INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business Economics – Macro

Chapter: Unit 1

Category: Practice Questions

Market Failure

1. Subject CT7 April 2015 Question 29

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

2. Subject CT7 October 2017 Question 37

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.

3. Subject CT7 April 2012 Question .35

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

4. Subject CT7 September 2011 Question 33

(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.

5. Subject CT7 April 2009 Question 30

Draw a diagram which illustrates the argument that monopolies are bad for society. Show clearly consumer surplus, producer surplus and social cost.

Government Intervention

6. Subject CT7 October 2015 Question 37

(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).

7. Subject CT7 September 2013 Question 33

Outline two possible drawbacks of government intervention in the market.

8. Subject CT7 April 2011 Question 5

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.

9. Subject CT7 April 2012 Question 33

(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