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]