INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business economics – Macro

Chapter: Unit 1

Category: Practice questions

MCQ questions:

1. CT7 April 2011 Q5

If the government fixed a minimum price of bread above the equilibrium price and there was no further government intervention in the market for bread, which of the following would result?

A. There would be a surplus on the market and bread producers' income would fall.
B. There would be an equilibrium in the market but the change in bread producers' income would be uncertain.
C. There would be a shortage on the market and bread producers' income would rise.
D. There would be a surplus on the market but the change in bread producers' income would be uncertain.

Answer – D

2. CT7 September 2017 Q17

The socially efficient output for a monopoly is at the point where:

A. the marginal cost curve cuts the marginal revenue curve.
B. the marginal cost curve cuts the demand curve.
C. the average cost curve cuts the marginal revenue curve.
D. the average cost curve cuts the demand curve

Long questions

1. CT7 April 2011 Q28

(i) Draw a diagram to show a profit maximising monopoly in long run equilibrium.

(ii) Use this diagram to:
(a) Identify "deadweight welfare loss".
(b) Explain why this firm will produce a less than socially efficient level of output.

2. CT7 September 2011 Q33

(i) (a) Explain what is meant by a negative externality in consumption.
(b) Give an example of such an externality.

(ii) Draw a diagram showing the marginal social benefit curve and marginal private benefit curve when a negative externality in consumption exists. Show on your diagram the quantity that would be consumed at the market price P by the private sector as Q1 and the socially optimal level of production as Q2.

3. CT7 April 2012 Q33

(i) Outline the reasons why the market may fail to provide an environment in which technological change can thrive.
(ii) Outline how the government may intervene in the market to encourage firms to undertake research and development.

4. CT7 April 2012 Q35

Outline with the use of examples the key characteristics of public goods.

5. CT7 September 2013 Q33

Outline two possible drawbacks of government intervention in the market.

6. CT7 September 2013 Q36

Describe the main types of policies that governments can use to encourage competition.

7. CT7 April 2014 Q29

Explain the two main characteristics of a public good, giving an example for each.

8. CT7 September 2015 Q37

(i) Propose, with reasons, how the government could use economic measures to intervene in the market to encourage the population to follow a healthy diet.
(ii) Evaluate the effectiveness of the interventions you have described in part (i)

9. CT7 April 2016 Q27

Supply and demand for Good X are initially in equilibrium resulting in an equilibrium price and quantity.
Explain how the introduction of each of the following controls will affect the price, quantity supplied and quantity demanded, and whether the outcome will be a surplus or a shortage of Good X.
(a) A maximum price set below the free market price.
(b) A guaranteed minimum price set above the free market price.

10. CT7 September 2016 Q32

(i) Describe, with the use of an example, an external benefit of production.
(ii) Draw a diagram to illustrate the external benefits of production.

11. CT7 April 2017 Q37

(ii) State the THREE types of competition policy that aim to promote competition in industry.
(iii) Describe the difference between a merger and a takeover making reference to the likely implications for the management teams of the two firms involved.

12. CT7 September 2017 Q37

Microbeads are small plastic particles which are used in many cosmetics and cleaning products. Research has shown that these particles have found their way into the water supply and are causing environmental damage.
(i) Assess, with the use of a diagram, how the use of microbeads will result in a deadweight welfare loss to society.
(ii) Evaluate TWO appropriate forms of government intervention that could be used to reduce the production or consumption of products containing microbeads.

13. CT7 April 2018 Q31

(i) Define the external cost of consumption, including an example.

(ii) Draw a diagram showing the marginal social benefit curve and marginal private benefit curve when a negative externality in consumption exists. You should show on your diagram, the quantity that would be consumed at the market price P1 by the private sector as Q1 and the socially optimal level of consumption as Q2

14. CT7 September 2018 Q31

(i) Describe a collusive oligopoly.

Two airlines are considering working together.
(ii) Discuss THREE factors which would create a more favourable environment for a successful collusion.

15. CT7 September 2018 Q32

(i) Outline an example of a negative externality that may be experienced by an individual in relation to the consumption of food by another party.
(ii) Describe a non-price associated intervention that could be used to address this market failure.

16. CB2 April 2019 Q36

(i) Describe what is meant by "restrictive practices" in connection with firms, giving specific examples of restrictive practices in the real world.
(ii) Describe what is meant by competition policy.
(iii) Discuss the main targets of competition policy.
(iv) Discuss some of the advantages and disadvantages of permitting the merger of two large firms who each have a 20% share of the car insurance market.

17. CB2 September 2019 Q31

(i) Outline two examples of positive externalities in consumption which are likely to arise from an individual's education.
(ii) Outline two examples of negative externalities in consumption that are likely to arise from a music festival

18. CB2 April 2020 Q32

(i) Explain why education is considered to be a merit good.
(ii) Outline how a government can encourage the population to participate in education.

19. CB2 September 2020 Q28

Describe using examples the impact of government intervention in the market by imposing price ceilings and price floors.

20. CB2 April 2022 Q29

(i) Outline, with the use of examples, the differences between merit goods and private goods.
(ii) State how these differences may affect the source of provision of the goods in part (i).

21. CB2 September 2022 Q35

(i) Discuss why agricultural products exhibit greater price volatility than manufactured goods.
(ii) Outline various types of intervention that government may make in the agricultural market and the challenges associated with such intervention, given potential price volatility.

22. CB2 April 2023 Q30

The household water supply market is typically characterised by a monopoly supplier. Explain the reasons for this and discuss what measures governments can take to ensure that consumers are not excessively overcharged.

23. CB2 April 2023 Q31

(i) A landlord is considering renting a property to a new tenant. Explain the problem of information asymmetry from the landlord's perspective, indicating the measures the landlord can undertake to mitigate the problem.