



**ADVANCED SUBSIDIARY GCE UNIT
ECONOMICS**

2882/AB

Market Failure and Government Intervention

THURSDAY 18 JANUARY 2007

Morning

Time: 1 hour

Additional materials: Separate question paper.

Candidates answer in this designated
Answer Booklet



Candidate
Name

Centre
Number

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Candidate
Number

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INSTRUCTIONS TO CANDIDATES

- Write your name, Centre Number and candidate number in the boxes above.
- Answer **all** the questions.
- Write your answers in the spaces provided on this separate answer booklet.
- The spaces should be sufficient for your answers but if you require more space use the lined pages at the end of this booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The quality of your written communication will be taken into account in marking your answer to the question labelled with an asterisk (*).

For Examiner's Use

Total Mark

This document consists of **6** printed pages and **2** lined pages.

(a) Furniture is classified by economists as a private good.

(i) State **two** characteristics of a private good.

1.

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2.

..... [2]

(ii) Using the characteristics identified in part (i), explain **two** reasons why furniture is a private good.

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..... [4]

- (b) (i) What is meant by a national minimum wage?

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[1]

- (ii) Using a supply and demand diagram, explain what impact the introduction of a national minimum wage is likely to have on the labour market.

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[10]

- (c) The use of a national minimum wage is one method of government intervention aimed at reducing income inequality.

(i) Comment upon whether or not a national minimum wage will be effective in reducing income inequality.

[6]

..[6]

- (ii) Identify and explain **two** other methods of intervention which a government could use to reduce inequality.

.....

[4]

..[4]

- (d) In the article, Harrison Lewis claims that "increased competition is good for everyone in that it raises efficiency" (lines 12–13).

- (i) Define each of the following terms:

- productive efficiency
- allocative efficiency
- Pareto efficiency.

Productive efficiency

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Allocative efficiency

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Pareto efficiency

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[6]

- *(ii)** Discuss whether increased competition will always lead to an improvement in economic efficiency.

[12]

..[12]

If you use the following lined pages or additional sheets to complete an answer to any question, the question number must be clearly shown.

