

2.10 Market Failure

Question Paper

Course	CIEIGCSE Economics
Section	2. The Allocation of Resources
Topic	2.10 Market Failure
Difficulty	Medium

Time allowed: 20
Score: /16
Percentage: /100

Question 1

What suggests that there is market failure?

- A. high producer profits
- B. high retail prices
- C. lack of competition
- D. low levels of investment

[1 mark]

Question 2

A private sector firm is given a contract by the government to supply a country's water. Which government directive will minimise the risk of market failure?

- A. allow the firm to ration water rather than meet demand
- B. ensure the firm's supply includes all areas which are expensive to service
- C. insist that the firm aims to maximise profits
- D. instruct the firm to provide water only to those who can pay for it

[1 mark]

Question 3

In a private market system certain goods and services would not be available unless the government intervened.

What does this identify in a private market?

- A. market distribution
- B. market equilibrium
- C. market failure
- D. market structure

[1 mark]

Question 4

China has built a new railway in Kenya from the capital, Nairobi, to the seaport of Mombasa. Kenya must repay the cost of the railway to China. Journey time has been reduced significantly but fares have increased and farmers have lost agricultural land along the new line.

Who bears the external costs of this operation?

- A. China who built the new railway
- B. farmers who have lost agricultural land
- C. Kenya who must repay the cost to China
- D. passengers who pay the higher fare

[1 mark]

Question 5

Sometimes the government regulates the market to protect the interests of consumers.

Which kind of regulation would achieve this protection?

- A. discouraging economies of scale that lead to lower costs
- B. preventing mergers which result in high monopoly prices
- C. reducing shop opening hours
- D. reducing the range of products supplied to the market

[1 mark]

Question 6

What causes market failure?

- A. government provision of services
- B. social costs equal private costs
- C. the existence of external benefits
- D. the existence of perfect competition

[1 mark]

Question 7

A major highway has been built at a cost of US\$175 million between Nairobi, Kenya and its suburbs. This reduces travel time and increases safety, but there are environmental problems for small enterprises along its route.

Who bears the external costs of this project?

- A. the authorities who paid for the highway
- B. the commuters who travel to work in Nairobi
- C. the construction companies that built the highway
- D. the small enterprises along the route

[1 mark]

Question 8

Coal production in the UK has declined in recent years. One reason given for this is that the social cost of coal production is too high.

What best describes the social cost of coal production?

- A. all the benefits of coal production minus all the costs of coal production
- B. the cost of the environmental damage caused by coal production
- C. the cost to the government of subsidising the coal industry
- D. the private costs of coal production plus the external costs of coal production

[1 mark]

Question 9

A government approved the construction of a new railway line connecting major cities. It would be built by a private company but be funded partly through taxation. It would create many jobs. People living on the route worried about the harm to their environment.

Which concepts are directly involved in this statement?

- A. excess demand and public corporation
- B. government subsidies and perfect competition
- C. market system and income distribution
- D. private benefit and external cost

[1 mark]

Question 10

The government wants to reduce the consumption of cigarettes.

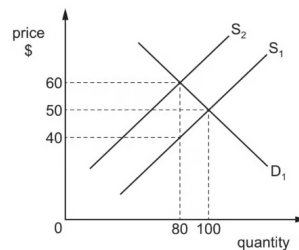
Which policy would be **most** likely to do this?

- A. increasing a subsidy on cigarettes
- B. increasing income tax
- C. increasing interest rates
- D. increasing the indirect tax on cigarettes

[1 mark]

Question 11

The diagram shows the impact of a government imposing an indirect tax on a good. The original demand curve is D_1 and original supply curve is S_1 .



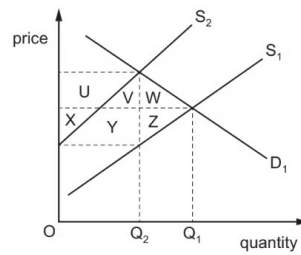
What is the total tax revenue gained by the government?

- A. \$1600
- B. \$3200
- C. \$4800
- D. \$5000

[1 mark]

Question 12

The diagram shows the effect of the imposition of a tax on a product.



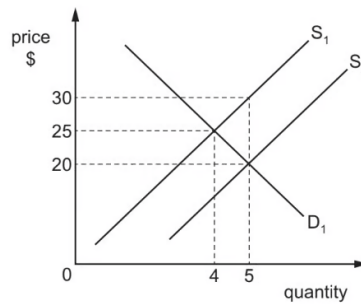
Which area represents the part of the tax paid by consumers of the product?

- A. U+V
- B. U+V+W
- C. U+V+X+Y
- D. U+X

[1 mark]

Question 13

The diagram shows the demand curve D_1 and supply curve S_1 for a good. The government introduces a subsidy to encourage production.



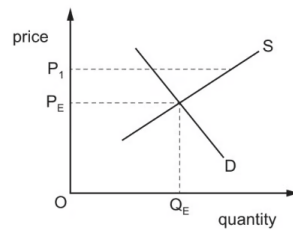
What will be the total cost of the subsidy to the government?

- A. \$40
- B. \$50
- C. \$100
- D. \$150

[1 mark]

Question 14

The diagram shows the equilibrium market price P_E and quantity Q_E for rice in a country.



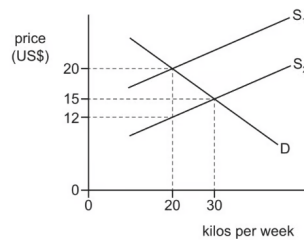
Which government action could cause the market price for rice to become P_1 ?

- A. encouraging the export of rice from the country
- B. imposing a maximum price below the market price for rice
- C. providing a subsidy to farmers to produce more rice
- D. reducing import tariffs on rice

[1 mark]

Question 15

In the diagram, which level of subsidy per kilo would a government have to give to producers to encourage them to increase production from 20 kilos per week to 30 kilos per week?



- A. US\$3 per kilo
- B. US\$5 per kilo
- C. US\$8 per kilo
- D. US\$15 per kilo

[1 mark]

Question 16

Which situation involving the building industry is most likely to be investigated by a government body set up to control restrictive practices?

- A. a builder purchasing a plot of land for development of housing
- B. groups of suppliers of building materials agreeing to fix prices
- C. several builders bidding for the same contracts
- D. several builders using different sources of supply

[1 mark]