

- 15** A cost-benefit analysis of a proposed underground railway produced the following statistics.

annual costs and benefits	\$ million
annual capital cost	10
operating and maintenance costs	3
fare revenue	6
savings to private travellers	5
savings to business	10
other economic benefits	7

What can be concluded from the statistics?

- A** If undertaken by the private sector there would be a loss of \$13m.
  - B** If undertaken by the private sector there would be a profit of \$3m.
  - C** If undertaken by the public sector there would be a net social benefit of \$15m.
  - D** If undertaken by the public sector there would be a net social cost of \$1m.
- 16** A government admits that building a new bridge would produce a positive net benefit to society.
- Owing to a lack of public funds, the bridge would have to be built and operated by a private company, that would charge the public to use the bridge.
- Private companies insist that building the bridge would not be profitable.
- What could explain the companies' unwillingness to build the bridge?
- A** A private company will be unable to obtain the consumer surplus of the users.
  - B** Building the bridge will give rise to negative externalities.
  - C** The demand for bridge crossings is price-inelastic.
  - D** The potential benefits are non-excludable.
- 17** What is a merit good?
- A** a good or service which has higher social costs than private costs
  - B** a good or service which has no opportunity cost
  - C** a good or service which is both non-excludable and non-rival
  - D** a good or service which has a greater value than individuals recognise