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# Multiple Choice Questions

for

**AQA AS ECONOMICS**

Unit 1:

MARKETS & MARKET FAILURE

Advice on How to Tackle Multiple Choice Questions  
300 Practice Multiple Choice Questions  
Answers with Supporting Explanations

**Minimising Workloads, Maximising Performance**

SAMPLE MATERIAL  
TEST 1 Questions & Answers

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APT Initiatives Ltd  
Millstone Lodge  
Eaton Upon Tern  
Market Drayton  
Shropshire  
TF9 2BX

Tel: 01952 540877

Fax: 01952 541230

email: [sales@apt-initiatives.com](mailto:sales@apt-initiatives.com)

[www.apt-initiatives.com](http://www.apt-initiatives.com)

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## The Economic Problem



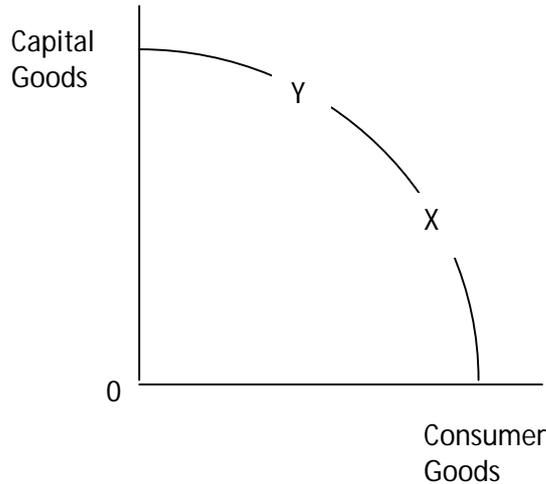
**1.1: The Economic Problem - Test 1**

1. Economics is the study of
  - A how to increase economic growth.
  - B how society allocates scarce resources in order to maximise welfare.
  - C how to ensure that resources are shared equally.
  - D how resources should be allocated.
  
2. Economic activity does not include
  - A buying illegal drugs.
  - B building a house.
  - C unpaid coaching of a school boy football team.
  - D regenerating derelict land.
  
3. Microeconomics includes the study of
  - A how the price of oil is determined.
  - B how to deal with increasing inflation.
  - C the impact on economic growth of increasing the education budget.
  - D measures designed to reduce unemployment.
  
4. The primary sector of an economy excludes
  - A forestry.
  - B oil drilling.
  - C farming.
  - D education.
  
5. An economic good is
  - A one which has an opportunity cost.
  - B also defined as a factor of production.
  - C one which increases economic efficiency.
  - D the opposite of a public good.

6. The factor of production, land, includes
- A trawlers.
  - B dams.
  - C meadows.
  - D roads.
7. Labour is a factor of production because
- A its value to an economy can be improved.
  - B its productivity affects productive efficiency.
  - C it is a resource which can contribute to output.
  - D its cost can be reduced.
8. The factor of production, capital includes
- A money.
  - B computers.
  - C an overdraft.
  - D a mortgage.
9. A consumer, in making a purchasing decision, is least likely to take account of
- A the impact on his / her status.
  - B the price of competitive products.
  - C the standard of living of workers who made the product.
  - D the components chosen to make the product.
10. Firms, when making economic decisions are least likely to take account of
- A wage rates in local businesses.
  - B advances in technology.
  - C the working conditions of suppliers' employees.
  - D the amount of profit to be retained in the business.
11. A government, in making an economic decision is least likely to take account of
- A the attitudes of other EU governments.
  - B the interests of civil servants.
  - C the impact on economic growth.
  - D the results of opinion polls.

12. The basic economic problem is that
- A resources have to be allocated between competing uses.
  - B consumers have infinite wants.
  - C governments cannot always deal effectively with market failure.
  - D every economic decision generates externalities.
13. Examples of economic resources include
- A distilled water.
  - B wind.
  - C sea water.
  - D sunlight.
14. The reward for risk taking is known as
- A wages.
  - B profit.
  - C interest.
  - D rent.
15. A production possibility curve diagram cannot be used to illustrate
- A the range of goods and services an economy can produce.
  - B the concept of opportunity cost.
  - C the changing trade off incurred in varying the production of 2 products.
  - D output options which cannot be achieved.
16. The production possibility curve is concave to the origin because
- A technology is fixed in the short run.
  - B all resources are being fully used.
  - C all choices involve an opportunity cost.
  - D some resources are more specialised than others.
17. A production possibility curve, illustrating the output options for Capital and Consumer goods, shifts to the right because there is
- A an increase in inflation.
  - B an improvement in technology.
  - C reduced unemployment.
  - D an increase in exports.

18. With reference to the diagram below, a movement along this production possibility curve from X to Y means that



- A this economy is operating more efficiently.
  - B this economy is using more resources.
  - C businesses in this economy are fully exploiting economies of scale.
  - D an opportunity cost has been incurred.
19. Any point inside a nation's production possibility curve reflects a product combination which is
- A currently impossible to achieve.
  - B productively inefficient.
  - C based on full employment of resources.
  - D productively efficient.
20. Using a production possibility diagram, increased productive efficiency in all sectors of the UK economy would be indicated by
- A a new position along the production possibility curve.
  - B a parallel inward shift of the production possibility curve.
  - C a parallel outward shift of the production possibility curve.
  - D a new position beyond the production possibility curve.
21. The concept of opportunity cost helps an economist
- A understand how resources are allocated in an economy.
  - B determine the causes of inflation.
  - C determine consumers' purchasing power.
  - D understand the causes of a trade deficit.

22. A family have inherited £15,000 from a long lost aunt. They are weighing up whether to buy a new car or go on a trip to Australia for a month. They decide to go to Australia. The opportunity cost of this decision is
- A the cost of going to Australia.
  - B the cost of a buying a new car.
  - C the benefits of going to Australia.
  - D the benefits of having a new car.
23. A normative statement is
- A verifiable by facts.
  - B objective.
  - C based on an opinion.
  - D based on real world data.
24. Economists avoid making normative statements such as
- A wages are usually higher for those whose productivity is high.
  - B the environment can be considered as a scarce resource.
  - C we live in a world of infinite wants but limited resources.
  - D wage rates ought to be higher for the lowest paid.
25. Which of the following statements is not a positive economic statement?
- A Consumers prefer to use a credit card to buy expensive items.
  - B Governments are likely to take account the state of the economy when deciding on taxes.
  - C Firms consider improved efficiency an important source of increased profits.
  - D Businesses should be forced to take account of the externalities they create.

**1.1: The Economic Problem - Test 1 - Answers**

1. Economics is the study of  
E how to increase economic growth.  
**F how society allocates scarce resources in order to maximise welfare.**  
G how to ensure that resources are shared equally.  
H how resources should be allocated.

*Explanation: The central issue in economics is the allocation of scarce resources. The other responses might refer to one aspect of economics but not to the central issue that is at the heart of our subject.*

2. Economic activity **does not** include  
E buying illegal drugs.  
F building a house.  
**G unpaid coaching of a school boy football team.**  
H regenerating derelict land.

*Explanation: If the coach is unpaid and undertakes the role in his/her spare time then it is not an economic activity. It does not divert resources away from the production of other goods and services. The other activities involve spending and, therefore, resources are attracted to them.*

3. Microeconomics includes the study of  
**E how the price of oil is determined.**  
F how to deal with increasing inflation.  
G the impact on economic growth of increasing the education budget.  
H measures designed to reduce unemployment.

*Explanation: Microeconomics includes the study of the determination of the price of a single commodity like oil. The other issues relate to the economy as a whole.*

4. The primary sector of an economy **excludes**  
E forestry.  
F oil drilling.  
G farming.  
**H education.**

*Explanation: Education is a tertiary or service sector activity, whereas the other three are primary sector activities and involve extracting products from nature.*

5. An economic good is  
**E one which has an opportunity cost.**  
F also defined as a factor of production.  
G one which increases economic efficiency.  
H the opposite of a public good.

*Explanation: An economic good uses scarce resources and, therefore, involves an opportunity cost. The opposite of an economic good is a free good which can be seen as a free gift of nature and does not involve the use of scarce resources.*

6. The factor of production, land, includes  
E trawlers.  
F dams.  
**G meadows.**  
H roads.

*Explanation: The other three refer to capital (goods that are manmade and are used in production). A meadow is natural and is not manmade and, therefore, is regarded as land.*

7. Labour is a factor of production because  
E its value to an economy can be improved.  
F its productivity affects productive efficiency.  
**G it is a resource which can contribute to output.**  
H its cost can be reduced.

*Explanation: The others are valid statements but do not explain why labour is a factor of production. Labour is defined as human resources that contribute to production.*

8. The factor of production, capital includes  
E money.  
**F computers.**  
G an overdraft.  
H a mortgage.

*Explanation: Capital refers to manmade resources used in production, eg a computer. The other three refer to financial resources which do not themselves contribute to production, but can be used to buy or hire factors of production, including capital items such as computers.*

9. A consumer, in making a purchasing decision, is **least likely** to take account of  
E the impact on his / her status.  
F the price of competitive products.  
**G the standard of living of workers who made the product.**  
H the components chosen to make the product.

*Explanation: If we assume that economic agents, such as consumers, are self interested, then they would not take into account the standard of living of workers who make the product.*

10. Firms, when making economic decisions are **least likely** to take account of  
E wage rates in local businesses.  
F advances in technology.  
**G the working conditions of suppliers' employees.**  
H the amount of profit to be retained in the business.

*Explanation: If firms are self-interested and seek to maximise profits, they will not be concerned with conditions of work for the employees of supply firms.*

11. A government, in making an economic decision is **least likely** to take account of  
E the attitudes of other EU governments.  
**F the interests of civil servants.**  
G the impact on economic growth.  
H the results of opinion polls.

*Explanation: In a democracy, governments serve the interests of the community and not public sector employees.*

12. The basic economic problem is that  
**E resources have to be allocated between competing uses.**  
F consumers have infinite wants.  
G governments cannot always deal effectively with market failure.  
H every economic decision generates externalities.

*Explanation: It is true that consumers have infinite wants, but this is only a problem because resources are scarce and, therefore, have to be allocated between competing uses. For this reason the basic problem in Economics is the allocation of scarce resources. The other issues are ultimately derived from the basic economic problem.*

13. Examples of economic resources include  
**E distilled water.**  
F wind.  
G sea water.  
H sunlight.

*Explanation: Only distilled water is scarce and, therefore, has an opportunity cost and price. The others are free goods and do not use economic resources in production.*

14. The reward for risk taking is known as  
E wages.  
**F profit.**  
G interest.  
H rent.

*Explanation: Entrepreneurs are risk takers. The incentive for them to take risk is the profits they expect to enjoy from their enterprise.*

15. A production possibility curve diagram **cannot** be used to illustrate  
**E the range of goods and services an economy can produce.**  
F the concept of opportunity cost.  
G the changing trade off incurred in varying the production of 2 products.  
H output options which cannot be achieved.

*Explanation: A production possibility curve diagram is a two dimensional diagram with all goods and services aggregated in two classes, eg consumer goods and capital goods. Therefore, it cannot show the full range of goods and services that can be produced. However, it can be used to illustrate each of the other three.*

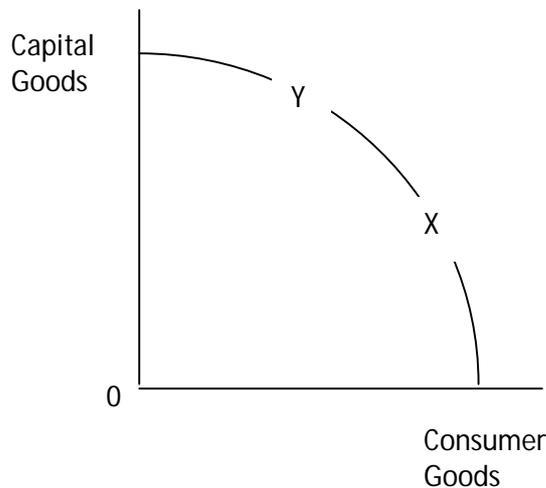
16. The production possibility curve is concave to the origin because  
E technology is fixed in the short run.  
F all resources are being fully used.  
G all choices involve an opportunity cost.  
**H some resources are more specialised than others.**

*Explanation: As we achieve progressively higher output of one of the classes of good, the opportunity cost in terms of reduced output of the other increases. This is because resources are specialist and cannot be easily transferred from one type of production to another.*

17. A production possibility curve, illustrating the output options for Capital and Consumer goods, shifts to the **right** because there is
- E an increase in inflation.
  - F an improvement in technology.**
  - G reduced unemployment.
  - H an increase in exports.

*Explanation: An improvement in technology increases the productive potential of the economy and causes the PPC to shift outwards. Reduced unemployment simply moves the economy to a point inside the PPC towards the PPC itself. Thus, it increases production, but not productive possibility.*

18. With reference to the diagram below, a movement along this production possibility curve from X to Y means that



- E this economy is operating more efficiently.
- F this economy is using more resources.
- G businesses in this economy are fully exploiting economies of scale.
- H an opportunity cost has been incurred.**

*Explanation: A movement along the PPC from X to Y means that the opportunity cost of increased production of capital goods is reduced production of consumer goods.*

19. Any point inside a nation's production possibility curve reflects a product combination which is
- E currently impossible to achieve.
  - F productively inefficient.**
  - G based on full employment of resources.
  - H productively efficient.

*Explanation: At any point on the PPC all existing resources are being used efficiently. Therefore, any point inside the PPC is productively inefficient, ie more could be produced of both product categories with the same resources.*

20. Using a production possibility diagram, increased productive efficiency in all sectors of the UK economy would be indicated by
- E a new position along the production possibility curve.
  - F a parallel inward shift of the production possibility curve.
  - G a parallel outward shift of the production possibility curve.**
  - H a new position beyond the production possibility curve.

*Explanation: An increase in productive efficiency in all sectors will shift the PPC outwards. If the efficiency gains were confined to one sector the shift would be greater on one axis rather than the other.*

21. The concept of opportunity cost helps an economist  
**E understand how resources are allocated in an economy.**  
F determine the causes of inflation.  
G determine consumers' purchasing power.  
H understand the causes of a trade deficit.

*Explanation: Opportunity cost and resource allocation are central to Economics.*

22. A family have inherited £15,000 from a long lost aunt. They are weighing up whether to buy a new car **or** go on a trip to Australia for a month. They decide to go to Australia. The opportunity cost of this decision is  
E the cost of going to Australia.  
F the cost of a buying a new car.  
G the benefits of going to Australia.  
**H the benefits of having a new car.**

*Explanation: The opportunity cost of the holiday is the alternative they sacrificed. They forego the benefits of a new car in order to go to Australia.*

23. A normative statement is  
E verifiable by facts.  
F objective.  
**G based on an opinion.**  
H based on real world data.

*Explanation: A normative statement typically includes words such as "ought to" or "should" and is an expression of an opinion.*

24. Economists avoid making normative statements such as  
E wages are usually higher for those whose productivity is high.  
F the environment can be considered as a scarce resource.  
G we live in a world of infinite wants but limited resources.  
**H wage rates ought to be higher for the lowest paid.**

*Explanation: D is the only one that is an opinion and cannot be tested with reference to the facts. As a general rule we can say that when words such as "ought" or "should" are used the statement will be a normative statement.*

25. Which of the following statements is **not** a positive economic statement?  
E Consumers prefer to use a credit card to buy expensive items.  
F Governments are likely to take account the state of the economy when deciding on taxes.  
G Firms consider improved efficiency an important source of increased profits.  
**H Businesses should be forced to take account of the externalities they create.**

*Explanation: D is the only one of the four that cannot be tested by reference to the facts. Instead, it is an opinion and, therefore, a normative rather than a positive statement.*