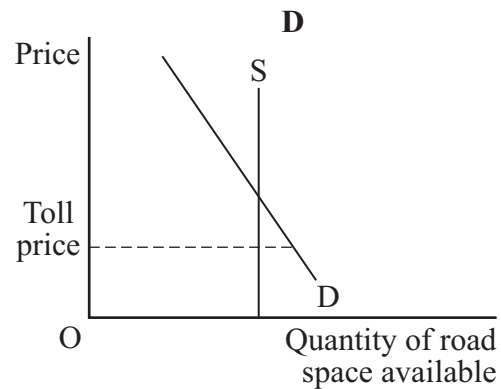
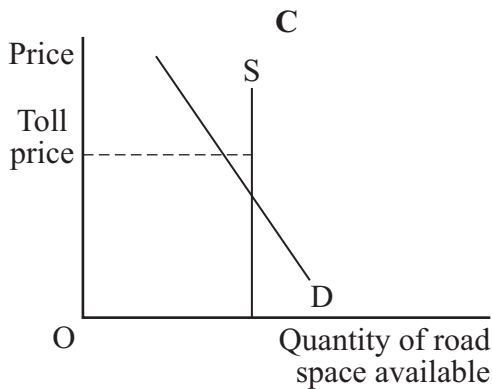
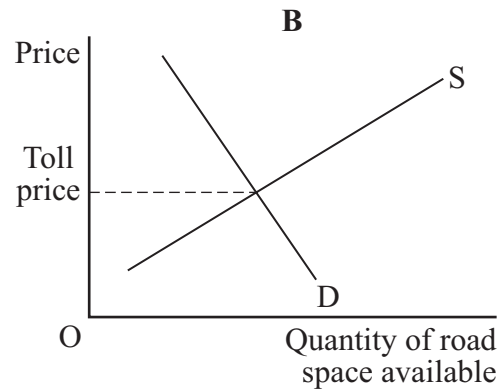
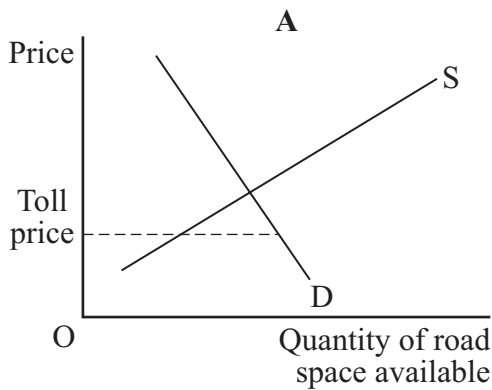
Country	Income elasticity of demand
China	0.8
Peru	1.0
Italy	1.4
Spain	2.0

From the data it may be concluded that a 10% rise in real incomes would lead to

- A a fall in demand for holidays in China.
  - B no change in demand for holidays in Peru.
  - C a 14% increase in demand for holidays in Italy.
  - D a 2% increase in demand for holidays in Spain.
- 9 Which one of the following situations would lead to an increase in equilibrium price?
- A Demand is perfectly inelastic and a firm's labour costs fall.
  - B Demand is perfectly elastic and a firm's labour costs rise.
  - C Supply is perfectly elastic and the price of a substitute good falls.
  - D Demand is perfectly inelastic and a firm's labour costs rise.
- 10 Which one of the following is true?
- A A positive statement is one which can be tested against the facts.
  - B A positive statement is one which never contains words such as 'could' or 'should'.
  - C A normative statement is one which can be scientifically proven to be true or false.
  - D A normative statement is one which never contains words such as 'is' or 'will' or 'always'.

- 11** In 2003, a new motorway, the M6 Toll Road, was opened to the east of Birmingham. To use this motorway, drivers are currently charged a fee of up to £9 per vehicle. The price has led to there being considerable excess capacity on the motorway.

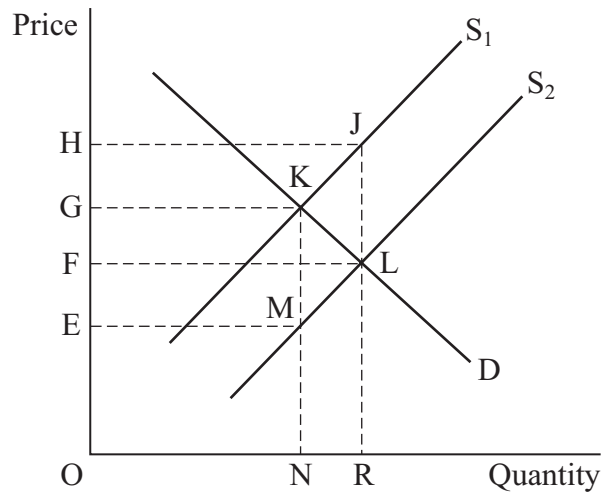
Which one of the following diagrams, **A**, **B**, **C** or **D**, shows that there is ‘excess capacity on the motorway’?



- 12** The price mechanism helps to allocate resources efficiently because
- A** it results in lower rewards being paid to factors of production when demand for the output they produce increases.
  - B** it will lead to a distribution of output amongst individuals on the basis of greatest need.
  - C** the prices of non-renewable resources will tend to rise as the stock of such resources nears depletion.
  - D** it will always ensure that competition between firms prevents high profits being earned.
- 13** The cross elasticity of demand between two complementary products is always
- A** negative.
  - B** positive.
  - C** zero.
  - D** greater than 1.

**Turn over ▶**

- 14 In the diagram below, the government grants a subsidy to manufacturers of loft insulation. This shifts the market supply curve from  $S_1$  to  $S_2$ .



The total amount spent by the government on subsidies is represented by the area

- A OHJR.  
 B FHJL.  
 C OFLR.  
 D EGKM.
- 15 Which one of the following is an appropriate form of government intervention for the problem identified?
- A The introduction of pollution permits to limit positive externalities  
 B The use of a buffer-stock scheme to stabilise the price of a public good  
 C The imposition of a maximum price for a merit good  
 D The provision of a subsidy for a product which generates negative externalities

**QUESTION 15 IS THE LAST  
 QUESTION IN THE PAPER**

**On your answer sheet  
 ignore rows 16 to 50**

**END OF TEST**

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