PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



EXAM QUESTION PACK

UNIT 1: MARKET FAILURE

SCORE	PERCENTAGE
/289	%

STEMUP

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Q1.

The table shows the amount of greenhouse gas emissions resulting from the production of three meat products.

Meat	Greenhouse gas emissions per kilogram (kg) of meat produced
Beef	60 kg
Lamb	24 kg
Poultry	6 kg

With reference to the table, explain what is meant by 'external costs of production'.

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(Total for question = 4 marks)

Q2.

Study Figure 1, Extract A, Figure 2 and Extract B in the Source Booklet before answering this question.

Define the term 'external costs' (Extract B, line 3).

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(Total for question = 2 marks)

Q3.

Define the term 'information gap' (Extract B, line 3).

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(Total for question = 2 marks)

Q4.

Governments of European Union countries spend a total of €3 billion a year on street lighting.

With reference to the provision of street lights, explain what is meant by the term 'public good'.

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(Total for question = 4 marks)

Q5.

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

Define the term 'market failure' (Extract A, line 14).

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(Total for question = 2 marks)

Q6.

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

Discuss reasons why the 'quantity of education is below the social optimum level' (Extract B, lines 2 and 3). Refer to external benefits in your answer.

Illustrate your answer with an appropriate diagram.

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(Total for question = 14 marks)

Q7.

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

With reference to Extract C, discuss the likely effects of the increase in the subsidy for sugar production.

Illustrate your answer with an appropriate diagram.

(Total for question = 14 marks)

Q8.

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

With reference to Figure 1, Extract A and Extract B, discuss the likely microeconomic effects of a housing market bubble in New Zealand.

(Total for question = 14 marks)

Q9.

Study Figures 1 and 2 and Extracts A and B in the Source Booklet.

With reference to Extract B, discuss the externalities associated with the production of palm oil.

Illustrate your answer with an appropriate diagram.

(Total for question = 14 marks)

Q10.

According to research, university education results in substantial external benefits. These include longer life expectancy, less crime, lower welfare payments and the adoption of new technology.

Draw a diagram to illustrate these external benefits.

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(Total for question = 4 marks)

Q11.

In the UK, in 2018, 10 million consumers travelling abroad did not take out travel insurance. This is despite 30% of consumers with travel insurance having to make a claim and the average medical bill costing £5 620.

Evaluate reasons for the underconsumption of travel insurance.

(Total for question = 20 marks)

Q12.

In 2017 floods in Bangladesh resulted in 8 million people having to move from their homes. 100 000 houses were destroyed and many crops were lost. The Institute of Water and Flood Management claim that there had been an under-investment in flood defences.

Evaluate reasons for this under-investment in flood defences. Make reference to public goods in your answer.

(Total for question = 20 marks)

Q13.

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

With reference to Extract B, examine the external costs associated with the production of cocoa beans.

(Total for question = 8 marks)

Q14.

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

With reference to the second and third paragraphs of Extract A, examine **two** external costs associated with chicken production.

(Total for question = 8 marks)

Q15.

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

With reference to Extract B, examine **two** external costs associated with rice production.

(Total for question = 8 marks)

Q16.

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

With reference to Extract C, examine whether national parks in New Zealand are public goods.

(Total for question = 8 marks)

Q17.

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

With reference to Extract C, discuss the microeconomic effects of the increase in smartphone manufacturing between 2011 and 2021. Refer to external costs in your answer.

Illustrate your answer with an externalities diagram.

(Total for question = 14 marks)

Q18.

Adam Smith wrote that by applying the division of labour in a pin factory, ten workers were able to increase production from 200 pins per day to 48 000 pins per day.

Explain **one** advantage to firms of using division of labour to organise production.

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(Total for question = 4 marks)

Q19.

In the USA 92% of people had private health insurance in 2021. It is estimated that, in the USA, $200 billion per year is spent on unnecessary operations.

Explain **one** microeconomic reason why people might have unnecessary operations in the USA.

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(Total for question = 4 marks)

Q20.

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)

Q21.

In 2022 there were 24 300 lighthouses globally. Between 2013 and 2022 the number of losses of ships at sea fell from 109 to 38.

With reference to lighthouses, explain the difference between 'non-rivalry' and 'non-excludability'.

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(Total for question = 4 marks)

Q22.

Emiliana Lucas owns a farm in Tanzania on which she grows sunflowers. In 2020 Tania, her neighbour, started a honey bee farm. The honey bees pollinated Emiliana's sunflowers. As a result, seed production on Emiliana's farm increased from 300kg in 2019 to 620kg in 2020.

With reference to the information provided, explain the difference between private benefits and external benefits.

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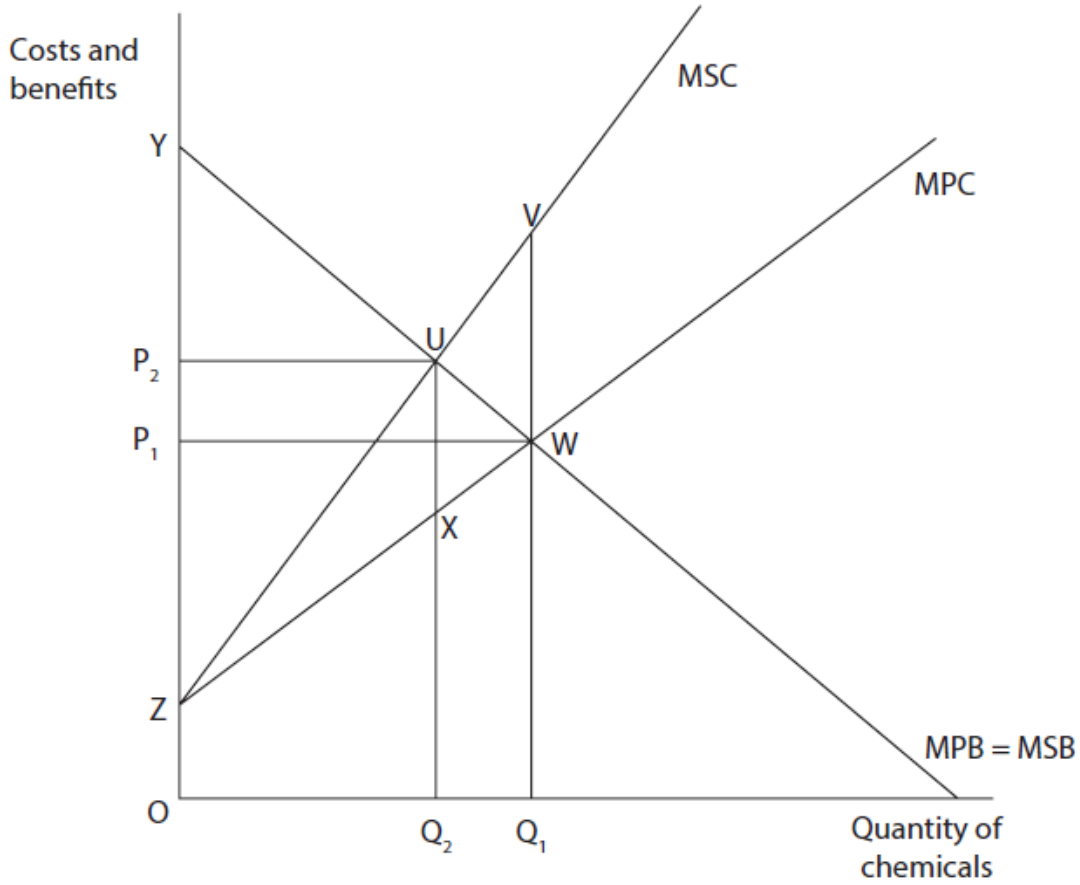
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(Total for question = 4 marks)

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 ☒ and then mark your new answer with a cross ☒.

The diagram shows an externalities diagram for the production of chemicals.



Which **one** of the following shows the area of welfare loss?

☒ **A** UVW

☒ **B** UWX

☒ **C** ZP_1W

☒ **D** ZP_2U

(Total for question = 1 mark)

Q24.

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

With reference to Extract B, discuss the external costs associated with tyre production and

consumption.

(Total for question = 14 marks)

Q25.

With reference to Extract B, examine the external costs associated with the consumption and disposal of plastic bags.

(Total for question = 8 marks)

Q26.

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

With reference to Extract B, examine **two** external costs associated with the production of clothing.

(Total for question = 8 marks)

Q27.

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

Define the term 'external costs' (Extract C, line 11).

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(Total for question = 2 marks)

Q28.

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 market failure?

☒ **A** Lower prices create an incentive for firms to switch production to more profitable activities

☒ **B** Excessive administrative costs are involved in meeting environmental regulations

☒ **C** Government provision of street lights that is greater than the social optimum output

☒ **D** Insured consumers take more risks in the knowledge that the insurer will pay any resulting costs

(Total for question = 1 mark)

Q29.

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 a characteristic of symmetric information?

☒ **A** Buyers have more information than sellers

☒ **B** Sellers have more information than buyers

☒

C Buyers and sellers have the same level of information

☒ **D** Buyers and sellers experience market failure

(Total for question = 1 mark)

Q30.

Many consumers do not buy travel insurance before going on holiday abroad, despite the likely substantial costs if they need medical care.
Many car drivers do not provide complete and accurate information to car insurance companies when insuring their cars.

Evaluate the microeconomic effects of imperfect information on insurance markets.

(Total for question = 20 marks)

Q31.

A report identified that Hong Kong is the city with the highest risk of experiencing a housing market bubble. House prices in Hong Kong increased by 10% per year between 2012 and 2018.

With reference to the Hong Kong housing market, explain what is meant by a 'market bubble'.

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(Total for question = 4 marks)

Q32.

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

☒ **A** Government provision of flood defences that is greater than the social optimum output

☒ **B** Doctors prescribe too many medicines because the cost is covered by health insurance

☒ **C** Lower prices create an incentive for firms to switch production to more profitable activities

☒ **D** Unintended consequences that follow the introduction of an indirect tax

(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 ☒.

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

☒ **A** Excessive administration costs associated with government regulation

☒ **B** Diminishing marginal utility occurring as consumption increases

☒ **C** Rising stock market prices causing a market bubble

☒ **D** Unintended consequences after the introduction of a tax

(Total for question = 1 mark)

Q34.

'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.'

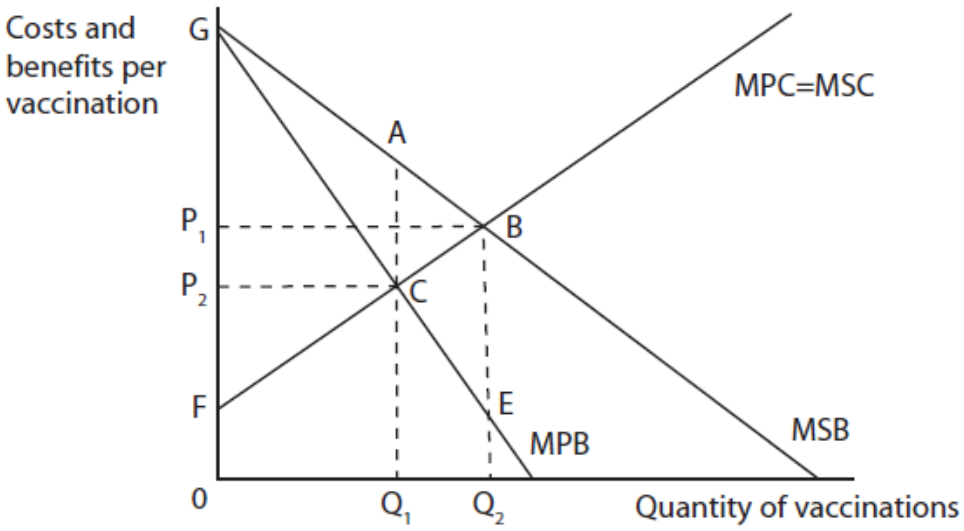
Evaluate the likely impact of the introduction of a maximum price for gas and electricity.

(Total for question = 20 marks)

Q35.

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 diagram shows the market for vaccinations against measles.



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

☒ **A** The social optimum output is Q_1

☒ **B** The market equilibrium output is Q_2

☒ **C** Welfare gain is shown by the area BCE

☒ **D** Welfare gain is shown by the area ABC

(Total for question = 1 mark)

Q36.

In Oregon, USA, research was conducted in which 10 000 citizens were given health insurance and 45 000 citizens were not. On average, the 10 000 citizens with health insurance had far more hospital admissions and emergency department visits.

Explain why the result of this research is an example of moral hazard.

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(Total for question = 4 marks)

Q37.

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 ☒.

Before the global financial crisis of 2008, commercial banks expected that their governments would not allow them to fail because of the threats to the rest of the economy. This meant that some staff at banks took excessive risks when lending and investing.

Which **one** of the following concepts best describes the behaviour of staff at these banks?

☒ **A** Inertia

☒ **B** The free–rider problem

☒ **C** Moral hazard

☒

D Market bubble

(Total for question = 1 mark)

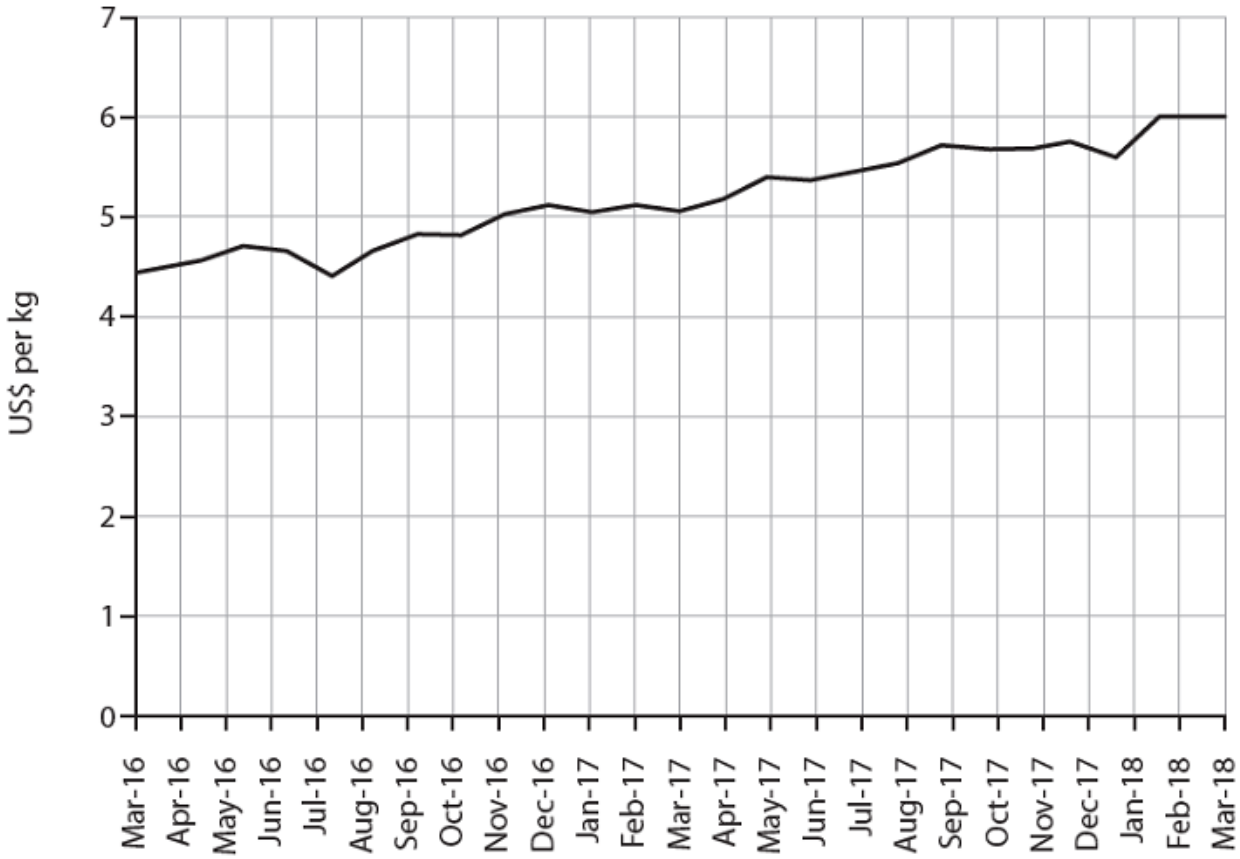
Q38.

The market for meat

Figure 1 Australian consumers' income elasticity of demand for lamb

	Income elasticity of demand (estimated)
Lamb	– 0.146

Figure 2 World price of lamb, US$ per kg, March 2016 to March 2018



Extract A The price of lamb

The rise in the price of lamb has come at a time when supply is stable. Higher demand for lamb has been caused by a number of factors. Rising global incomes led to a 28% increase in demand for Australian lamb in 2017. At the same time demand has risen in the USA. Successful advertising campaigns have also contributed to increased demand.

The lambs in Australia are often allowed to walk and graze freely and most of their food is wild grass which is considered to be a free good.

Extract B Indirect tax on meat needed to address climate change

Meat consumption continues to increase around the world and meat production has risen in response. However, meat production has a damaging effect on the environment causing water pollution and 15% of all global greenhouse gas emissions. Excessive use of antibiotics to treat animals is also leading to a decline in the effectiveness of antibiotics used to treat human illnesses.

Many people consume too much meat, seriously damaging their health. This results in an increase in obesity, diabetes and cancer. For example, consuming 100 grams of red meat per day increases the risk of developing diabetes by 19%.

The Paris climate agreement set limits on the amount of global greenhouse gas emissions. However these targets will be missed unless taxes are used to restrict production and consumption.

One study looked at the impact of the introduction of a global meat tax. This study found a 40% tax on beef, a 20% tax on dairy products and a 8.5% tax on chicken would reduce emissions and save 500 000 lives a year.

The problems associated with meat production are not well-known by the public. One way to reduce emissions without the need for a tax would be for governments to provide the public with information on the external costs associated with meat production and consumption.

With reference to Extract B, examine the external costs resulting from increased meat production.

(Total for question = 8 marks)

Q39.

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

With reference to Extract B, discuss the external costs associated with the production and the use of fertiliser.

Illustrate your answer with an appropriate diagram.