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Centre number

Candidate number

Surname _____

Forename(s) _____

Candidate signature _____

A-level ECONOMICS

Benchmark 3b: (A) 20 Multiple Choice Questions (B) 25 Mark Essay

Tuesday 31st March

Morning

Time Allowed: 1 hour

Materials

For this paper you must have:

- the insert
- a calculator.

Instructions

- Answer **all** questions.
- Use **black ink** or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- You will need to refer to the insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this answer book. Cross through any work that you do not want to be marked.

Information

- The maximum mark for this paper is 45
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Section A:

Please answer all the following questions on a separate answer sheet.

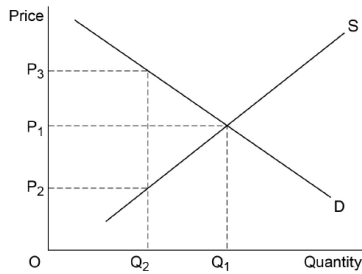
Question 1

The free market equilibrium price for a merit good is £50 per unit. At present, the government does not intervene in the market for this good. The government is most likely to correct the market failure associated with this merit good if it

- A imposes a maximum price of above £50 per unit.
- B sets a minimum price of £50 per unit.
- C taxes the free market price.
- D subsidises the free market price.

Question 2

The diagram below illustrates the market demand (D) and market supply (S) curves for a good. The production of the good creates a negative externality.

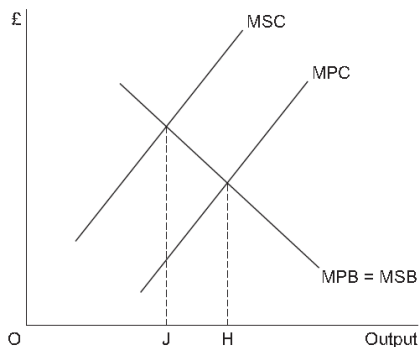


To reduce production and consumption of the good to OQ_2 , the government could impose a

- A price ceiling of OP_3 .
- B tax of P_2P_3 .
- C minimum price of OP_2 .
- D tax of P_2P_1 .

Question 3

The diagram below shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves for a good which generates negative externalities in production.



In the absence of government intervention, a misallocation of resources is likely to occur because

- A there is underconsumption of JH.
- B market output is too low.
- C market price is too high.
- D there is overproduction of JH.

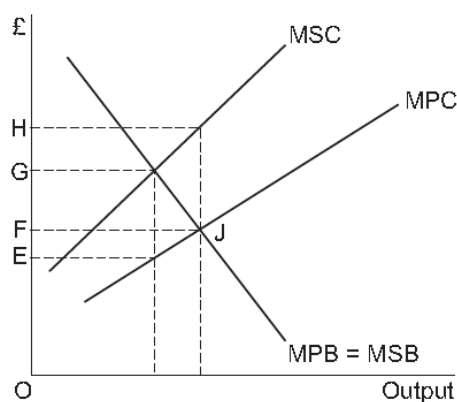
Question 4

Which one of the following is most likely to be a reason for government failure?

- A The negative externalities that result from the production of some goods and services
- B The difficulties in determining the true social costs and benefits of merit goods
- C Missing markets for public goods and merit goods
- D Excessive consumption of demerit goods

Question 5

The diagram below shows the marginal private benefit (MPB) and marginal social benefit (MSB) curves and the marginal private cost (MPC) and marginal social cost (MSC) curves for Good X produced by a firm. The free market equilibrium position is at point J.



Which one of the following government policies should be used to correct the market failure that exists at point J?

- A A per unit subsidy of FH
- B A per unit tax of FG
- C A per unit subsidy of EG
- D A per unit tax of EG

Question 6

Which one of the following would an economist be most likely to classify as a consumption activity?

- A The extraction of coal
- B An individual doing the washing and ironing for clients
- C Someone enjoying the flowers in a public park
- D A garage mechanic replacing the battery in a car

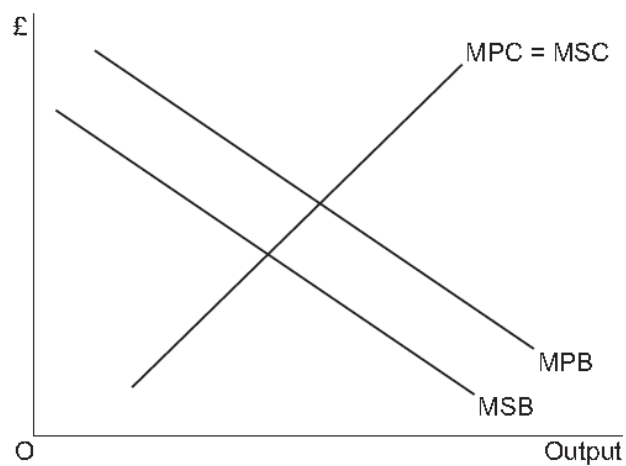
Question 7

Market failure arises when

- A prices rise in response to excess demand.
- B no account is taken of positive externalities in consumption.
- C firms are unprofitable and go out of business.
- D costs increase as firms expand their production.

Question 8

The diagram below shows the marginal private benefit and marginal social benefit (MPB and MSB) curves and the marginal private cost and marginal social cost (MPC and MSC) curves for Good X.



From the diagram it can be inferred that Good X is a

- A merit good.
- B inferior good
- C demerit good.
- D normal good.

Question 9

A government wishing to reduce firms' carbon emissions through the use of pollution permits may fail to achieve such a reduction because

- A firms would need permits if their production processes pollute the environment.
- B firms which do not use all of their permits can sell some of them to other firms.
- C permits issued to firms do not impose strict enough limits on their carbon emissions.
- D firms improve their technology to reduce the number of permits they require.

Question 10

Which one of the following is an appropriate form of government intervention for the problem identified?

- A The introduction of pollution permits to limit negative externalities
- B The use of a tax for a product which generates positive externalities
- C The imposition of a maximum price for a merit good above its free market price
- D The provision of a subsidy for a product which generates negative externalities

Question 11

Which one of the following is most likely to be an example of a supply-side policy?

- A A reduction in the rate of interest to reduce inflation
- B An increase in government expenditure on state pensions
- C A reduction in company taxes to encourage greater investment
- D A rise in the exchange rate to increase exports

Question 12

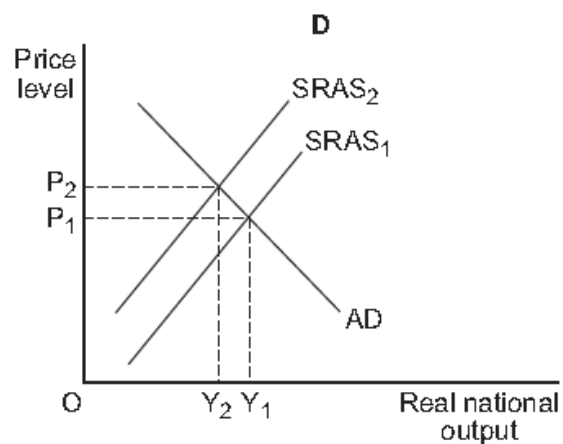
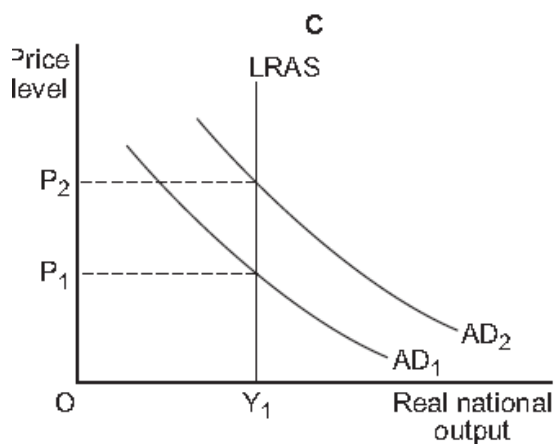
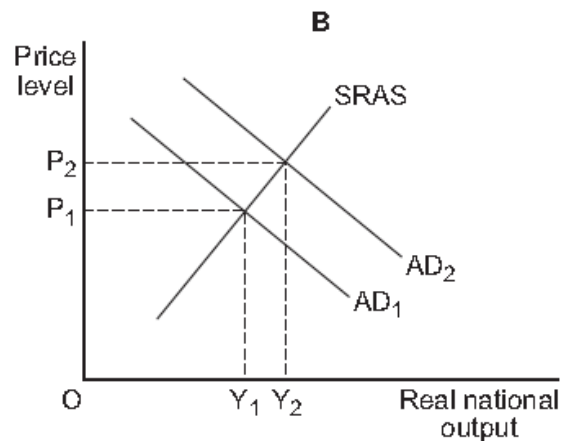
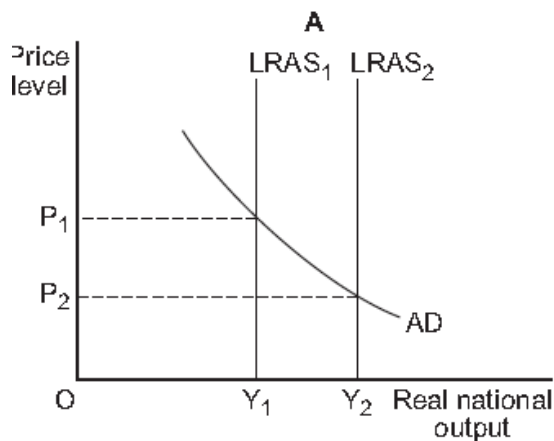
A cut in income tax rates could be considered

- A both a monetary policy and a fiscal policy.
- B both a monetary policy and a supply-side policy.
- C both a fiscal policy and a supply-side policy.
- D neither a monetary policy nor a fiscal policy.

Question 13

The four diagrams below show aggregate demand (AD) and long-run and short-run aggregate supply (LRAS/SRAS) curves for an economy where OP_1 is the initial equilibrium price and OY_1 the initial equilibrium level of real national output.

Which diagram, **A**, **B**, **C** or **D**, shows the change resulting from an increase in innovation and productivity improvements?



Question 14

Fiscal policy involves changes in both

- A** the budget balance and the balance of payments.
- B** interest rates and the supply of credit.
- C** the money supply and the exchange rate.
- D** government spending and tax revenue.

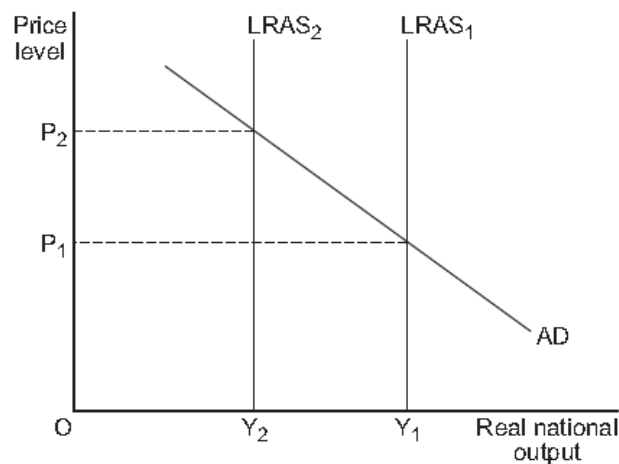
Question 15

An economy is currently operating with a negative output gap. In the short run, if the rate of growth of aggregate demand is positive but less than the rate of growth of productive capacity, then the economy is most likely to experience

- A a decrease in output.
- B an increase in unemployment.
- C a decrease in its trend rate of growth.
- D a decrease in exports.

Question 16

The diagram below shows the aggregate demand (AD) curve and two long-run aggregate supply (LRAS) curves for an economy.



The decline in equilibrium real national output from Y_1 to Y_2 implies that the economy

- A is operating within its production possibility frontier.
- B has a falling level of unemployment.
- C has a negative rate of economic growth.
- D is experiencing a low rate of productivity growth.

Question 17

Which one of the following is an example of expansionary fiscal policy?

- A A reduction in interest rates
- B An increase in the budget deficit
- C An increase in the money supply
- D An increase in tax rates

Question 18

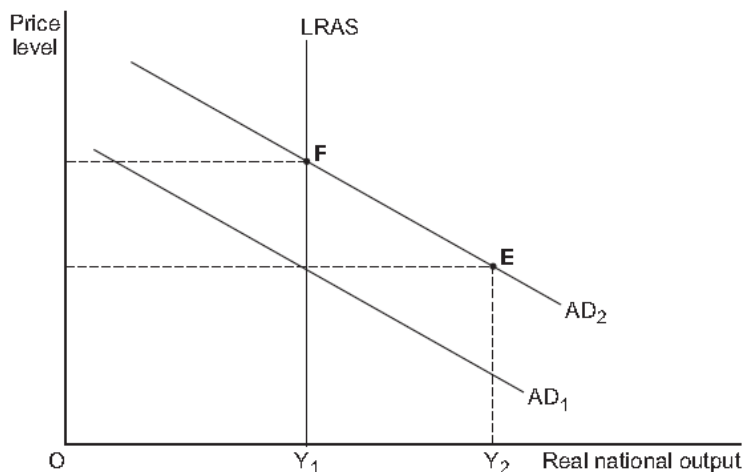
The government introduces a policy which initially increases the budget deficit but, in the long run, increases the trend rate of economic growth.

This policy is most likely to have been

- A placing a tax on imports.
- B increasing subsidies for research and development.
- C bringing about a fall in the exchange rate.
- D increasing the age of retirement.

Question 19

The diagram below shows the aggregate demand (AD) and long-run aggregate supply (LRAS) curves for the UK economy.



The government predicts that aggregate demand will increase in the long run from AD_1 to AD_2 . All other things being equal, which one of the following policies is most likely to move the economy to a new long-run equilibrium at point **E** rather than point **F**?

- A Pursuing an expansionary monetary policy
- B Allowing the exchange rate to rise
- C Increasing taxation
- D Improving the flexibility of the labour market

Question 20

All other things being equal, which one of the following is most likely to cause the long-run aggregate supply curve to shift to the right?

- A The provision of funds by the banking system to finance investment in manufacturing
- B An increase in consumption which causes a rise in the price level
- C A rise in consumption which causes a fall in cyclical unemployment
- D An increase in the provision of government unemployment-related benefits

SECTION B

Please answer the essay below on the separate answer paper provided

To what extent do you agree that further improvements in the UK's economic performance is most likely to be achieved by improvements in the supply-side of the economy? (25 Marks)