AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.1.2 INDIVIDUAL ECONOMIC DECISION MAKING

SCORE	PERCENTAGE
/176	%

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1. Which one of the following is a nudge technique that could be used to encourage healthy eating?

A Banning supermarkets from selling high-calorie energy drinks ⬭

B Increasing taxes on high-fat products to raise their price ⬭

C Moving products with a high sugar content away from supermarket checkouts ⬭

D Subsidising fruit and vegetables to reduce their prices ⬭

[1 mark]

2. A person eats six biscuits a day to maximise their total utility from the consumption of biscuits.

The price of biscuits increases by 50%, leading to a change in the individual's daily consumption of biscuits.

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the most likely changes in the individual's total utility and marginal utility?

	Total utility derived from their daily consumption of biscuits	Marginal utility derived from the last biscuit consumed each day	
A	Decrease	Decrease	⬭
B	Increase	Decrease	⬭
C	Decrease	Increase	⬭
D	Increase	Increase	⬭

[1 mark]

3. Behavioural economic theory suggests that when consumers are faced with complex financial decisions, such as choosing between pension schemes, social welfare is likely to increase if consumers are

A presented with all the options that are available. ⬭

B presented with a limited set of pre-selected options. ⬭

C provided with as much information as possible about each available option. ⬭

D not given any choice. ⬭

[1 mark]

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4. A rational consumer will always attempt to

A minimise their marginal utility. ⬭

B consume all of their income. ⬭

C maximise their total utility. ⬭

D save so they are prepared for unexpected events. ⬭

[1 mark]

5. The table below shows the total utility of an individual's consumption of chocolate bars.

Quantity	Total utility
1	100
2	180
3	250
4	300
5	330

What is the marginal utility gained by the consumption of the fourth chocolate bar?

A 30 ⬭

B 50 ⬭

C 70 ⬭

D 300 ⬭

[1 mark]

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6. An essential difference between behavioural and traditional economic theory is that behavioural economic models assume that

A people act rationally. ⬭

B consumers attempt to maximise utility. ⬭

C people consider all the available options when making choices. ⬭

D emotional factors influence economic decision-making. ⬭

[1 mark]

7. Traditional economic theory assumes that consumers make rational decisions that maximise their economic welfare, but behavioural economists disagree.

Using examples to illustrate your answer, explain how anchoring **and** loss aversion can affect an individual's choices when deciding how to spend or save their income.

[15 marks]

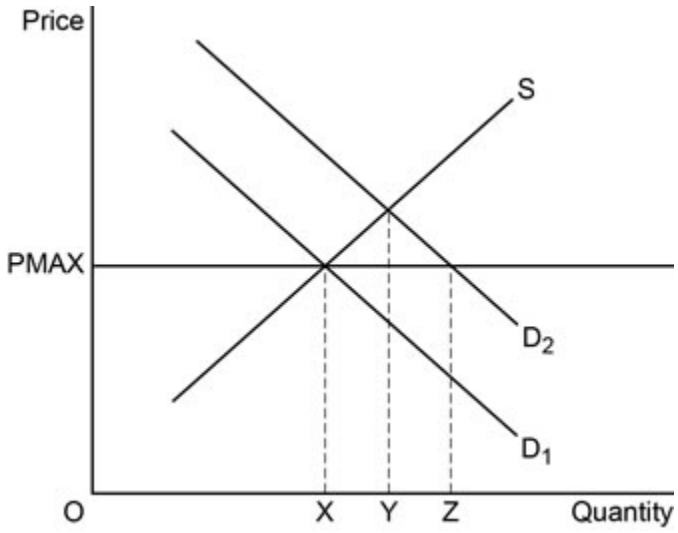
8. Traditional economic theory assumes that consumers make rational decisions that maximise their economic welfare, but behavioural economists disagree.

The Government would like to improve the well-being of the population by encouraging people to adopt a healthy diet. Using your knowledge of **both** traditional economic theory **and** behavioural economics, assess alternative policies that the Government might adopt to try to achieve its objective

[25 marks]

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9. The diagram below shows the original market demand and supply curves (D_1 and S) for loft insulation. Loft insulation reduces energy consumption.



The government wishes to meet its energy efficiency target by shifting the market demand curve for loft insulation from D_1 to D_2. Which one of the following policies is most likely to enable the government to achieve its objective?

A A decrease in the rate of VAT on domestic gas and electricity used for home heating ⬭

B A 'nudge' to households to install loft insulation by offering to clear lofts of unwanted items if insulation is installed ⬭

C The introduction of a maximum price for loft insulation ⬭

D The introduction of a subsidy paid to the firms installing loft insulation ⬭

[1 mark]

10. The law of diminishing marginal utility states that

A as more of a product is consumed, the extra satisfaction will decline. ⬭

B as more of all factors are employed, the additional output produced will fall. ⬭

C as more variable factors are added to a fixed factor, the additional output produced will decline. ⬭

D the total satisfaction from consuming a product will be maximised when marginal utility starts to fall. ⬭

[1 mark]

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11. In 2018, the UK Government will impose a new tax on sugary drinks, aimed at tackling obesity. Behavioural economists believe that taxation alone is unlikely to be very effective in reducing consumption. By 2050, obesity is predicted to affect 60% of adult men, 50% of adult women and 25% of children. It is associated with a range of health problems including type 2 diabetes, cardiovascular disease and cancer.

Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink.

[25 marks]

12. In December 2018, the Competition and Markets Authority (CMA) announced a range of policies to prevent firms charging existing customers more than new customers. Firms supplying financial services, mobile phones and broadband are no longer allowed to discriminate against loyal customers renewing their contracts.

Explain why imperfect information can lead to market failure.

[15 marks]

13. In 2018, the UK Government will impose a new tax on sugary drinks, aimed at tackling obesity. Behavioural economists believe that taxation alone is unlikely to be very effective in reducing consumption. By 2050, obesity is predicted to affect 60% of adult men, 50% of adult women and 25% of children. It is associated with a range of health problems including type 2 diabetes, cardiovascular disease and cancer.

Explain why, in a free market, sugary drinks may be overconsumed.

[15 marks]

14. A rational, utility maximising consumer is considering the purchase of a used car. Her final choice is between two cars which are identical in **all** respects except for the differences shown below.

	Price	**Period of guarantee against faults**
Car 1	£8 000	3 months
Car 2	£10 000	12 months

Based on the above information, which one of the following is the most likely explanation for the customer's purchase of Car 2? She

A has £10 000 of savings available to buy herself a used car. ⬭

B has a positive income elasticity of demand for used cars. ⬭

C has a price inelastic demand curve for used cars. ⬭

D wants to reduce the risks from asymmetric information. ⬭

[1 mark]

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15. Which one of the following is most likely to be associated with behavioural economic theory?

A All consumer behaviour is based on rational utility-maximising decisions. ⬭

B An individual's economic decisions may be biased. ⬭

C Price changes cannot explain how competitive markets achieve equilibrium. ⬭

D The behaviour of firms is based on their desire to maximise profit. ⬭

[1 mark]

16. The hypothesis of diminishing marginal utility

A assumes that at least one factor of production is fixed in the short run. ⬭

B can be used to help explain why a demand curve is downward sloping. ⬭

C explains why firms try to maximise profit. ⬭

D states that total utility must fall as consumption increases. ⬭

[1 mark]

17. For a long time, supermarkets and other commercial firms have understood the benefits of behavioural economic concepts such as choice architecture and framing. The public sector has been slow off the mark, but at last governments are now taking advantage of the opportunities provided by nudging.

Using examples to illustrate your answer, assess the usefulness of behavioural economic theory compared to traditional economic policies in helping governments to correct market failures.

[25 marks]

18. For a long time, supermarkets and other commercial firms have understood the benefits of behavioural economic concepts such as choice architecture and framing. The public sector has been slow off the mark, but at last governments are now taking advantage of the opportunities provided by nudging.

Explain how rules of thumb and irrationality can affect consumers' demand for goods and services.

[15 marks]

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19. The behaviour of a consumer buying a 75-inch large screen TV is biased due to bounded rationality and the anchoring effect. This implies that the choice of which TV to buy is based on the price of

A all available 75-inch TVs, given sufficient time to obtain the information. ⬭

B the cheapest available 75-inch TV, in order to maximise utility. ⬭

C the first 75-inch TV seen and imperfect information about available alternatives. ⬭

D the most expensive 75-inch TV, believing that this indicates the best quality available. ⬭

[1 mark]

20. According to the hypothesis of diminishing marginal utility, when marginal utility is zero

A average utility is negative. ⬭

B the good is a demerit good. ⬭

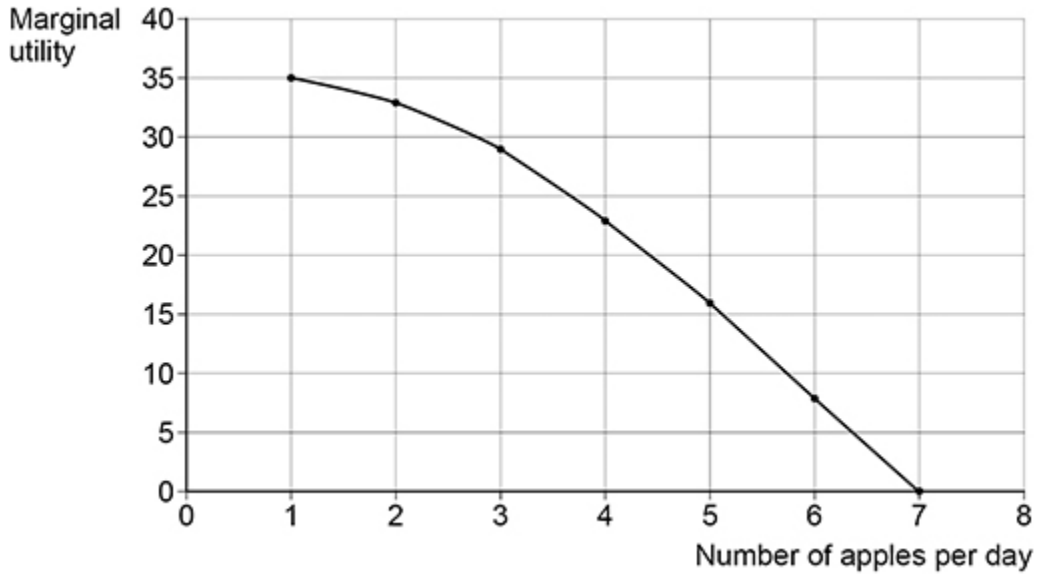
C total utility from consuming the good is maximised. ⬭

D total utility will increase by consuming more of the good. ⬭

[1 mark]

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21. The diagram below shows the marginal utility that a consumer gains from eating apples.



When 7 apples per day are consumed

A average utility is maximised. ⬭

B marginal utility is maximised. ⬭

C opportunity cost is minimised. ⬭

D total utility is maximised. ⬭

[1 mark]

22. A feature of the UK government's workplace pension scheme is that employers are required to enrol their employees in the scheme unless the employees make a conscious decision to opt out and join another scheme.

An individual choosing to remain in their workplace pension scheme is an example of a person

A accepting the default choice. ⬭

B acting irrationally by ignoring an economic incentive. ⬭

C being anchored by a previous financial decision. ⬭

D using a rule of thumb to make the choice. ⬭

[1 mark]

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23. A person is considering buying a used motorbike from a dealer on the internet. The motorbike is described as being in perfect condition and is being offered at a correspondingly high price.

In this situation, asymmetric information is most likely to lead the person to

A buy the motorbike because they believe the price is justified by its condition. ⬭

B know more about the motorbike's market value than the dealer. ⬭

C maximise their utility by buying a cheaper used motorbike from a different dealer. ⬭

D not buy the motorbike because they do not know as much about the motorbike as the dealer. ⬭

[1 mark]

24. Vaping, the use of e-cigarettes, is argued by many UK health experts to be a much less harmful substitute than smoking tobacco cigarettes. E-cigarettes contain fewer harmful chemicals such as tar, but they still contain addictive nicotine. The industry has been attacked for promoting sales amongst teenagers. This has led to San Francisco banning the sale of e-cigarettes.

Discuss the view that individual economic agents will always act as rational decision makers so as to maximise their utility.

[25 marks]

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