

IB Economics – Government Intervention

Exam Practice Questions: 1.12 Externalities



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1.12 EXTERNALITIES: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

- Analyse the relationship between 'market failure' and 'allocative efficiency'. **[10 marks]**
- Use the concepts of marginal private and marginal social costs **and** marginal private cost and benefits to explain why the different types of externalities are considered to be examples of market failure. **[10 marks]**
- Use the concept of negative externalities of production to explain how resource allocation **and** the welfare of society is affected by poor farmers burning and clearing native forests to create land that can then be farmed. **[10 marks]**
- Use the concept of negative externalities of consumption to explain how resource allocation **and** the welfare of society is affected by the consumption of cigarettes. **[10 marks]**
- Use the concept of positive externalities of production to explain how resource allocation **and** the welfare of society is affected when the crops and pastures of farmers are pollinated by the bees of honey producers. **[10 marks]**
- Use the concept of positive externalities of consumption to explain how resource allocation **and** the welfare of society is affected when parents get their children immunised against childhood diseases such as measles. **[10 marks]**
- Explain how governments can use regulations to correct for the negative externalities of production caused by fossil fuel use. **[10 marks]**

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- h. Evaluate the effectiveness of government regulations to correct for the negative externalities of production caused by fossil fuel use. **[15 marks]**
- i. Explain how governments can use market based policies to correct for the negative externalities of production caused by fossil fuel use. **[10 marks]**
- j. Evaluate the effectiveness of government market based policies to correct for the negative externalities of production caused by fossil fuel use. **[15 marks]**
- k. Explain how an improvement in resource allocation can be achieved through the use of cap and trade schemes (tradable pollution permits). **[10 marks]**
- l. Evaluate the following statement: "The most effective method available to governments to address issues of fossil fuel emission pollution is through the use of cap and trade schemes (tradable pollution permits)." **[15 marks]**
- m. Explain how an improvement in resource allocation can be achieved through the use of carbon taxes. **[10 marks]**
- n. Evaluate the following statement: "The most effective method available to governments to address issues of fossil fuel emission pollution is through the use of carbon taxes." **[15 marks]**
- o. Explain how governments can provide subsidies to correct for the positive externalities of production caused by the R&D (research and development) programmes of technology firms. **[10 marks]**
- p. Evaluate the different policy responses that are available to governments to correct market failures associated with positive externalities of production. **[15 marks]**
- q. Explain how governments can provide subsidies to correct for the positive externalities of consumption caused by consumers purchasing education services. **[10 marks]**
- r. Explain how governments can provide subsidies to correct for the positive externalities of consumption caused by consumers purchasing education services. **[10 marks]**
- s. Compare and contrast the different policy response that are available to governments to correct market failures associated with positive externalities of consumption. **[15 marks]**
- t. Use the concept of 'merit goods' to explain the under provision of health care services and education in free markets. **[10 marks]**
- u. Discuss the different policy response that are available to governments to correct for the under provision of health care services and education in free markets. **[15 marks]**

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- v. Distinguish between merit goods and demerit goods. **[10 marks]**
- w. Examine the different policy responses that are available to governments to correct for the market failures associated with merit **and** demerit goods. **[15 marks]**
- x. Petrol is price inelastic. Explain why an indirect tax will be less effective at addressing the problems associated with the pollution caused by petrol. **[10 marks]**
- y. Discuss the different policy responses that are available to governments to correct negative externalities that are associated with petrol use. **[15 marks]**

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