PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



EXAM QUESTION PACK

UNIT 1: GOVERNMENT INTERVENTION IN MARKETS

SCORE	PERCENTAGE
/367	%

STEMUP

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Q1.

In 2020 the Fraser Institute identified Hong Kong as being the closest to a free market economy in the world. This was based on Hong Kong's low tax rates, low government spending and the low level of business regulation.

Evaluate the advantages of a free market economy.

(Total for question = 20 marks)

Q2.

The Government of the United Arab Emirates provides its citizens with free primary and secondary education and free healthcare. In 2020 the Government announced that it would spend $136 million on flood defences and that it will build the world's tallest lighthouse in Dubai.

Evaluate the advantages of state provision of goods and services.

(Total for question = 20 marks)

Q3.

Which **one** of the following is a cause of government failure?

☒ **A** Excessive administrative costs involved in meeting environmental regulations.

☒ **B** A market bubble causing the price to rise excessively.

☒ **C** The existence of free riders leading to the under-production of public goods.

☒ **D** Under-production of foods with external benefits.

(Total for question = 1 mark)

Q4.

A relatively high rate of indirect taxation on fuel in the Philippines leads to the smuggling of fuel from neighbouring countries. This results in the Philippine Government losing $750 million of tax revenue a year.

Smuggling is an example of which **one** of the following concepts?

☒ **A** Government failure

☒ **B** Market failure

☒ **C** Unobtainable production

☒ **D** Consumer inertia

(Total for question = 1 mark)

Q5.

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering this question.

With reference to Extract B and your own knowledge, discuss the impact of the introduction of an indirect tax on 'junk food'.

Illustrate your answer with an appropriate diagram.

(Total for question = 14 marks)

Q6.

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering the question.

With reference to Extract C, discuss the likely effects of the reduction in the minimum (guaranteed) price for cocoa.

Illustrate your answer with an appropriate diagram.

(Total for question = 14 marks)

Q7.

In Myanmar the price of rice was 250 000 kyats per tonne in October 2021. However, many rice farmers made a loss because of rising costs of production. In response, the Myanmar Government introduced a minimum price for rice
of 270 000 kyats per tonne.

Draw a diagram to illustrate the impact of the introduction of this minimum price for rice.

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(Total for question = 4 marks)

Q8.

In 2022 the average price of renting a house increased by 14.6% to $480 per week in Brisbane, Australia. There is pressure on the Australian Government to decrease rents by introducing a maximum price.

With reference to the house rental market in Brisbane, draw a diagram to illustrate the introduction of a maximum price for renting a house.

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(Total for question = 4 marks)

Q9.

In Australia 50% of consumers are still with the bank they first joined. Banking with one of the 4 largest banks is costing consumers about AUD1 500 per year. In the UK consumers loyal to their broadband supplier pay 12% more than those who switch to better deals.

Evaluate ways that would encourage and enable consumers to make rational decisions.

(Total for question = 20 marks)

Q10.

The table shows predictions about population change produced by the United Nations for selected countries.

Country	2021	2100
United Arab Emirates	9.4 million	14.1 million
Bolivia	12.1 million	18.8 million
Philippines	113.9 million	180.2 million

(Source: adapted from https://ourworldindata.org/grapher/comparison-of-world-population-projections)

Evaluate possible factors that could cause a rightward shift of a country's production possibility frontier.

Include at least one relevant diagram in your answer.

(Total for question = 20 marks)

Q11.

Between May 2021 and May 2022 some global commodity prices increased significantly. For example:

- fuel prices increased by 83.8%
- food prices increased by 23.6%
- beverage (drink) prices increased by 20.3%.

Evaluate possible methods of intervention that a government might use to limit the impact of increasing commodity prices.

Include at least one diagram in your answer.

(Total for question = 20 marks)

Q12.

Commuters in Bursa, Turkey, spent an average of 82 hours in traffic congestion in 2021. This was a 75% increase compared with 2019.

Evaluate possible methods of intervention that the Turkish Government could introduce to reduce traffic congestion.

Include at least one diagram in your answer.

(Total for question = 20 marks)

Q13.

The table shows the total number of aeroplane flights globally and their contribution to global carbon emissions in 2009 and 2019.

	2009	2019
Total number of aeroplane flights	25.9 million	38.9 million
Global carbon emissions	2.0%	2.5%

Evaluate the likely impact of imposing indirect taxes on aeroplane flights to reduce carbon emissions.

Include at least one relevant diagram in your answer.

(Total for question = 20 marks)

Q14.

In 2022 General Motors received a $1 billion subsidy from the US Government to open two new electric vehicle factories in the USA. This was expected to generate 4 000 new jobs.

Evaluate the microeconomic effects of subsidies paid to electric vehicle manufacturers.

Include at least one appropriate diagram in your answer.

(Total for question = 20 marks)

Q15.

In January 2022 average energy prices increased by 28.6% in the eurozone area. In response:

- the German Government provided subsidies to energy producers
- the Spanish Government reduced indirect taxes on energy bills
- the French Government introduced a maximum price on energy bills.

Evaluate **two** possible measures that could be introduced to reduce the price that consumers pay for energy.

Include at least one diagram in your answer.

(Total for question = 20 marks)

Q16.

Between 1970 and 2020 the Maldives experienced 30 major flood events. One contributing factor was under-investment in flood defences.

Builders of new hotels are required to complete extensive paperwork to show how they plan to minimise flood risk. This results in excessive administrative costs.

With reference to the Maldives, explain the difference between 'market failure' and 'government failure'.

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(Total for question = 4 marks)

Q17.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Which **one** of the following is an example of government failure?

☒ **A** Government intervention leads to a net welfare gain

☒ **B** A new environmental regulation leads to excessive administrative costs

☒ **C** Speculators cause a market bubble to emerge in the housing market

☒ **D** Free riders lead to the underprovision of public goods

(Total for question = 1 mark)

Q18.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Which **one** of the following is an example of government failure?

☒ **A** Overconsumption of sugar that creates external costs

☒ **B** Smuggling of petrol resulting from the introduction of an indirect tax

☒ **C** An increase in the price of timber that creates an incentive to increase its production

☒ **D** Government provision of flood defences to resolve the free rider problem

(Total for question = 1 mark)

Q19.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Which **one** of the following is an example of government failure?

☒ **A** Market forces eliminating excess supply of a product by enabling its price to fall

☒ **B** A market bubble emerging in the value of shares on the stock exchange

☒ **C** The introduction of a tax that causes a decrease in external costs

☒ **D** The introduction of a tax that causes an increase in smuggling

(Total for question = 1 mark)

Q20.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Which **one** of the following is an example of government failure?

☒ **A** The non-provision of public goods by private sector firms

☒ **B** External costs of production in the manufacture of Tesla cars

☒ **C** Asymmetric information between a private dental practice and its patients

☒ **D** Excessive administrative costs in the provision of state-owned services

(Total for question = 1 mark)

Q21.

In the UK the maximum price for a unit of electricity for domestic consumers was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022.

Evaluate the microeconomic effects of an increase in the maximum price of electricity.

(Total for question = 20 marks)

Q22.

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering this question.

Define the term 'tradeable pollution permit scheme'. (Extract B, line 16)

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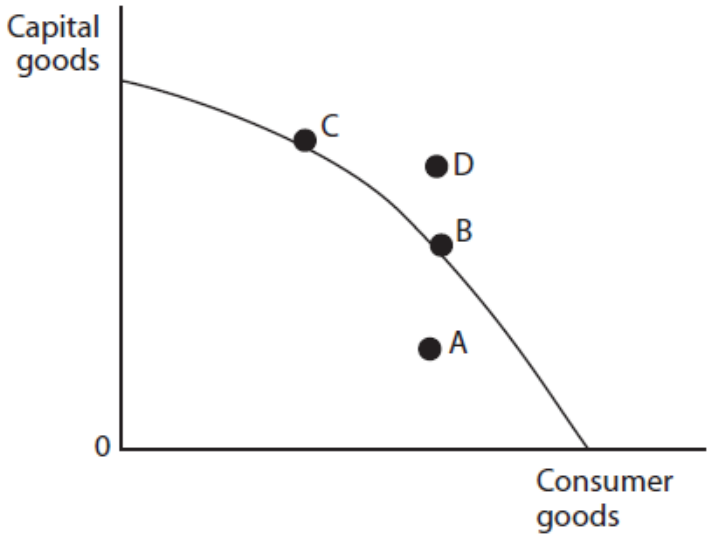
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(Total for question = 2 marks)

Q23.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box . If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The diagram shows a production possibility frontier for an economy.



Which point on the diagram shows the position that will lead to the fastest rate of economic growth?

☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for question = 1 mark)

Q24.

In the UK the average student debt was £46 000 for graduates completing their courses in 2017. The UK Government considered reducing the maximum price of university tuition fees from £9 250 to £6 000 per year.

Draw a diagram to illustrate the impact of a decrease in the maximum price of university tuition fees in the UK.

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(Total for question = 4 marks)

Q25.

The US state of South Carolina has proposed a regulation to stop the sale of energy drinks to children under the age of 18.

Explain **one** likely impact of this proposed regulation to stop the sale of energy drinks to children under the age of 18 in South Carolina.

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(Total for question = 4 marks)

Q26.

'12 million consumers within the UK are on standard variable tariffs for their gas and electricity. One energy supplier, RWE npower, charged consumers on the standard variable rate £1 166 per year. However, its cheapest deal was £935 per year. Consequently the UK Government is introducing a maximum price for gas and electricity.'

Evaluate the likely impact of the introduction of a maximum price for gas and electricity.

(Total for question = 20 marks)

Q27.

Romania plans to impose a maximum price in the market for gas below the current equilibrium price.

Draw a diagram to illustrate the impact of the introduction of the maximum price on the market for gas in Romania.

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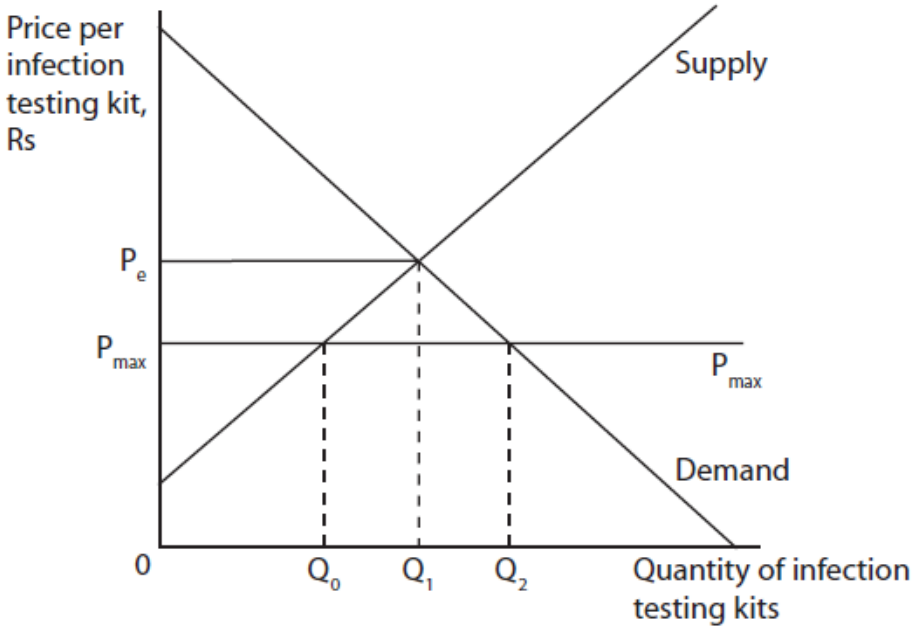
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(Total for question = 4 marks)

Q28.

The diagram shows the market for infection testing kits in Odisha, India.



The Government in Odisha imposed a maximum price, P_{max}, on infection testing kits.

Which **one** of the following can be deduced from the diagram?

☒ **A** Quantity supplied extends from Q_0 to Q_1

☒ **B** Quantity demanded contracts from Q_2 to Q_1

☒ **C** Excess demand will be equal to Q_0Q_2

☒ **D** Excess supply will be equal to Q_0Q_2

(Total for question = 1 mark)

Q29.

In November 2020 the Government of Sri Lanka introduced a maximum price of Rs 80 per kilogram for white rice. This price was below the market price.

Evaluate the impact of imposing this maximum price on the market for white rice in Sri Lanka.

(Total for question = 20 marks)

Q30.

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering the question.

With reference to Extract C, examine two microeconomic effects of Finland's decision to remove the sugar tax.

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(Total for question = 8 marks)

Q31.

In 2022 the minimum price of milk was set above the equilibrium price in Canada. On 1 February 2023 the Canadian Government increased the minimum price of milk by 2.2%.

Ceteris paribus, explain the likely impact on excess supply of this increase in the minimum price.

Illustrate your answer with a supply and demand diagram.

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(Total for question = 4 marks)

Q32.

Answer the question with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

Between November 2022 and November 2023, the average price of milk decreased by 36.8% in Ireland.

Which **one** of the following is most likely to result from the introduction of a minimum guaranteed price for milk above the equilibrium price?

☒ **A** An excess supply of milk

☒ **B** An excess demand for milk

☒ **C** An increase in consumer surplus

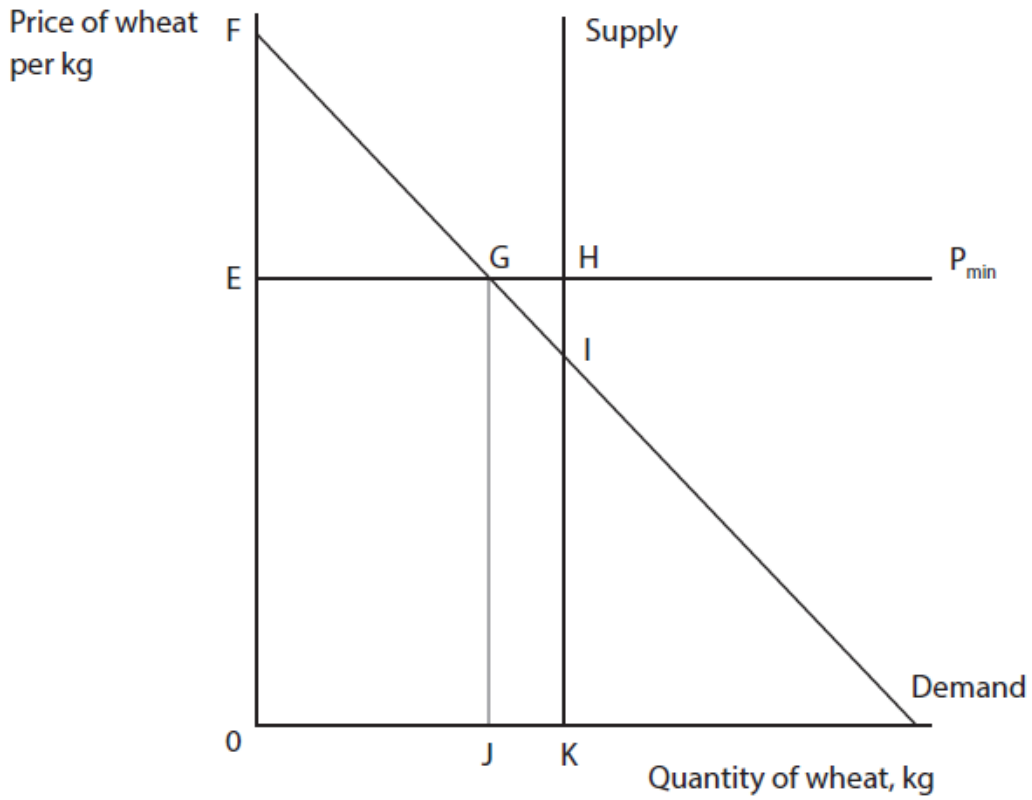
☒ **D** A decrease in producer surplus

(Total for question = 1 mark)

Q33.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The diagram represents the market for wheat in India. The Government of India operates a minimum price scheme for wheat. It agrees to buy any surpluses from farmers at the minimum price of 0E.



Which **one** of the following can be deduced from this information?

☒ **A** The Government will spend GHKJ

☒ **B** The Government will spend EFG

☒ **C** The Government will spend GHI

☒ **D** The Government will spend EHK0

(Total for question = 1 mark)

Q34.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The European Union (EU) has a tradeable permit scheme for carbon emissions. The price of a carbon permit was below €5 in 2013 and increased to €25 in 2019.

Which **one** of the following is the most likely reason for the increase in the price of carbon permits?

☐ **A** The EU issued too few permits in 2013

☐ **B** The EU issued too many permits in 2019

☐ **C** The demand for permits decreased between 2013 and 2019

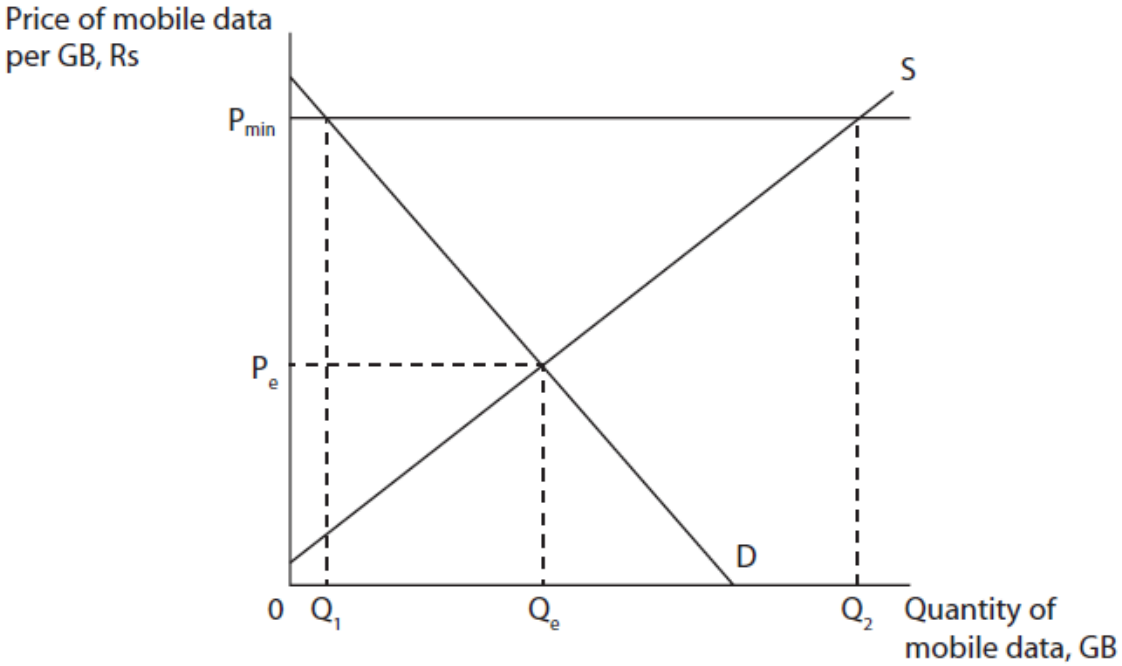
☐ **D** The supply of permits was reduced between 2013 and 2019

(Total for question = 1 mark)

Q35.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

In India, Vodafone has requested that the government imposes a minimum price for mobile data of Rs35 per gigabyte (GB). The current market price is Rs5. The diagram shows the possible impact of a minimum price introduced at Pmin.



Which **one** of the following can be deduced from the diagram following the imposition of the minimum price?

☒ **A** Excess supply is Q_1Q_2

☒ **B** Excess demand is Q_1Q_2

☒ **C** Supply contracts from Q_e to Q_2

☒ **D** Demand extends from Q_e to Q_1

(Total for question = 1 mark)

Q36.

'The HPV vaccine is recommended for all adults in the USA because it reduces the risk of cancer by 88%. If the HPV vaccine was given to all adults 925 000 cases of cancer would be prevented. However only 18.3% of adults were vaccinated between 2011 and 2014 preventing 170 000 cases of cancer.'

Evaluate why only 18.3% of adults were vaccinated.

(Total for question = 20 marks)

Q37.

In 2017 the Government of the Philippines imposed a 50% tax on the import of cars with a price above $74 000. Since then the Government has seized smuggled cars. For example, in July 2018, it removed 800 smuggled cars from the market.

Explain why this tax on imported cars is an example of government failure.

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(Total for question = 4 marks)

Q38.

In 2020 dairy farmers in India sold milk at a market equilibrium price of Rs20 per litre. This price resulted in many farmers making a loss. Therefore, dairy farmers asked the Indian Government to introduce a minimum price of Rs30 per litre.

Draw a diagram to illustrate the impact of the introduction of a minimum price for milk in India.

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(Total for question = 4 marks)

Q39.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

In 2021 the UK's tradeable pollution permits scheme issued 4.4 million permits to airline companies. However, the industry only required 3.3 million permits.

Which **one** of the following is the likely result of supplying this number of permits?

☒ **A** The market price of permits will decrease

☒ **B** The market price of permits will increase

☒ **C** Airline companies will leave the market as a result of increased costs

☒ **D** Airline companies will have more incentive to invest in cleaner technology

(Total for question = 1 mark)

Q40.

In 2015 the Government of South Korea introduced a tradeable pollution permit scheme. This scheme applies to 70% of all businesses and includes power generation, manufacturing and domestic aviation.

Evaluate the possible benefits of introducing a tradeable pollution permit scheme.

(Total for question = 20 marks)