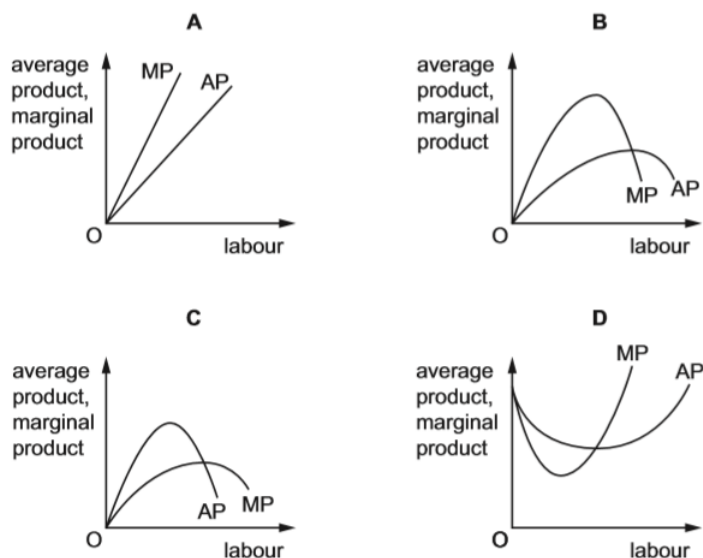# Government microeconomic intervention (A level)

Multiple choice questions by topic <u>with answers</u>

Table of contents

- Labour markets
- Government intervention and government failure
- inequality

SOS ECONOMICS!

Which diagram correctly shows the relationship between the average product (AP) and the marginal product (MP) of labour, given that the quantities of other factor inputs remain constant?

Answer B

The diagram shows the short-run relationship between the total output of a firm and the quantity of labour.

What can be concluded about the firm?

A It is experiencing increasing returns to scale.

B It is experiencing constant returns to scale.

C The marginal physical product of capital is constant.

D The marginal physical product of labour eventually diminishes.

Answer D

Company X reduces its number of workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.

Company Y increases its number of workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

Answer B

Company X reduces its number of workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.
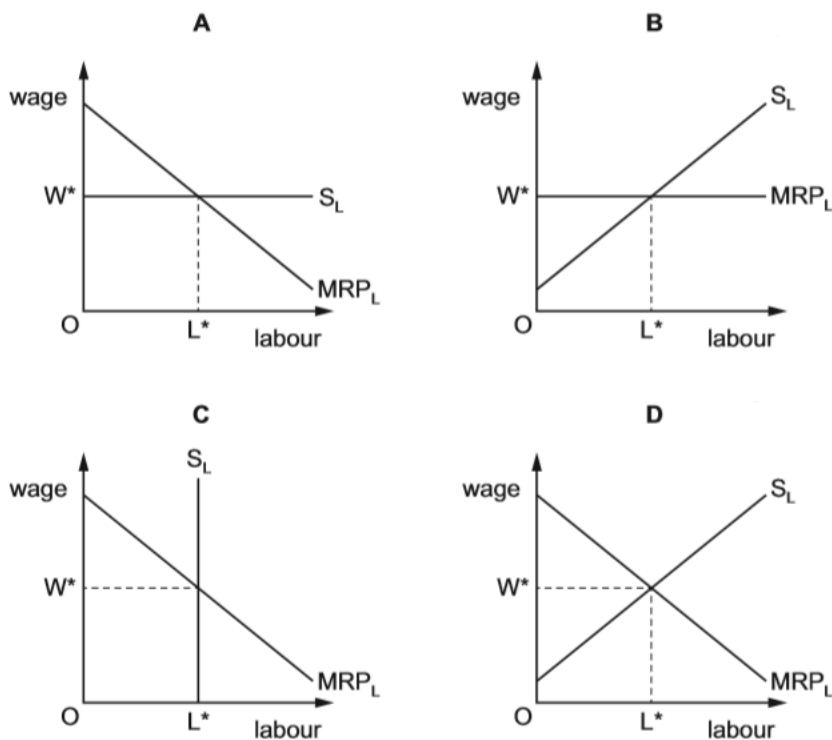
Company Y increases its number of workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

Answer B

In which labour market diagram is the economic rent of workers greatest?

Answer C

The government introduces a minimum wage above the equilibrium market wage rate.

How will this affect low-paid workers according to marginal revenue product (MRP) theory?

A   All those initially in employment will receive the new guaranteed minimum wage.

B   Fewer of those not already in employment will enter the labour force.

C   There will be an increase in the number of low-paid workers in employment.

D   Some low-paid workers will lose their job.

Answer D

Company X reduces its number of workers from 250 to 200 and as a result its output decreases from 5000 to 4800 units per day.
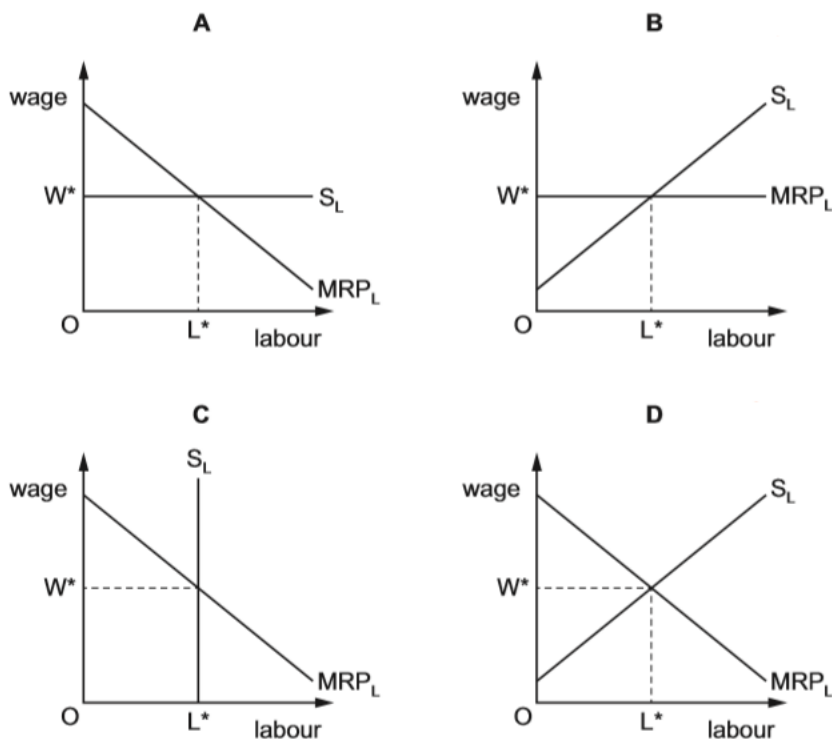
Company Y increases its number of workers from 800 to 1000 and as a result its output increases from 2000 to 2200 units per day.

What happens to labour productivity of the workers in the two companies?

	company X	company Y
A	falls	rises
B	rises	falls
C	rises	rises
D	falls	falls

Answer B

In which labour market diagram is the economic rent of workers greatest?

Answer C

The government introduces a minimum wage above the equilibrium market wage rate.

How will this affect low-paid workers according to marginal revenue product (MRP) theory?

A   All those initially in employment will receive the new guaranteed minimum wage.

B   Fewer of those not already in employment will enter the labour force.

C   There will be an increase in the number of low-paid workers in employment.

D   Some low-paid workers will lose their job.

Answer D

If workers are hired in a perfectly competitive labour market at a wage rate of $50 per day, when will the labour cost per unit of output be at its lowest?

A 2 workers

B 3 workers

C 4 workers

D 5 workers

Answer B

Over a given period the amount of overtime worked in manufacturing industry increases.

What is likely to be a consequence of this?

A a decrease in employment

B a decrease in the rate of inflation

C a more rapid growth in average earnings than in hourly wage rates

D a more rapid growth in manufacturing output than in productivity

Answer C

Government microeconomic intervention

What is the **specific** advantage of pollution permits, when compared with an alternative policy of taxes levied on the quantity of pollutants emitted by firms?

A   firms have a financial incentive to reduce pollution

B   no monitoring of firm's emissions is required

C   pollution levels can be reduced to zero

D   the reduction in the level of pollution is more predictable

Answer D

Which statement about government intervention is correct?

A   Government failure may result from policies that have unintended side effects.

B   Governments cannot identify the existence of inefficiency.

C   Inefficient government policies mean that the market system will be better at resource allocation.

D   Market failure means that government action will necessarily improve the situation.

Answer A

A government regards fresh fruit and vegetables as merit goods, and subsidises agriculture to boost their production.

What could be a government failure arising from these subsidies?

A   cheaper fresh fruit and vegetables

B   land clearance reducing wildlife

C   lower spending on treating dietary illnesses

D   more jobs picking fruit and vegetables

Answer B

Government intervention and failure

What is the **specific** advantage of pollution permits, when compared with an alternative policy of taxes levied on the quantity of pollutants emitted by firms?

A firms have a financial incentive to reduce pollution

B no monitoring of firm's emissions is required

C pollution levels can be reduced to zero

D the reduction in the level of pollution is more predictable

Answer D

Which statement about government intervention is correct?

A Government failure may result from policies that have unintended side effects.

B Governments cannot identify the existence of inefficiency.

C Inefficient government policies mean that the market system will be better at resource allocation.

D Market failure means that government action will necessarily improve the situation.

Answer A

A government regards fresh fruit and vegetables as merit goods, and subsidises agriculture to boost their production.

What could be a government failure arising from these subsidies?

A cheaper fresh fruit and vegetables

B land clearance reducing wildlife

C lower spending on treating dietary illnesses

D more jobs picking fruit and vegetables

Answer B

SOS
ECONOMICS!

There is a fixed supply of skilled workers in an industry. Firms can no longer find enough workers to meet their demand for labour.

What could be a solution to the problem?

A   Allow wage rates to fall as the market demands.

B   Introduce work-sharing and reduce working hours.

C   Make offices more attractive by adding air-conditioning.

D   Provide more training courses for new recruits.

Answer D

A government is worried about the increasing monopsony power of employers in the wage bargaining process.

Which policy combination is **most** likely to improve the wages and employment prospects of workers?

	trade union powers	immigration controls	national minimum wage
A	strengthen	relax	cut
B	strengthen	strengthen	raise
C	weaken	relax	cut
D	weaken	strengthen	raise

Answer B

Which measure is **least** likely to help a household out of the poverty trap?

A   changing a universal benefit to a means-tested benefit

B   increasing the threshold at which income tax is paid

C   introducing a national minimum wage

D   reducing the basic rate of income tax

Answer A

SOS
ECONOMICS!

The table shows the average incomes of the richest 20% of households and the poorest 20% households in the UK (2015–2016), and the effects of government taxation and benefits average income.

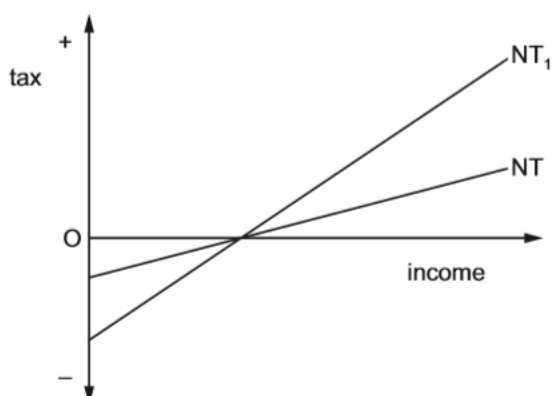|	average income (£) of richest 20%	average income (£) of poorest 20%
before taxes and benefits	85 000	7 000
after direct taxes and cash benefits	68 000	13 000
after all taxes (direct and indirect) and all benefits	63 000	17 000

What can be concluded from the information in the table?

A   The effects of direct taxation have affected the rich less than the poor.

B   The government's policy achieved income equality across households.

C   The government redistributed all income taken from the rich to the poor.

D   The government's policy reduced the income inequality between the poor and the rich.

Answer D

A country has a negative income tax.

The curve NT in the diagram shows the country's initial tax schedule.

A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	more equal
B	strengthen	less equal
C	weaken	less equal
D	weaken	more equal

Answer D

There is a fixed supply of skilled workers in an industry. Firms can no longer find enough workers to meet their demand for labour.

What could be a solution to the problem?

A   Allow wage rates to fall as the market demands.

B   Introduce work-sharing and reduce working hours.

C   Make offices more attractive by adding air-conditioning.

D   Provide more training courses for new recruits.

Answer D

A government is worried about the increasing monopsony power of employers in the wage bargaining process.

Which policy combination is **most** likely to improve the wages and employment prospects of workers?

	trade union powers	immigration controls	national minimum wage
A	strengthen	relax	cut
B	strengthen	strengthen	raise
C	weaken	relax	cut
D	weaken	strengthen	raise

Answer B

Which measure is **least** likely to help a household out of the poverty trap?

A   changing a universal benefit to a means-tested benefit

B   increasing the threshold at which income tax is paid

C   introducing a national minimum wage
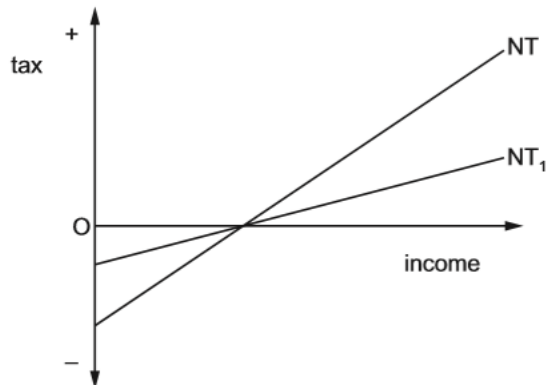
D   reducing the basic rate of income tax

Answer A

SOS
ECONOMICS!

What does the Kuznets curve represent?

A   changes in income inequality over time

B   changes in the Human Development Index over time

C   changes in the Multidimensional Poverty Index over time

D   the inverse of a Lorenz curve

Answer A

A country has a negative income tax regime.

The curve NT in the diagram shows the country's initial tax schedule.

A change in the tax rate causes the schedule to shift to NT_1.

How will this affect work incentives and the after-tax distribution of income?

	work incentives	distribution of income
A	strengthen	less equal
B	strengthen	more equal
C	weaken	less equal
D	weaken	more equal

Answer A