

Externality MC Questions

GCE A-LEVEL ECONOMICS

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The tragedy of the commons can be applied to the fishing industry. What is the nature of this market failure?

- A** Over-fishing resulting in declining fish populations ☐
- B** The imposition of fishing quotas by the European Union ☐
- C** The positive externalities associated with fish consumption ☐
- D** The third-party effects on dolphins as a result of tuna fishing ☐

[1 mark]

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[1 mark]

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Immobility of labour may lead to a misallocation of resources and market failure because

- A** a change in the pattern of demand results in structural unemployment. ☐
- B** the education and training needed to reduce labour immobility is a public good. ☐
- C** the government's target for the rate of inflation is too high. ☐
- D** the immobility of factors of production is a negative externality in production. ☐

[1 mark]

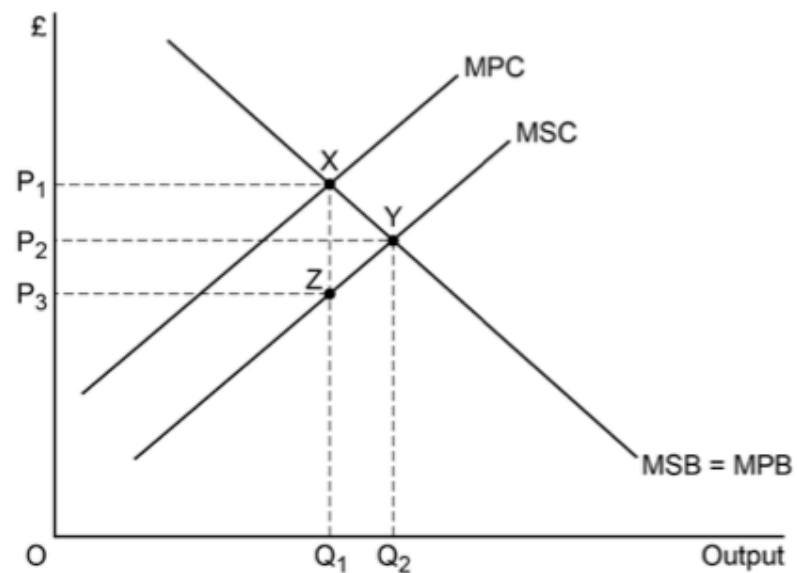
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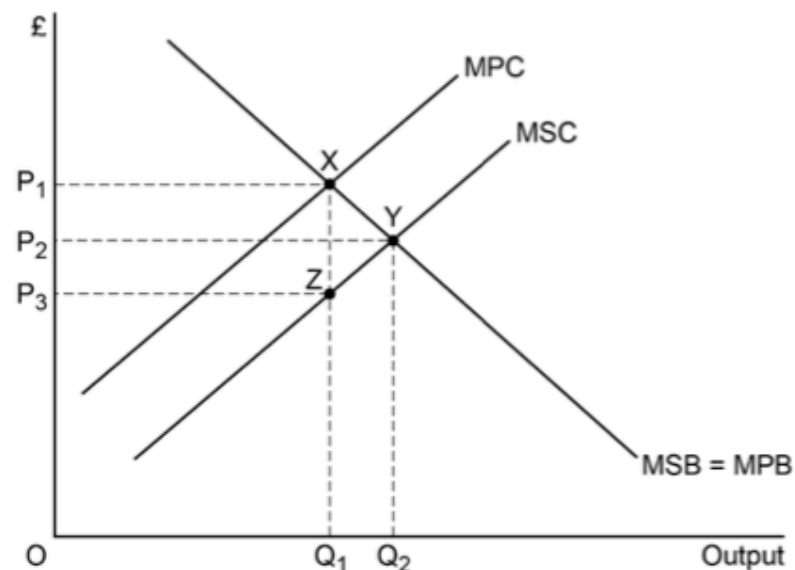
The diagram below shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves in a market where there are positive externalities in production.



At the free market equilibrium, market failure occurs. Which one of the following is correct?

- A As a result of this market failure, consumer surplus is reduced by ZXY ☐
- B As a result of this market failure, there is a deadweight loss to society of P_3P_1XZ ☐
- C P_1 minus P_3 is the subsidy per unit that is required to correct the market failure and achieve the social optimum ☐
- D The diagonal distance XY shows the amount by which marginal private cost exceeds marginal social cost at OQ_2 ☐

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0 1

Demerit goods represent a type of market failure because

- A their consumption results in positive externalities. ☐
- B their production results in negative production externalities. ☐
- C they are over-consumed in a free market. ☐
- D they are under-consumed when left to free market forces. ☐

[1 mark]

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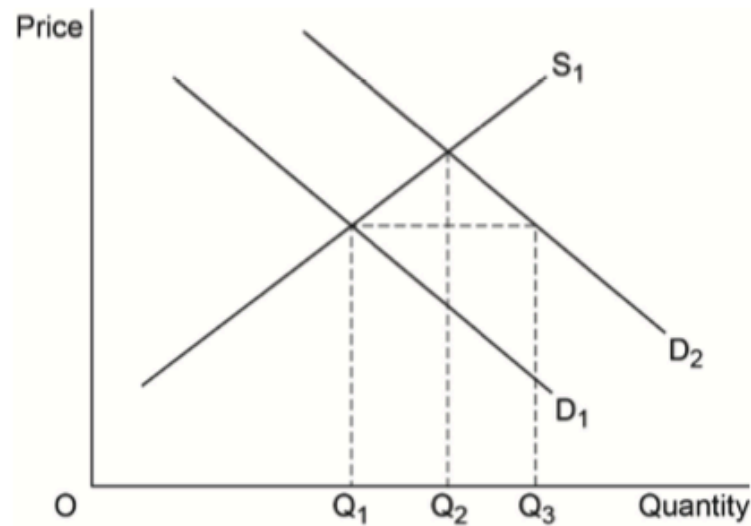
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[1 mark]

1 5

In the diagram below, D_1 and S_1 are, in the absence of government intervention, the market demand and supply curves for a vaccine. The demand curve D_2 shows how much of the vaccine would have been demanded if the external benefits could have been captured by the market.



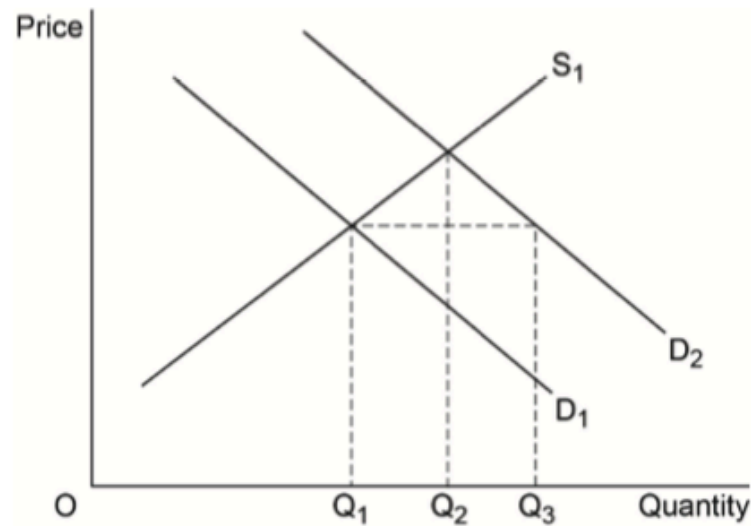
The diagram illustrates that there is a misallocation of resources because in a free market

- A the price of the vaccine is too high. ☐
- B there is excess demand equal to $(Q_3 - Q_1)$. ☐
- C there is under-consumption of the vaccine equal to $(Q_3 - Q_1)$. ☐
- D there is under-production of the vaccine equal to $(Q_2 - Q_1)$. ☐

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1 8

The supply and demand curves for a good in a free market are S_1 and D_1 . If the good generates negative externalities in production but positive externalities in consumption, which intersection, A, B, C or D, could represent the socially optimal equilibrium?



A Intersection A

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B Intersection B

☐

C Intersection C

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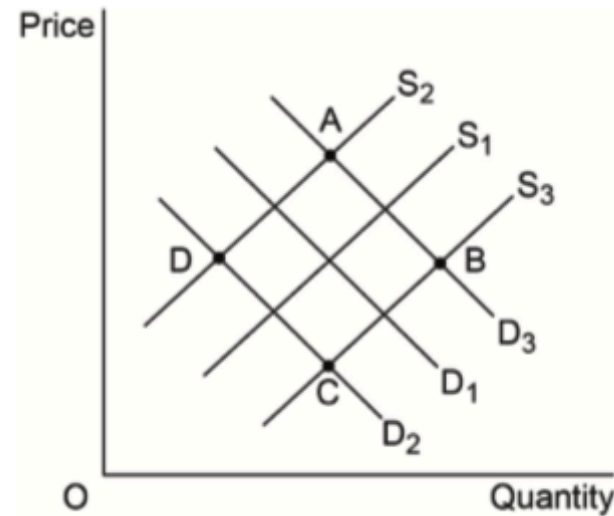
D Intersection D

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A Intersection A

B Intersection B

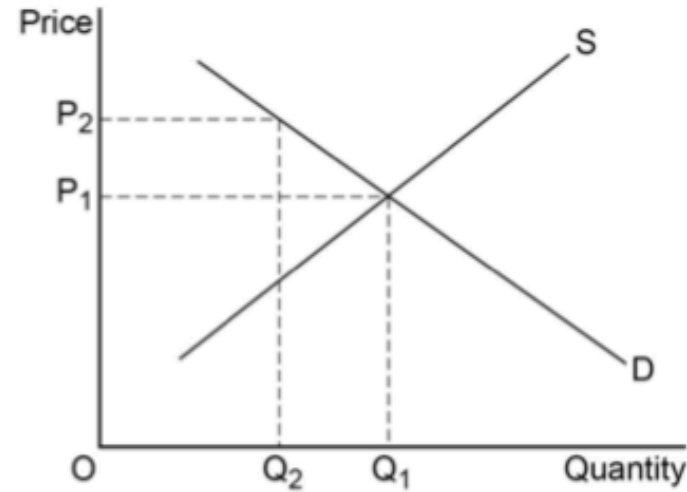
C Intersection C

D Intersection D



[1 mark]

The diagram below shows the demand and supply curves for a good provided solely by a free market.



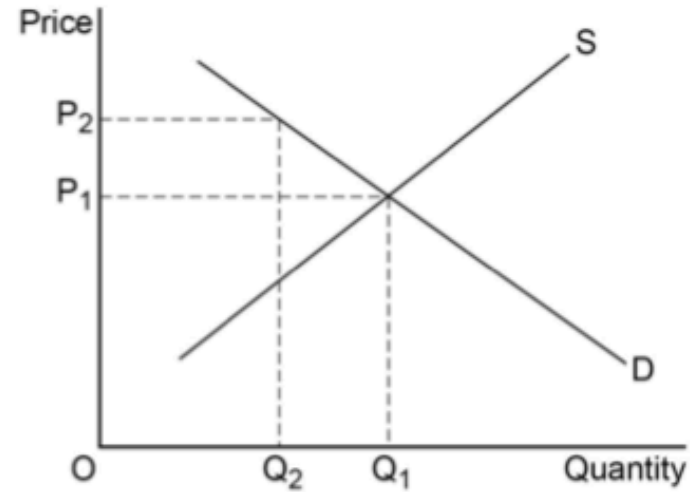
Currently, output is at OQ_1 . However, there is a misallocation of resources resulting in market failure. The socially optimal level of production is OQ_2 . Which one of the following statements is correct? The diagram shows the market for

- A a merit good.
- B a public good.
- C a good with negative externalities in production.
- D a good with positive externalities in production.

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A key distinction between merit goods and demerit goods is that

- A the consumption of merit goods usually gives rise to positive externalities and not negative externalities.
- B in a free market demerit goods will be under-consumed but merit goods will be over-consumed.
- C merit goods have to be provided by the government but demerit goods do not.
- D demerit goods are an example of market failure but merit goods are not.

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[1 mark]

1 2

Which one of the following is the reason why public goods are supplied by the government?

- A Sellers of the good or service are unable to prevent consumers from enjoying its benefits without payment. ☐
- B Producers **demand** a higher price than some members of the public are prepared to pay. ☐
- C Only governments have the technical knowledge required to produce public goods and services. ☐
- D They can only be produced by a monopoly firm to prevent competition from rival suppliers. ☐

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The table below shows the marginal private and external benefits and the marginal private and external costs of two products at their free market equilibrium level of output.

	Product X (£)	Product Y (£)
Marginal private benefit	200	70
Marginal external benefit	50	40
Marginal private cost	200	70
Marginal external cost	90	30

To improve the allocation of resources, what should the government do?

- A Tax product X and subsidise product Y
- B Tax product X and tax product Y
- C Subsidise product X and tax product Y
- D Subsidise product X and subsidise product Y

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