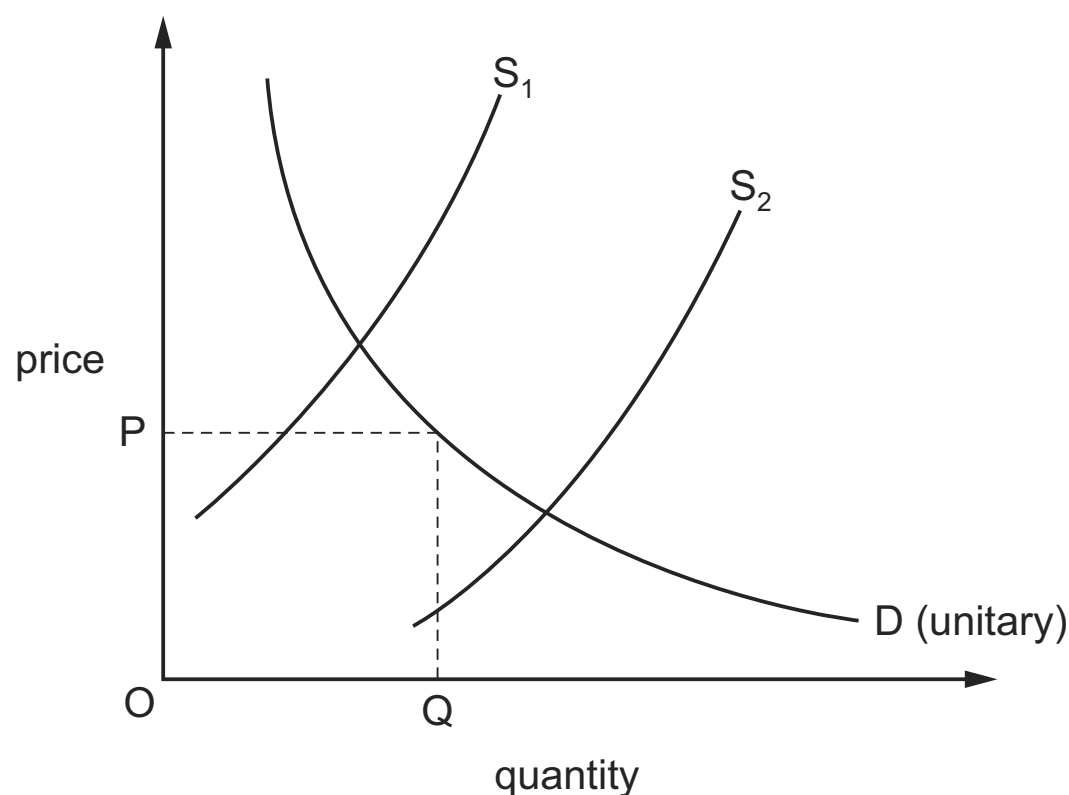


- 16 A government has sufficient funds to pay for two transport projects. It has to choose between four projects, all of which have the same social cost of \$200 million. The table shows the benefits from the projects.

	project 1	project 2	project 3	project 4
private benefit (\$ million)	100	110	120	150
external benefit (\$ million)	120	100	90	80

Which two projects would the government choose?

- A** 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4
- 17 What will make it **most** likely that road tolls will reduce traffic congestion?
- A** Cross-elasticity of demand between private and public transport is zero.
B Demand for car use is income-elastic.
C Demand for car use is price-elastic.
D Supply of public transport is price-inelastic.
- 18 The diagram shows the demand curve for an agricultural commodity that has unitary elasticity. S_1 is the supply curve if there is a bad harvest and S_2 is the supply curve if there is a good harvest.



What should the government do to keep the total revenue of farmers the same?

- A** allow the price of the commodity to be determined by the market
B fix the price paid to farmers at price OP
C introduce a quota on production equal to OQ
D provide subsidies in bad years and impose indirect taxes in good years