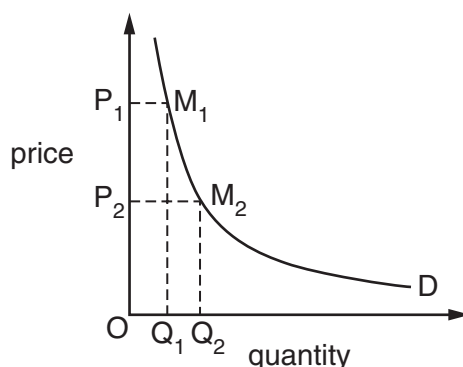


- 4 In principle, which of the following is an advantage of a planned economy?
- A Decisions are taken on the basis of social costs and social benefits.
 - B The government always balances the budget.
 - C The pattern of production reflects the preferences of consumers.
 - D There is perfect substitutability between capital and labour.
- 5 Which characteristic of money is essential, if it is to be used as a medium of exchange?
- A It must be durable.
 - B It must be legal tender.
 - C It must be limited in supply.
 - D It must have intrinsic value.
- 6 In the diagram area $OP_1M_1Q_1$ is equal to area $OP_2M_2Q_2$.



What is the value of the price elasticity of demand if the price is halved from P_1 to P_2 ?

- A zero
 - B 0.5
 - C 1
 - D infinity
- 7 It was estimated in 1998 that milk has an income elasticity of demand of -0.6 .

What can be concluded about milk from this information?

- A It accounts for only a small proportion of household expenditure.
- B It has very few substitutes.
- C Household expenditure on milk will increase if the price of milk increases.
- D It is an inferior good.