Chapter 08
Public Economy Past Paper Questions

1. Which of the following is a source of market failure?

1) An increase in firm's profit resulting from excess demand for its product.
2) Government intervention to correct a divergence between private and social benefits.
3) Inequalities in the distribution of income and wealth.
4) Increasing diseconomies of scale as a firm increases production.
5) Existence of competition in the market.

(2011 A/L Economics -I MCQ 35)

2. Merit goods are likely to be under-provided in a free market economy because their

1) Private benefits exceed their social benefits.
2) Social benefits exceed their social costs.
3) Private costs exceed their private benefits.
4) Social benefits exceed their private benefits.
5) Social costs exceed their Private costs.

(2011 A/L Economics -I MCQ 36)

3. When applied to a private good, 'non- rival in consumption' means that

1) There is single monopoly supplier of the good.
2) The consumption of the good by one person does not reduce the amount of the good available to others.
3) The people who do not pay cannot be excluded from the consumption.
4) If the good is provided for one person it must be provided for others.
5) The resources used in its production could not be used to produce other goods.

(2011 A/L Economics -I MCQ 37)

4. Which one of the following is a reason for government intervention to correct market failure?

1) Inferior goods
2) Diseconomies of scale
3) Externalities in production and consumption.
4) Homogeneous products
5) Advertising

(2012 A/L Economics -I MCQ 31)

5. The table below indicates the private and external costs and benefits, resulting from building a coal- burning power station.

(In Rs millions)	
Private benefits	180
Private Costs	190
External Benefits	110
External Costs	140

The social cost minus social benefit equals

1) Rs. 120 billion
2) Rs. 50 billion
3) Rs. 40 billion
4) Rs. 30 billion
5) Rs. 10 billion

(2012 A/L Economics -I MCQ 32)

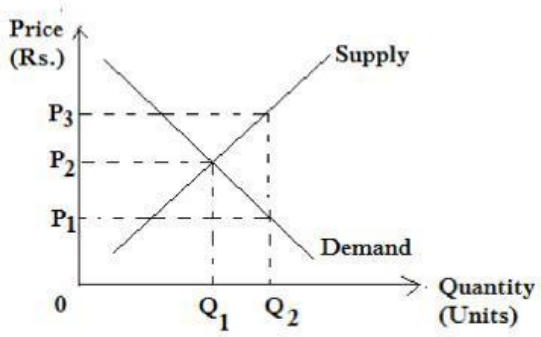
6. One reason why the free market fails to achieve an optimal allocation of scarce resources is because

1) Public goods are provided free of charge to the users.
2) Positive externalities lead to over production of some goods.
3) There is under production of goods with positive externalities.
4) Individual's income and wealth are not identical.
5) Existence of competition.

(2012 A/L Economics -I MCQ 33)

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7. The diagram below shows the market demand and supply curves of a merit good. To increase consumption from $0Q_1$ and $0Q_2$ the government could



1) tax producers by P_3P_2 per unit of the good
2) subsidize producers by P_3P_1 per unit of the good
3) Impose a maximum price of $0P_3$
4) Impose a minimum price of $0P_2$
5) Introduce a guaranteed price of $0P_1$

(2012 A/L Economics -I MCQ 34)

8. If the economy is in severe recession, which of the following is the fiscal policy most effective in stimulating production?

1) Government spending increases. 2) Government spending decreases.
3) Personal income taxes are increased. 4) The central bank sells securities on the open market.
5) the central bank buys securities on the open market.

(2012 A/L Economics -I MCQ 35)

9. Which consequence of building a new railway line would be classified as a positive externality?

1) A reduction in road accidents.
2) The increase in profit for the railway department.
3) The increase in revenue from tourists travelling on the line.
4) The saving in travel time by passengers who travel on the line.
5) A reduction in the value of real estate located close to the line.

(2013A/L Economics -I MCQ 33)

10. 'A merit good' is a

1) Good that is made available to consumers according to merit.
2) Good that the government believes consumers will buy too little of it if it is produced by free market.
3) Good that the government believes consumers will buy too much of it if it is produced by free market.
4) Good where any benefit obtained by one consumer is extended to all consumers.
5) Good where the private benefit of consuming the good exceed its social benefits.

(2013A/L Economics -I MCQ 34)

11. A regressive tax is defined as one where

1) All tax payers pay the same absolute amount of their income in taxation.
2) High income earners pay a lower proportion of their income in taxes than low income earners.
3) High income earners pay less in taxes than low income earners.
4) High income earners pay more in taxes than low income earners.
5) The tax burden can be shifted backward.

(2013A/L Economics -I MCQ 35)

12. The supply-side policies are generally understood to be policies which

1) Improve productivity and reduces market imperfections.
2) Enable the government in supply as many goods and services as possible.
3) Reduce the supply of labour in order to minimize the problem of unemployment.
4) Reduce inflation by controlling interest rates.
5) Promote aggregate demand.

(2013A/L Economics -I MCQ 45)

13. Public goods are not provided by the market system because,

1) Even if a cost is incurred in consumption, a profit cannot be earned.
2) A price cannot be charged and non- rivalry in consumption.
3) Those who do not pay a price cannot be excluded and non-rivalry in consumption.
4) Even if a profit can be earned, a cost is incurred in consumption.
5) Even if a price can be charged, it cannot be easily implemented.

(2014A/L Economics -I MCQ 33)

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14. Social benefits are higher than private benefits in

1) education and health services
2) Infrastructure and environmental conservation activities
3) Ports and airports services
4) Roads and hospital services
5) National parks and environmental conservation activities

(2014A/L Economics -I MCQ 35)

15. The supply side policy measures that promote production are

1) Production subsidies, deregulation, tax reforms and nationalization.
2) Tax reforms, nationalization, deregulation, removal of rigidities in labour and capital market.
3) Regulation, tax reforms, expansion of administrative and development activities and labour and capital market reforms.
4) Production subsidies, expansion of administration and development activities, deregulation and trade restrictions.
5) Tax reforms, privatization, deregulation and labour and capital market reforms.

(2014A/L Economics -I MCQ 36)

16. At present, the single largest tax revenue source of the government of Sri Lanka is

1) Value Added Tax
2) Corporate income tax
3) Excise tax
4) Import duty
5) Pay – As – You Earn (PAYE) tax.

(2015A/L Economics -I MCQ 41)

17. Which of the following does not indicate market failure?

1) Existence of monopolies
2) Existence of air and water pollution
3) A lack of such necessities as national defense.
4) The adequacy of supply of public goods.
5) An unequal distribution of income

(2015A/L Economics -I MCQ 37)

18. If an industry ignores the external costs it generates in its production, which of the following will be true at the competitive market equilibrium output?

1) Price will be greater than the marginal social cost.
2) Price will be less than the marginal social cost.
3) Price will be equal to the marginal social cost.
4) Marginal private cost will be equal to the marginal social cost.
5) Marginal private cost will be greater than to the marginal social cost.

(2015A/L Economics -I MCQ 38)

19. A pure pubic good is a good that is

1) Provided efficiently by markets
2) rivalrous and excludable in consumption.
3) non rivalrous and excludable in consumption.
4) rivalrous and nonexcludable in consumption
5) non rivalrous and nonexcludable in consumption

(2015A/L Economics -I MCQ 39)

20. Fiscal policy involves the government determining

1) Market interest rates
2) The money supply growth rate
3) Taxation and government spending levels.
4) The money supply
5) The rate of inflation

(2015A/L Economics -I MCQ 40)

21. A good that exhibit neither rivalry nor excludability in consumption cannot be a

1) pure private good
2) pure public good
3) inferior good
4) quasi-public good
5) global public good

(2016A/L Economics -I MCQ 33)

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22. When a regressive tax in operation, the poor pay
1) A lower percentage of their income taxes than the rich
2) A large rupee amount in taxes than the rich
3) A tax that varies proportionately with their income level.
4) A smaller rupee amount in taxes than rich.
5) A higher percentage of their income in taxes than the rich. *(2016A/L Economics -I MCQ 34)*

23. The marginal social cost of allowing one more individual to use a pure public good is
1) Negative 2) Zero 3) positive
4) Infinite 5) increasing with the number of users. *(2016A/L Economics -I MCQ 35)*

24. The table below shows the marginal private and the external benefits and the marginal private and the external costs of a product produced at a free market equilibrium level of output.

Item	Rs. million	Item	Rs. million
Marginal Private benefit	36	Marginal private cost	24
Marginal External Benefit	18	Marginal external cost	0

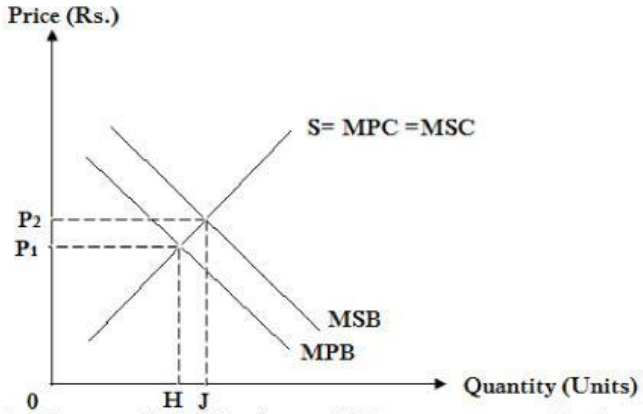
The government intervention in this market could improve the efficiency of allocation of resources because the product is
1) a public good 2) a merit good 3) a demerit good
4) a global public good 5) an inferior good.

(2016A/L Economics -I MCQ 36)

25. Which of the following methods of financing budget deficit can increase the demand by greatest amount?
1) Selling bonds to foreigners.
2) Selling bonds to the central bank.
3) Selling bonds to the commercial banks.
4) Selling bonds to the national savings bank.
5) Selling bonds to the Employees Provident Fund. *(2016A/L Economics -I MCQ 37)*

26. An example of a pure public good is
1) health service 2) national museum 3) national defense
4) rail transport service 5) education *(2017A/L Economics -I MCQ 36)*

27. Given in this diagram are the marginal private benefit (MPB) and marginal social benefit (MSB) curves and the market supply curve (S) for a particular good.



In the absence of government intervention in this market, misallocation of resources is likely to occur because of

1) The free market price is too high 2) The over production of the good of H-J.
3) Free market output is too high.
4) There is under consumption of the good of H-J.
5) Negative externality in consumption. *(2017A/L Economics -I MCQ 37)*

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28. The widely used credit instrument in domestic financing budget deficit of Sri Lanka in recent years has been,

1) Treasury bills
2) treasury bonds
3) rupee securities
4) Sri Lanka Development bonds
5) Central bank advances.

(2017A/L Economics -I MCQ 40)

29. When consumption of a certain good generates a positive externality, which of the following must be true at the market equilibrium?

1) Marginal social benefit is less than marginal private cost.
2) Marginal social benefit is greater than marginal private benefit.
3) Marginal social cost is greater than marginal social benefit.
4) Marginal social cost is less than marginal private benefit.
5) Marginal social cost is equal to marginal social benefit. *(2018A/L Economics -I MCQ 35)*

30. Which of the following is most likely to be reason for what economists call the phenomenon of 'government failure'?

1) The negative externalities that result from the production of some goods and services.
2) Excessive consumption of demerit goods.
3) Unequal distribution of income and wealth.
4) Imperfect competition in the market.
5) Pursuit to self- interest amongst politicians. *(2018A/L Economics -I MCQ 36)*

31. Which of the following is true of the marginal cost of providing a pure public good to one more consumer?

1) It is positive
2) It is equal to zero
3) It is equal to the initial cost of production of the good.
4) It decreases as the number of consumers decrease.
5) It increases as the number of consumers decrease. *(2018A/L Economics -I MCQ 37)*

32. The principal sources of tax revenue in Sri Lanka are,

1) Income Tax, Value Added Tax and Exercise Duties.
2) Value Added Tax, Turn Over Tax and Economic Service Charge.
3) Income Tax, Value Added Tax and Stamp Duty.
4) Value Added Tax, Import Duties and Nation Building Tax.
5) Value Added Tax, Port and Airport Levy and Economic Service Charge *(2018A/L Economics -I MCQ 38)*

33. An appropriate fiscal policy to combat recession would be an increase of

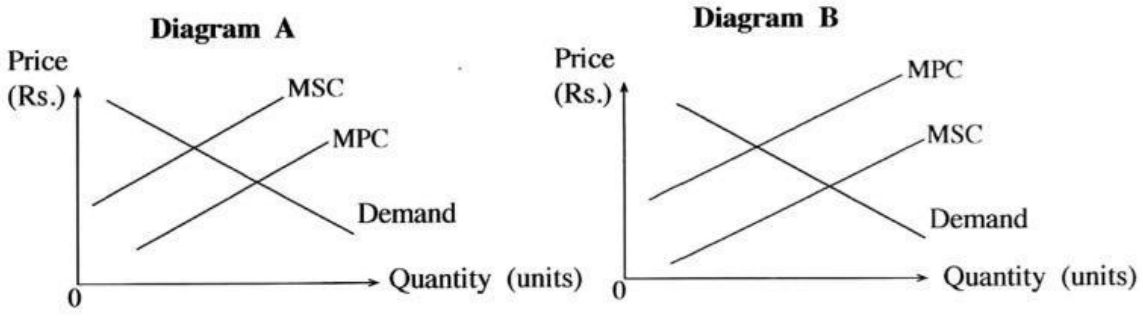
1) Interest rates.
2) money supply
3) taxes
4) Sale of government bond
5) government spending. *(2018A/L Economics -I MCQ 39)*

34. A public good is

1) A good that the general public must pay for .
2) non – rival in consumption.
3) more costly than a private good.
4) a good that generate positive externalities.
5) a good that generate negative externalities. *(2019A/L Economics -I old MCQ 34)*

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35. The diagrams below display two competitive markets for good 'A' and good 'B'. MSC is marginal social cost and MPC is marginal private cost.



Based on the two diagrams, it can be correctly concluded that

(1) both diagrams demonstrate the existence of externalities.
(2) both diagrams demonstrate the existence of negative externalities.
(3) both diagrams demonstrate the existence of positive externalities.
(4) Diagram A demonstrates inefficiency trough underproduction.
(5) Diagram B demonstrates inefficiency trough overproduction. *(2019A/L Economics -I old MCQ 35)*

36. 'Government Failure' occurs when

(1) social costs in a market greater than social benefits.
(2) the government fails to intervene in the market.
(3) externalities exist in the market.
(4) a government intervention leads to a net welfare loss compared to the free market solution
(5) the government fails to remove production inefficiency and allocative inefficiency.

(2019A/L Economics -I old MCQ 36)

37. When a progressive income tax rate structure is in operation, the rich pay

(1) a lower percentage of their income in taxes than the poor.
(2) a smaller rupee amount in taxes than the poor.
(3) a fixed percentage of their income in taxes whatever the level of income.
(4) a gradually increasing percentage of income in taxes as income increases.
(5) a gradually decreasing percentage of income in taxes as income increases.

(2019A/L Economics -I old MCQ 37)

38. When a negative externality exists as a result of production of a good, the socially optimum quantity of output could be achieved by

(1) free market equilibrium
(2) subsidizing the production of output.
(3) placing the limits on the quantity that can be produced.
(4) government purchase of the good.
(5) setting a minimum on the quantity that can be produced. *(2019A/L Economics -I new MCQ 31)*

39. Marginal cost of allowing one more person to use a pure public good is a

(1) positive (2) negative
(3) zero (4) infinite
(5) increasing with an increase in consumption. *(2019A/L Economics -I new MCQ 32)*

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40. A merit good is a good which
(1) benefits both the recipient and society as well.
(2) does not have a social cost in production.
(3) private benefit of consuming the good exceed its social benefits.
(4) cannot be supplied through market forces.
(5) can be supplied efficiently through market forces. *(2019A/L Economics -I new MCQ 33)*

41. Primary account balance of the government budget is defined as the difference between
(1) tax revenue and capital expenditure.
(2) total revenue including grants and total expenditure excluding interest payments on debt.
(3) total revenue and total expenditure including repayment of debt.
(4) tax revenue and recurrent expenditure.
(5) total revenue and recurrent expenditure. *(2019A/L Economics -I new MCQ 34)*

42. The biggest component of government expenditure in Sri Lanka at present is
(1) interest payments (2) salaries and wages (3) pension payments
(4) fertilizer subsidies. (5) current transfers to public corporations
(2019A/L Economics -I new MCQ 35)

43. When externality exist in a free market,
(1) the equilibrium price is determined at an artificially high level.
(2) the equilibrium price is determined at an artificially low level.
(3) market cannot reach equilibrium.
(4) market equilibrium does not ensure socially optimum resource allocation.
(5) the consumers of a product incur extra costs in terms of maintained and insurance.
(2020 A/L Economics -I new MCQ 31)

44. Markets fails to produce public goods because
(1) there is no demand for such goods.
(2) it is impossible for the producer to charge a price from the consumers of such product.
(3) Such product usually entails large external cost in production and generate external benefits in consumption.
(4) their production leads to increase income inequality.
(5) Private firms generally have a higher production cost than the public sector.
(2020 A/L Economics -I new MCQ 32)

45. The main components of recurrent expenditures of the government of Sri Lanka are,
(1) interest payments, acquisition of real assets, salaries and wages and transfers to households.
(2) interest payments, salaries and wages, capital transfers public corporations and pensions.
(3) interest payments, salaries and wages, current transfers to households and current transfers to public corporations.
(4) interest payments, salaries and wages, amortization payments and current transfers to households.
(5) interest payments, salaries and wages, acquisition of financial assets and fertilizer subsidy.
(2020 A/L Economics -I new MCQ 33)

46. A regressive tax is one where the poor
(1) have a lower percentage of their income taxed than the rich.
(2) pay a larger rupee amount in taxes than the rich.
(3) pay a tax that varies proportionately with their income.
(4) have a higher percentage of their income taxed than the rich.
(5) are able to use tax revenue to purchase essential goods. *(2020 A/L Economics -I new MCQ 34)*

47. The prominent source of revenue of the central government of Sri Lanka at present is
(1) taxes on income (2) taxes on production and expenditure.
(3) profits, dividend and interest. (4) gross receipts of trading enterprises.
(5) lottery revenue. *(2020 A/L Economics -I new MCQ 35)*

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48. Resources are efficiently allocated between competing uses by the price mechanism in which of the following?
(1) private goods (2) Public goods (3) Free goods
(4) Merit goods (5) Common resources *(2020 A/L Economics -I old MCQ 33)*

49. Progressive income tax is one which
(1) Everyone pays the same rate
(2) Everyone must pay a fixed rupee amount
(3) the poor pay a larger percentage of income than the rich.
(4) the rich pay a larger percentage of income than the poor.
(5) the rich pay a larger rupee amount of their income than the poor. *(2020 A/L Economics -I old MCQ 34)*

50. All of the following taxes are examples of regressive taxes except
(1) the poll tax (2) excise tax (3) sales tax
(4) tariff (5) the proportional income tax *(2020 A/L Economics -I old MCQ 35)*

51. Which of the following is most likely to occur if the government finances budget deficit by borrowing funds in the domestic money market?
(1) Downward pressure on interest rates
(2) Increase domestic money supply.
(3) Appreciation of external value of rupees
(4) A rise in the government share of external debt
(5) Increase in private investments *(2020 A/L Economics -I old MCQ 36)*

52. A good is more likely to be supplied by the government rather than a private company if it is
1) excludable and non-rival.
2) excludable and rival.
3) non-excludable and non-rival.
4) non-excludable and rival. (Cambridge A/L Questions (Specimen Paper 2016 Question No. 05,)

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