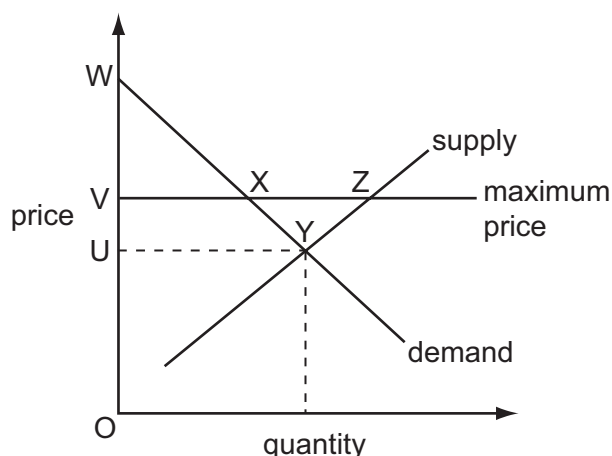


- 12 The diagram represents a market for a good, in which the equilibrium price is OU.



A maximum price of OV is imposed by law.

What effect does this have on consumer surplus?

- A It decreases by area VXYU.
 - B It increases by area WXV.
 - C It increases by area XYZ.
 - D It is not affected.
- 13 In 2003, some tobacco companies in the US wanted to raise prices but a spokesman said the tobacco industry was no longer in a position where it could increase revenue by raising prices.

What might be concluded from this statement?

- A The price elasticity of demand for tobacco is lower than it used to be.
 - B The price elasticity of demand for tobacco is likely to be greater than unity.
 - C The price of tobacco is too low.
 - D The profit of tobacco growers does not depend on the price system.
- 14 A given production process uses both labour and capital.

What will be the effect on the quantities of labour and capital employed if the government introduces a subsidy on capital investment?

	quantity of labour	quantity of capital
A	decrease	uncertain
B	uncertain	uncertain
C	decrease	increase
D	uncertain	increase