

# AP<sup>®</sup> Microeconomics – Market Failure

## Exam practice questions: 4.1 Externalities



APEducate: [www.MicroeconomicsAP.com](http://www.MicroeconomicsAP.com)

### 1. AP MICROECONOMICS EXAMINATION QUESTIONS

1. Analyze the relationship between 'market failure' and 'allocative efficiency'. **[10 marks]**
2. 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]**
3. 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]**
4. 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]**
5. 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]**
6. 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 immunized against childhood diseases such as measles. **[10 marks]**
7. Explain how governments can use regulations to correct for the negative externalities of production caused by fossil fuel use. **[10 marks]**
8. Evaluate the effectiveness of government regulations to correct for the negative externalities of production caused by fossil fuel use. **[10 marks]**

# AP<sup>®</sup> Microeconomics – Market Failure

## Exam practice questions: 4.1 Externalities

9. Explain how governments can use market-based policies to correct for the negative externalities of production caused by fossil fuel use. **[10 marks]**
10. Evaluate the effectiveness of government market-based policies to correct for the negative externalities of production caused by fossil fuel use. **[10 marks]**
11. Explain how an improvement in resource allocation can be achieved through the use of cap and trade schemes (tradable pollution permits). **[10 marks]**
12. 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)." **[10 marks]**
13. Explain how an improvement in resource allocation can be achieved through the use of carbon taxes. **[10 marks]**
14. 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." **[10 marks]**
15. 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]**
16. Evaluate the different policy responses that are available to governments to correct market failures associated with positive externalities of production. **[10 marks]**
17. Explain how governments can provide subsidies to correct for the positive externalities of consumption caused by consumers purchasing education services. **[10 marks]**
18. Explain how governments can provide subsidies to correct for the positive externalities of consumption caused by consumers purchasing education services. **[10 marks]**
19. Compare and contrast the different policy response that are available to governments to correct market failures associated with positive externalities of consumption. **[10 marks]**
20. Use the concept of 'merit goods' to explain the under provision of health care services and education in free markets. **[10 marks]**
21. 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. **[10 marks]**

AP<sup>®</sup> Microeconomics – Market Failure  
Exam practice questions: 4.1 Externalities

22. Distinguish between merit goods and demerit goods. **[10 marks]**
23. Examine the different policy responses that are available to governments to correct for the market failures associated with merit **and** demerit goods. **[10 marks]**
24. 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]**
25. Discuss the different policy responses that are available to governments to correct negative externalities that are associated with petrol use. **[10 marks]**