**Economics MCQ – Chapter 2 – The Allocation of Resources: How the market works; Market Failure**

**Section 5 – Market Failure**

**Q1. Developers want to increase the size of a major retail shopping area in a city. It is thought that the proposal would create hundreds of jobs, be profitable for the shops but cause major traffic congestion.**

**What economic concepts are involved in this statement?**

1. external cost and private benefit
2. income distribution and inelastic demand
3. private investment and a decrease in supply
4. social benefit and perfect competition

( )

**Q2. Which policy might a government adopt to reduce the external cost of urban traffic congestion?**

1. improving public transport
2. reducing the tax on petrol
3. subsidising car production
4. taxing bus production

( )

**Q3. What is an example of market failure?**

1. a firm forced to close because of fierce competition
2. a firm polluting rivers with waste chemicals
3. a high price for an essential product
4. a shortage of an agricultural crop

( )

**Q4. Which is a type of market failure?**

1. a general increase in the price of hotel rooms in busy summer seasons
2. an increase in house prices caused by easier borrowing for house buyers
3. an increase in travel time caused by a road accident
4. an increase in unsold goods because of a change in tastes

( )

**Q5. What necessarily happens when an external benefit exists?**

1. Social benefit is greater than private benefit.
2. Social benefit is greater than social cost.
3. Social cost is equal to private cost.
4. Social cost is greater than private cost.

( )

**Q6. A developer built some large houses in a rural area which poorer people could not afford. The houses destroyed an area of natural beauty.**

**What type of market failure resulted from the development?**

1. inequality of income
2. lack of information
3. negative externality
4. price discrimination

( )

**Q7. What is an example of an external cost?**

1. a company’s transport costs
2. the cost of bringing about a merger
3. the cost of buying components from suppliers
4. the cost of industrial pollution

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**Q8. Which costs will be reduced if a factory decreases the amount of pollution it causes to the environment?**

1. average costs
2. external costs
3. fixed costs
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