

Government microeconomic intervention (AS level)

Multiple choice questions by topic [with answers](#)

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Maximum and minimum prices

A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

Answer D

Which benefit is most likely to result from a rise in the minimum price of labour (wage rate)?

- A a reduction in costs of production
- B a reduction in income inequality
- C a reduction in the level of unemployment
- D a reduction in the rate of inflation

Answer B

The government fixes a maximum price for wheat flour below the market equilibrium price. After the maximum price is imposed, which statement is not correct?

- A Producers' revenue is increased.
- B Some consumers may encourage illegal sales.
- C The quantity supplied of flour will decrease.
- D There will be an excess demand for flour.

ANSWER A

A government introduces a maximum price above the market price.

What will be the effect on consumer and producer surplus?

	consumer surplus	producer surplus
A	fall	rise
B	rise	fall
C	rise	unchanged
D	unchanged	unchanged

ANSWER D

After a series of poor harvests, a government imposes an effective maximum price on cereals.

What would be a consequence of this policy?

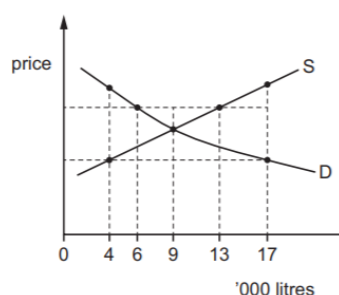
- A Both rich and poor people would satisfy their demands equally.
- B Illegal buying and selling through a black market would be prevented.
- C Rationing would be necessary to ensure a fair distribution of cereals.
- D The market would fail to clear leaving a surplus of cereals.

ANSWER C

In 2014 some supermarkets reduced the price they were willing to pay farmers for milk to below what was then the market equilibrium price. They passed the lower price onto the consumers in order to try and encourage them into the store.

The government then fixed an effective minimum price which the supermarkets had to pay the farmers.

These two actions are shown in the diagram.



What would be the outcome after the supermarket action and then the government action?

	after supermarket action	after government action
A	a shortage of 5000 litres	a surplus of 4000 litres
B	a shortage of 5000 litres	a surplus of 7000 litres
C	a shortage of 13 000 litres	a surplus of 4000 litres
D	a shortage of 13 000 litres	a surplus of 7000 litres

Answer D

Government intervention

Too much sugar causes an increase in a consumer's weight. A government has introduced a 'sugar tax' on the consumption of soft drinks that have a high sugar content. How might this policy help to reduce the number of overweight people?

- A Consumers switch to cheaper brands of soft drink with a high sugar content.
- B Consumers switch to other high-sugar substitute goods, such as alcohol or sweets.
- C The price elasticity of demand for soft drinks is inelastic.
- D The tax revenue is spent on education about the dangers of soft drink consumption.

Answer D

What is the major problem associated with a government directly providing the correct amount of a public good?

- A competition from private producers
- B estimation of demand
- C increased trade diversion
- D rivalry in consumption

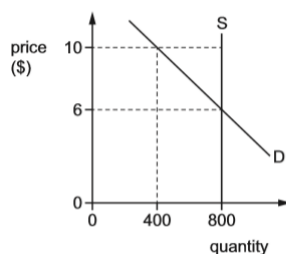
Answer B

There have been recent calls for the UK government to nationalise its railways. What would not be a reason for nationalising the railways?

- A Private rail companies often charge high ticket prices.
- B Private rail companies may exploit monopoly power.
- C Railways are an essential part of national infrastructure.
- D Railways should be treated as a public good.

Answer D

The diagram shows an initial market equilibrium for an agricultural product of \$6 and 800 units.



How much will the government have to spend to increase the market price to \$10?

- A \$1600
- B \$2400
- C \$3200
- D \$4000

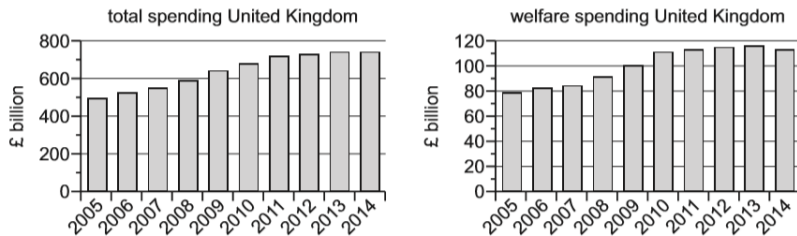
Answer D

What does **not** happen when price acts as a means to allocate resources?

- A Price determines the supply of public goods.
- B Price operates in the markets for both goods and factors of production.
- C Price recognises consumers' ability to pay rather than consumers' needs.
- D Price signals to producers which goods are most profitable.

Answer A

The diagrams show UK Government total spending and welfare spending in £ billions between 2005 and 2014.



What can be concluded from the diagrams about UK Government spending during the period 2005 to 2014?

- A Both forms of spending were cut in 2014.
- B Both total and welfare spending have risen continuously.
- C In 2005 welfare spending made up a quarter of total spending.
- D Non-welfare spending has always exceeded welfare spending.

Answer D

Health services in an economy are provided by private clinics that charge high fees. The government decides health services should be provided for everyone, not based on ability to pay.

Which direct action should it take?

- A Build government clinics to compete in the market.
- B Close private clinics where provision by the market is inadequate.
- C Increase the taxes on profits made by private clinics.
- D Nationalise private clinics and remove charging.

Answer D

A local government is deciding whether to increase parking charges and provide more lanes for bus use only.

One official said that the increase in parking charges should cause more bus travel.

A second official said that an increase in the frequency of bus services will not cause demand for bus travel to rise.

Are these official statements correct or incorrect?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

Answer B

What is an example of direct public provision of goods and services?

- A a charity hospital funded by public donations that offers free treatment to the rural poor
- B a mobile government library that travels to rural villages offering access to books
- C a pharmacy in a local shopping centre that provides treatment direct to the public
- D a private school that offers free places to children of low income families

Answer B

What would supporters of a nationalised public transport service expect to be the most likely outcome from the privatisation of train and bus services?

- A fewer destinations served by trains and buses
- B lower fares
- C more frequent services to all destinations
- D more people employed in public transport services

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Answer A

Taxes and subsidies

What describes a regressive tax?

- A All taxpayers pay the same proportion of income in taxes.
- B High-income earners pay a lower proportion of income in taxes than low-income earners.
- C High-income earners pay less in taxes than low-income earners.
- D High-income earners pay more in taxes than low-income earners.

Answer B

A government wishes to raise the incomes of farmers without raising the price of food to consumers. Which policy should it use?

- A a maximum price below the market price for food
- B a minimum price below the market price for food
- C a payment of a subsidy to farmers to produce food
- D a release of government food stocks onto the market

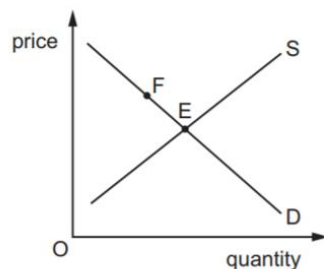
Answer C

What describes a regressive tax?

- A low income earners pay a higher proportion of their income in tax than high income earners
- B marginal tax rates exceed average tax rates
- C the cost of collecting the tax exceeds the revenue raised
- D the marginal rate of tax is higher for high income earners than for low income earners

Answer A

The diagram shows the equilibrium price and quantity of good X.



The initial market equilibrium is shown by point E.

What might cause the market equilibrium to move to point F?

- A a decrease in the costs of producing good X
- B a decrease in the demand for good X
- C an increase in the price of a substitute good
- D the imposition of a specific sales tax on producers of good X

Answer D

The table shows the demand and supply schedules for a product before and after the government pays a subsidy of \$4 per unit to the producers.

price \$	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	250	50	150
8	200	100	200
10	150	150	250
12	100	200	300
14	50	250	350

Assuming that any extra sales are to new consumers, how much do the original consumers of the product save as a result of the subsidy?

- A \$300 B \$600 C \$900 D \$1500

Answer A

The income tax structure of a country has two elements.

- 1 The first \$20 000 of earned income is not taxed.
- 2 Any income earned above \$20 000 is taxed at 20%.

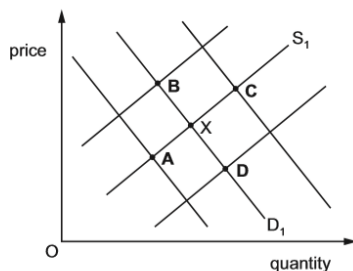
What would be a correct description of this tax structure?

- A a progressive tax on incomes of more than \$20 000
 B a progressive tax throughout the whole income range
 C a proportional tax on incomes of more than \$20 000
 D a regressive tax throughout the whole income range

Answer A

In 2014 Egypt reduced subsidies on fossil fuels such as gasoline and diesel. The diagram shows the initial equilibrium at point X.

What will be the new equilibrium after the reduction of subsidies?



Answer B

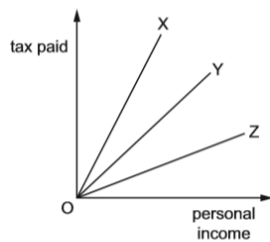
A government increased a specific tax on shoes. The resulting increase in the price of shoes was paid mainly by the consumer and not by the producer.

What must be true for this to happen?

- A The price elasticity of demand was less than the price elasticity of supply.
 B The price elasticity of demand was unitary.
 C The price elasticity of supply was less than one.
 D The price elasticity of supply was inelastic while the price elasticity of demand was elastic.

ANS A

The diagram shows three possible tax schemes.



What can be concluded about these tax schemes?

- A** X is more progressive than Z.
- B** X, Y and Z are all proportional.
- C** Y is the only proportional tax.
- D** Z is more regressive than Y.

Answer B

A subsidy is given to the producers of a good with perfectly elastic demand.
What will be the outcome?

- A** Consumer and producer receive equal amounts of subsidy.
- B** There will be no change in price; the incidence of the subsidy will fall on the producer.
- C** There will be a large increase in quantity consumed; the incidence of the subsidy will fall on the consumer.
- D** There will be no change in the quantity consumed; the incidence of the subsidy will fall on the consumer.

ANSWER B

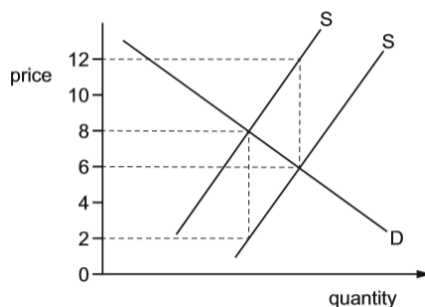
A government decides to subsidise farms producing milk in its country.

Which question about this decision is a normative question rather than a positive question?

- A** How much will milk production increase?
- B** How should essential products, such as milk, be produced?
- C** How will employment in the milk industry change?
- D** How will milk prices change?

Answer B

The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.

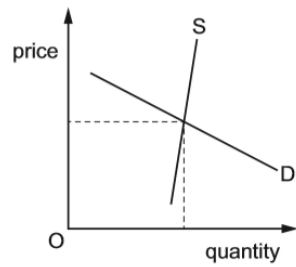


What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

Answer A

The diagram shows the market for heating oil.

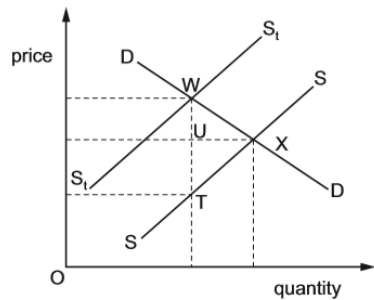


If the government introduces a production subsidy, how will the financial benefit be shared between consumers and producers?

- A It will be shared equally between producer and consumer.
- B It will go entirely to the producer.
- C The majority will go to the consumer.
- D The majority will go to the producer.

Answer D

A specific tax is placed on the sale of bottles of lemonade. In the diagram, SS is the supply curve before imposition of the tax and $S_t S_t$ is the supply curve after tax.



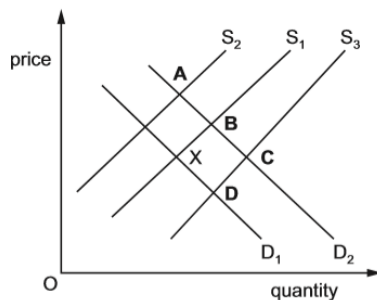
Which distance represents the specific tax on each bottle?

- A UT
- B WT
- C WU
- D WX

Answer B

A market is in equilibrium at point X. The government then subsidises both consumers and producers by direct payments.

What will be the new equilibrium position?



Answer C

Which is a transfer payment?

- A an annual allowance paid by an individual to a grandchild
- B a one-off bonus paid to an employee for a special contribution to a firm's profits
- C a payment made by a parent to a regular child-minder
- D the monthly salary of an employee of a local authority

Answer A

Transfer payments

Which of the following is a transfer payment?

- A the advertising expenditure of a firm
- B the allowance given by a parent to their child while at school
- C the rent paid to a land owner by a tenant farmer
- D the wage paid to a worker in the government service

Answer B

Money is paid by the government to an unemployed worker in the form of a benefit. Why is this called a transfer payment?

- A The payment is from taxes paid by employed workers.
- B The payment is made from government savings not current income.
- C The payment is made without the production of goods and services taking place.
- D The payment must be spent as directed by the government.

Answer C

Which statement about transfer payments is correct?

- A Transfer payments are intended to reward productive economic activity.
- B Transfer payments are only financed by government.
- C Transfer payments may result in a disincentive to work.
- D Transfer payments will include the sales of new cars.

Answer C

What is an aim of a transfer payment?

- A It allows the government to alter the final distribution of income.
- B It provides a ceiling for levels of income across the economy.
- C It removes the need for state subsidies.
- D It rewards the activity of a factor of production.

Answer A

The table identifies items of government annual spending.

	\$ million
army pay	35
civil servants' salaries	125
farming subsidies	15
pension payments	75
welfare benefits	50

What is the total government expenditure on transfer payments?

- A** \$50m **B** \$125m **C** \$175m **D** \$300m

Answer B