

# 2.10 Market Failure

## Question Paper

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

**Time allowed:** 170  
**Score:** /137  
**Percentage:** /100

### Question 1

Tanzania is a low-income country with relatively high import tariffs. Between 2012 and 2015, Tanzania experienced a high economic growth rate. This allowed the government to provide more public goods. The government also increased its investment in the merit goods of education and healthcare. Tanzania's central bank influenced household borrowing and spending with the aim of achieving price stability. As a result the country's inflation rate fell, with money losing less of its value.

**Explain** why governments provide public goods.

[4 marks]

### Question 2

The population of Hungary is the most obese in Europe. Hungarians eat fewer vegetables than most Europeans and more food types that may be considered to be demerit goods. In 2017, the Hungarian government introduced a tax on unhealthy food, known as the chips tax. The tax has had some success in moving demand to healthier foods. Some economists suggest that governments should use price controls as well as taxes to influence the food market.

**Define** demerit good.

[2 marks]

### Question 3

**Explain two** external costs of the destruction of forests in Indonesia.

Refer to the [source material](#) in your answers

[4 marks]

**Question 4**

**Explain** why external costs cause market failure.

Refer to the [source material](#) in your answers.

**[4 marks]**

**Question 5**

**Explain**, using information from the extract, **two** external costs that driverless cars could reduce.

Refer to the [source material](#) in your answers

**[4 marks]**

### Question 6

In a mixed economic system, such as Portugal's, the government intervenes in the economy. Reasons for government intervention include to correct market failure and to achieve its aims for the economy, such as control of inflation. In 2017, one-fifth of Portugal's population was living in poverty and the government increased its spending.

**Identify** two reasons why market failure may occur

[2 marks]

### Question 7

**Calculate** the external cost per kilometre of driving a car in Manila in 2017.

Refer to the [source material](#) in your answers.

[1 mark]

### Question 8

Explain **one** reason why traffic congestion can reduce labour productivity.

Refer to the [source material](#) in your answers.

[2 marks]

### Question 9

Russia's birth rate fell by 11% in 2017 to its lowest level for a decade. Over the next 30 years, Russia's population is forecast to fall from 144 million to 107 million. The government announced measures to reverse this decline in population. In 2017, it also announced privatisation plans and measures to reverse a decrease in investment which could lead to a fall in the quantity of capital goods. Privatisation can reduce monopoly power in a market.

**Define** *privatisation*.

[2 marks]

### Question 10

The food items people buy can be influenced by taxes, subsidies and health reports. A report published in 2017 outlined the health benefits of eating tomatoes including improved vision and reduced risk of heart disease. Egypt is a major producer of tomatoes and it also produces a large amount of cement. Cement is a product with price-inelastic demand. Egyptian cement producers have introduced more capital-intensive production methods.

**Identify** the difference between a tax and a *subsidy*.

[2 marks]

### Question 11

Australia's economic growth rate has fallen in recent years. Its Human Development Index (HDI), however, is high and in 2016, Australia had the second highest HDI in the world. The Australian government hopes that the country's birth rate will rise from a low of 12.1 in 2016. An increasing proportion of Australian children are going to private sector schools. Their parents have to pay a fee for them to attend these schools.

**Discuss** whether or not parents should have to pay a fee to send their children to school.

[8 marks]

**Question 12**

A number of book publishers operate in Pakistan. These include multinational companies (MNCs). They employ a range of specialist workers. A number of these specialists estimate the price elasticity of demand (PED) for their firms' books. There is a debate about whether some books should be subsidised by the government.

Discuss whether or not the government should subsidise the production of books.

**[8 marks]**

### Question 13

**Explain**, using information from the extract, **two** reasons for government regulation of the fishing industry in Iceland.

Refer to the [source material](#) in your answers.

[4 marks]

### Question 14

Non-renewable energy (e.g. coal) is thought to cause a higher social cost than renewable energy (e.g. solar or wind power). Excessive demand for non-renewable energy causes a failure of the market economic system. However, producers of renewable energy, some of which specialise in one form of energy, are beginning to produce on a larger scale.

**Define** *social cost*.

[2 marks]

### Question 15

Botswana has a number of conservation projects. These are thought to provide a social benefit to local communities. Botswana has a mixed economic system with tax revenue as a percentage of GDP at 27% in 2017. Some Botswanan economists suggest that the country should move towards a market economic system, taking care to avoid market failure.

**Define** *social benefit*.

[2 marks]

### **Question 16**

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**Analyse** how taxation could reduce market failure.

**[6 marks]**

### **Question 17**

Droughts in the Pacific Coast region of the US and regulations, in the form of limits on the amount of salmon that can be caught in the wild, have reduced the supply of wild salmon. These limits were imposed to avoid market failure in the salmon market. However, the effect of this on the revenue of salmon producers is uncertain. In addition, producers of farmed salmon in the US states of Washington and Alaska have received subsidies from the US government.

**Explain** one market failure that may occur in the salmon market.

**[4 marks]**



### Question 18

Mexico has recently experienced relatively low inflation and the Mexican government wants to maintain this price stability. Despite this its currency has fallen in value with each Mexican peso exchanging for less foreign currency. The government is also trying to reduce pollution in the country. One key cause of pollution in Mexico is car travel. Driving has both private and external costs.

**Define** *private cost*.

[2 marks]

### Question 19

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**Explain two** ways a government could reduce external costs.

[4 marks]

### **Question 20**

**Explain**, using information from the extract, two external costs that arise from oil production in Nigeria.

Refer to the [source material](#) in your answers.

**[4 marks]**

### **Question 21**

The price of dental treatment is increasing in most countries. For example, the average price of filling a tooth is \$180 in the US. The number of dentists is increasing in the US. The largest proportion of the US labour force is employed in the tertiary sector. Price changes have an impact on the supply of products in the tertiary sector as well as in the primary and secondary sectors.

**Discuss** whether or not a government should provide free dental treatment.

**[8 marks]**

### **Question 22**

The United Nations (UN) has set out development goals for countries to achieve by 2050. These goals include:

- conserve natural resources
- ensure education for all
- end poverty everywhere
- promote sustained economic growth

**Explain two** external benefits that can arise from education.

**[4 marks]**

### **Question 23**

More governments are imposing taxes on unhealthy food and drinks. Such taxes are usually regressive. Some of these governments are also increasing their spending on healthcare. In other countries healthcare is provided by the private sector. The number of state-owned enterprises is declining in a number of countries due to privatisation.

**Explain** why the social benefit of healthcare is greater than the private benefit.

**[4 marks]**

### **Question 24**

Swaziland is a small African country where six in ten people live in poverty and most firms are small and use little capital equipment. In October 2015 it opened a new airport. Some economists suggest that the building of the airport involved a high opportunity cost and caused a range of external costs. The building of the airport is part of the government's plan to turn the country from a developing into a developed country.

**Analyse** the external costs that can be caused by the building and expansion of an airport.

**[6 marks]**

### **Question 25**

In the UK, bus journeys outside London have fallen by nearly 40% since 1980. This fall in demand has been largely due to a rise in bus fares, a rise in income and changes in the price and quality of substitutes. On some routes there are monopolies operating and this lack of competition can push up the price.

**Discuss** whether or not a government should subsidise bus transport.

**[8 marks]**

**Question 26**

The production process in the oil industry is capital-intensive. The pollution it generates means it is one cause of environmental market failure. A Nigerian oil monopoly is starting to produce more environmentally friendly liquefied petroleum gas (LPG), rather than kerosene, in an attempt to reduce pollution. The Nigerian government intends to split the monopoly firm into separate companies to improve efficiency.

**Explain** how market failure might occur in the oil industry.

**[4 marks]**

### **Question 27**

India and Ecuador are two major producers of bananas. India is the world's largest producer of bananas while Ecuador is the world's largest exporter. Multinational companies (MNCs) produce some of the bananas in both countries. The World Health Organization (WHO) recommends that each person should eat 400 grams of fruit and vegetables a day. To encourage people to eat more fruit and vegetables governments may use policy measures such as maximum prices and subsidies.

**Define** maximum price.

**[2 marks]**

### **Question 28**

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**Discuss** whether or not a government subsidy given to fruit producers will benefit consumers.

**[8 marks]**

**Question 29**

The population of Hungary is the most obese in Europe. Hungarians eat fewer vegetables than most Europeans and more food types that may be considered to be demerit goods. In 2017, the Hungarian government introduced a tax on unhealthy food, known as the chips tax. The tax has had some success in moving demand to healthier foods. Some economists suggest that governments should use price controls as well as taxes to influence the food market.

**Discuss** whether or not a government should impose a maximum price on food.

**[8 marks]**

### **Question 30**

**Discuss** whether or not increasing subsidies given to bus travel would reduce pollution in India.

Refer to the [source material](#) in your answers.

**[6 marks]**

### **Question 31**

Changes in tobacco production and consumption can have both microeconomic and macroeconomic effects. Tobacco plants are grown in at least 124 countries with different levels of development. A higher proportion of the poor than of the rich consume tobacco products. The market for cigarettes, produced using tobacco, is changing. Demand for cigarettes and some other demerit goods is declining in a number of countries.

**Discuss** whether or not government intervention will correct the market failure caused by a demerit good.

**[8 marks]**



