

15 Which statement about costs is correct?

- A External cost only affects consumers.
- B Opportunity cost affects all transactions.
- C Private cost only affects producers.
- D Social cost affects all members of society equally.

16 A government is considering building a high-speed rail link.

Why would it **not** proceed with the project?

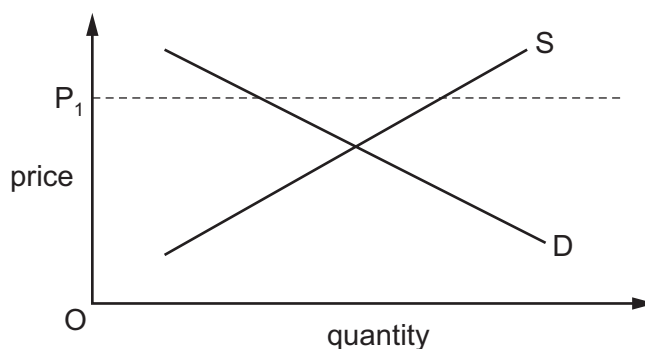
- A The external benefit is greater than the external cost.
- B The private cost is greater than the private benefit.
- C The social benefit is greater than the social cost.
- D The social cost is greater than the social benefit.

17 The production of a product generates a negative externality that increases as output rises.

Which form of government intervention in the market is most suitable to tackle this externality?

- A a direct income tax
- B a specific indirect tax
- C a subsidy
- D an ad valorem indirect tax

18 The government places a maximum price P_1 on an agricultural product. The supply and demand conditions for this product are shown in the diagram.



What will be the outcome in the market for this product?

- A There will be an equilibrium price and output.
- B There will be a surplus of the product.
- C There will be higher than expected profits.
- D There will be shortages of the product.