

Microeconomics Final Part 2

December 2020

Choose either question 1 or question 2 to answer.

1. (a) Using a diagram, explain why demerit goods are considered to be an example of market failure.

[10 marks]

(b) Evaluate two possible government responses that could be used to address the problem of demerit goods.

[15 marks]

2. (a) Explain three determinants of price elasticity of demand (PED).

[10 marks]

b) Examine the role of PED for firms making decisions regarding price changes and their effect on total revenue.

[15 marks]