

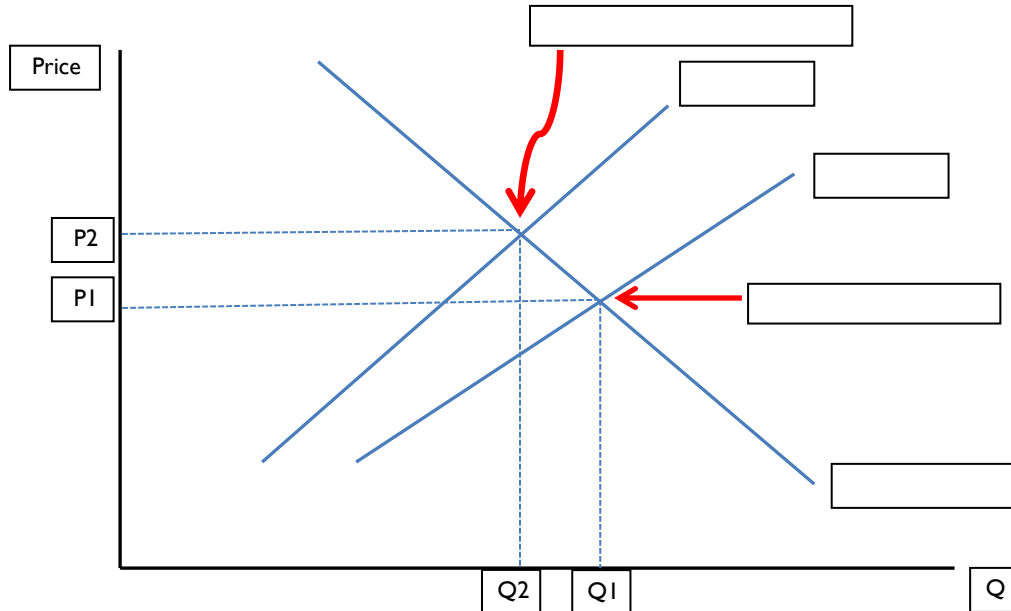
Practice at AS Economics Diagrams

Q1. This diagram shows market failure until an ad valorem tax is added to a demerit good.

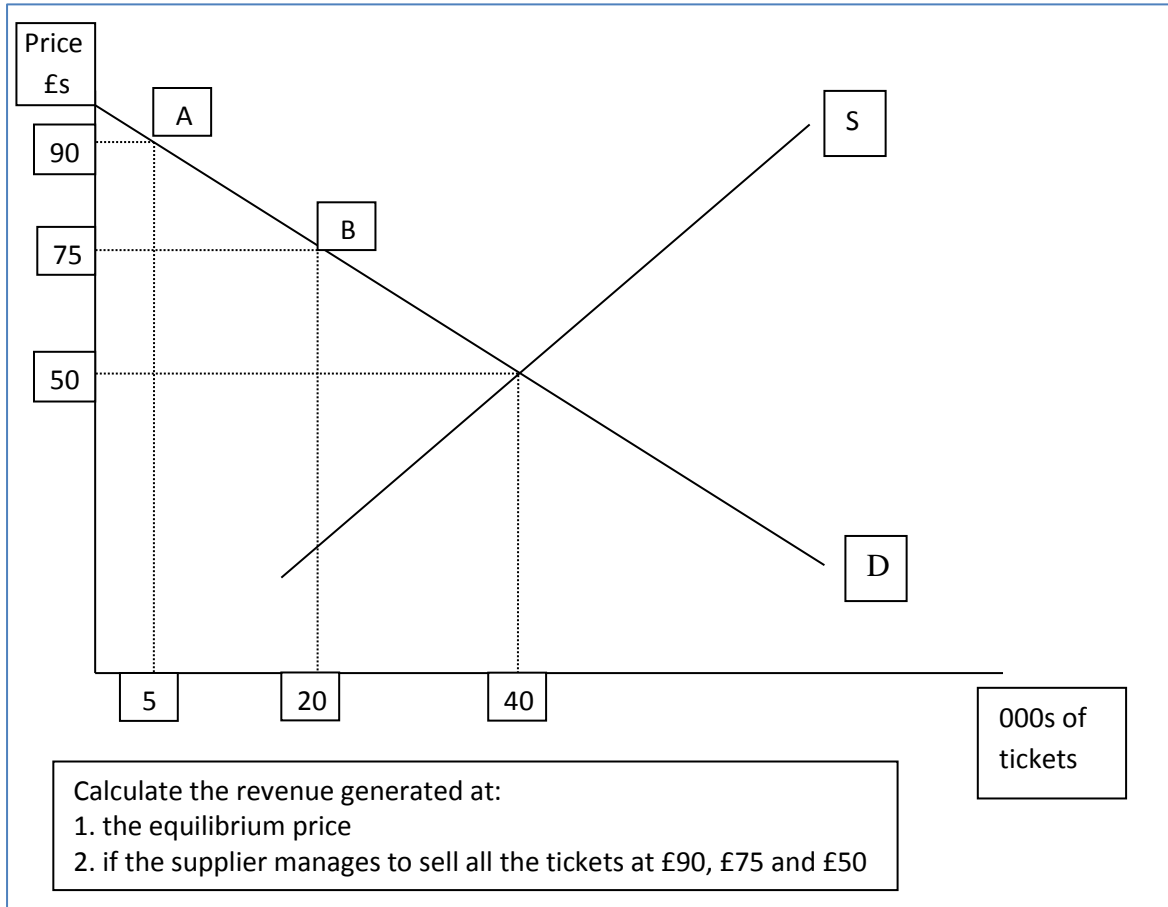
a) Fill in the gaps

b) add in the welfare gain if the negative production externality is tackled.

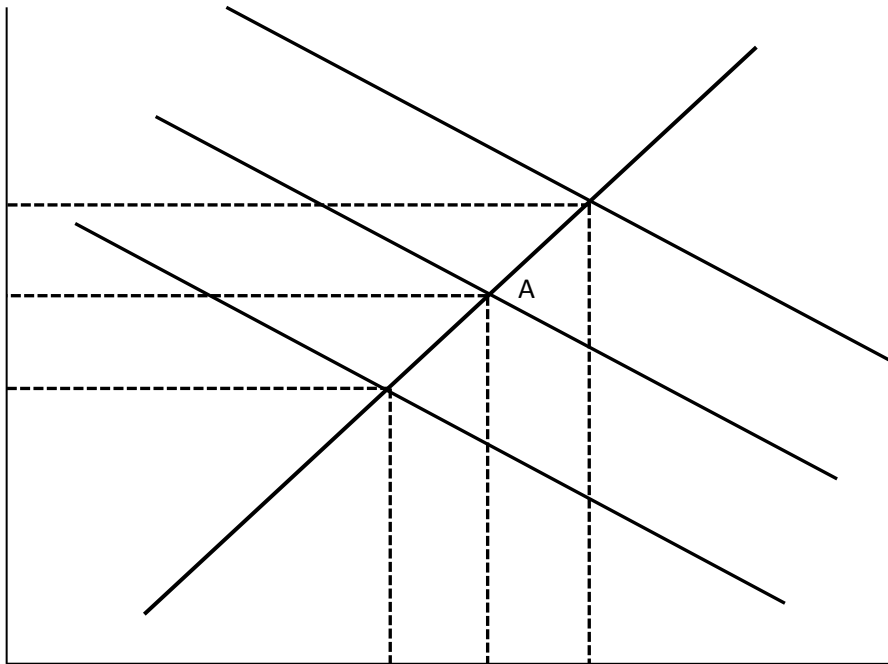
c) indicate the loss of producer surplus if an ad valorem tax is imposed.



Q2.

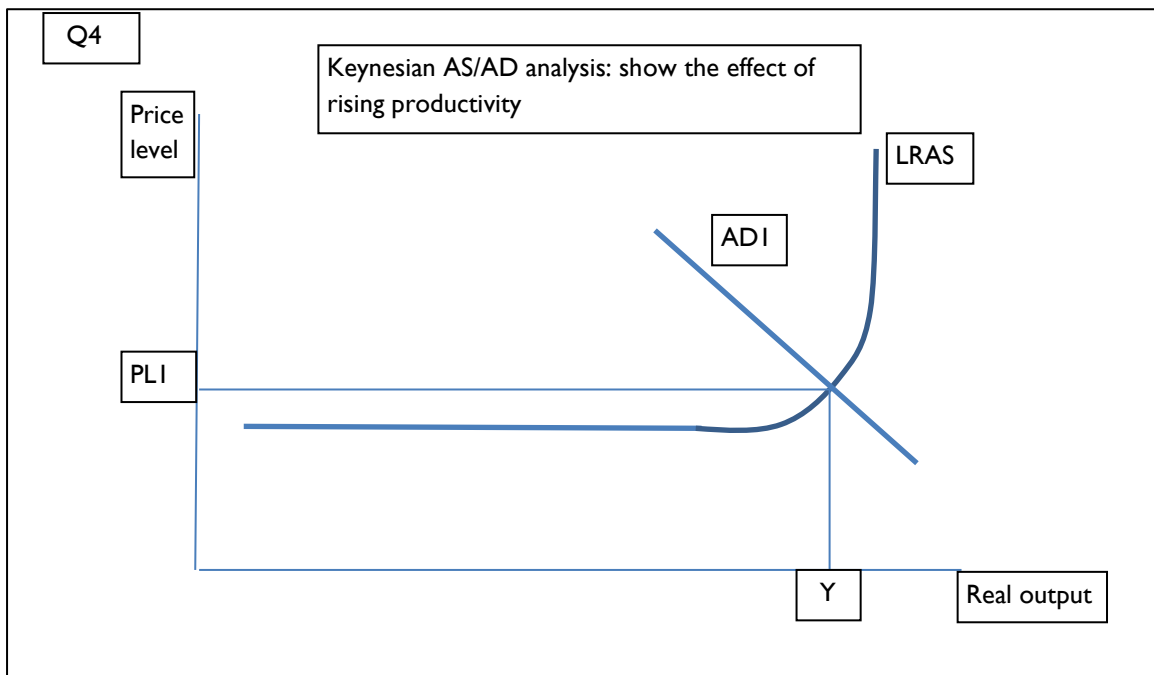


Q3.



3a) Label and indicate what happens for an inferior good at an equilibrium point of A when consumer real incomes rise.

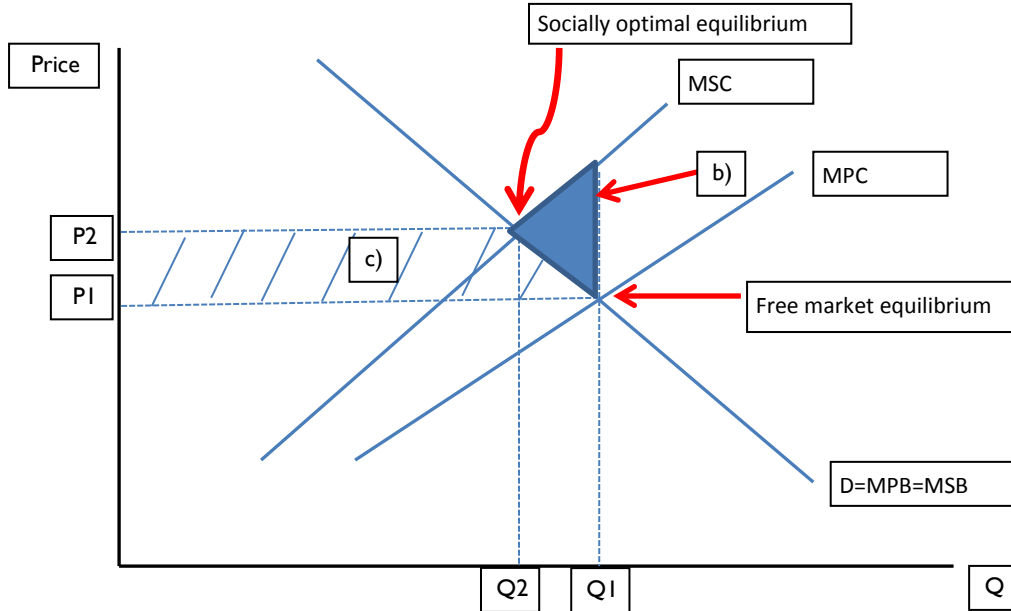
3b) Ignoring 3a, draw on and label the effect of a rise in the producer's costs.



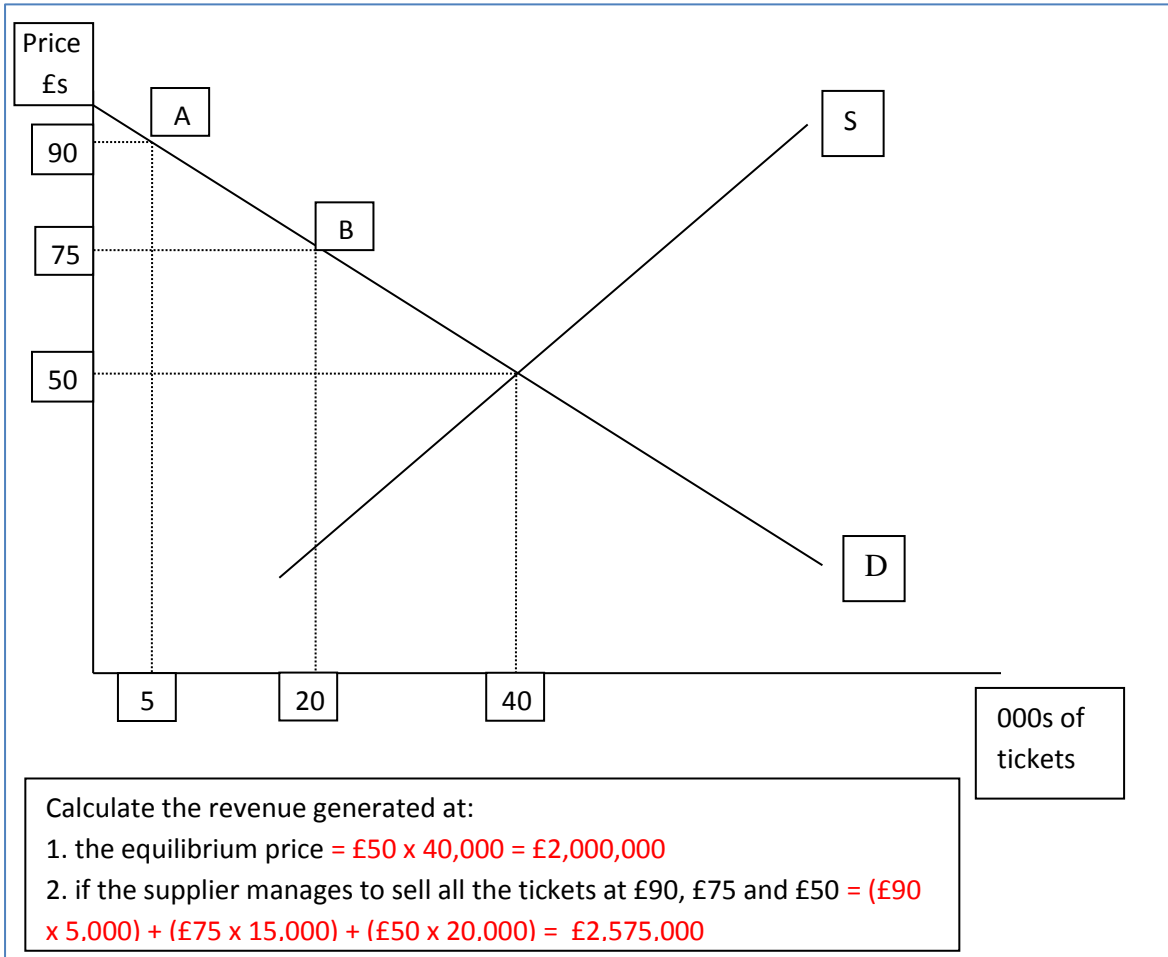
ANSWERS on AS Economics Diagrams

Q1. This diagram shows market failure until an ad valorem tax is added to a demerit good.

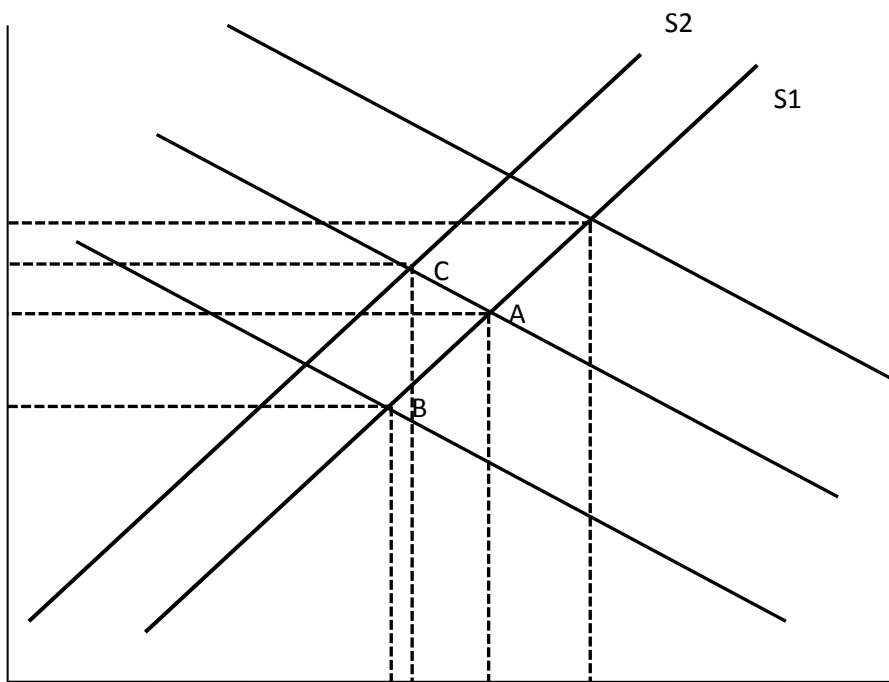
- a) Fill in the gaps
- b) add in the welfare gain if the negative production externality is tackled.
- c) indicate the loss of producer surplus if an ad valorem tax is imposed.



Q2.



Q3.



3a) Label and indicate what happens for an inferior good at an equilibrium point of A when consumer real incomes rise.

- Demand falls to B

3b) Ignoring 3a, draw on and label the effect of a rise in the producer's costs.

- Supply shifts leftwards and C is the new equilibrium

