

Market failure

22 questions · 122 marks

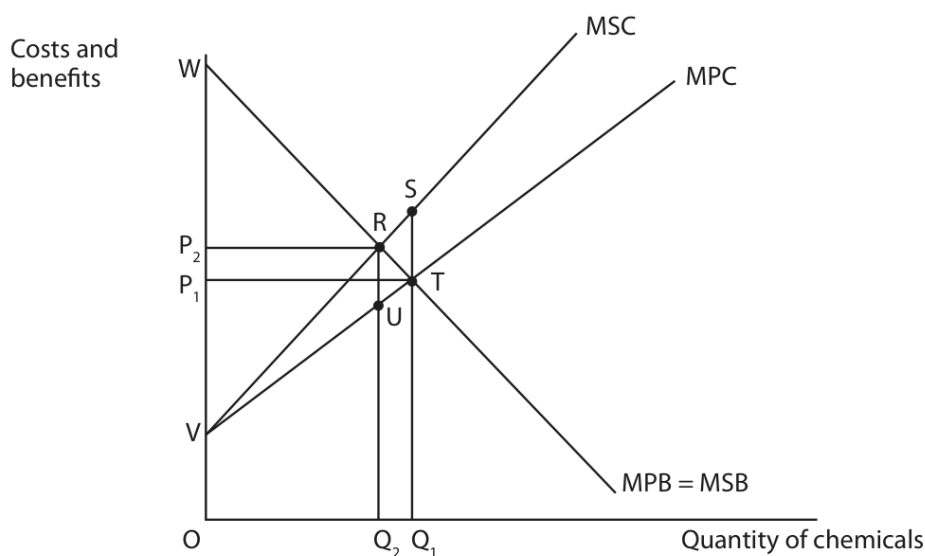
Answer all questions. The marks available are shown against each part. Every question is taken unaltered from a past paper; the source is noted beneath it. In Section A, choose the best answer and write its letter in the box.

Section A · Multiple choice

10 questions · 10 marks

1. The diagram shows the market for the production of chemicals.

1 mark



Which **one** of the following can be deduced from the diagram?

- ☐ A The social optimum quantity is Q_1 and price is P_1
- ☐ B The market equilibrium quantity is Q_2 and price is P_2
- ☐ C The welfare loss area is RTU
- ☐ D The welfare loss area is RST

Answer

Pearson Edexcel WEC11/01 Economics · June 2021 Unit 1, Question 4

2. Which **one** of the following is an example of a market failure?

1 mark

- ☐ A Unintended consequences
- ☐ B A market bubble in the housing market
- ☐ C Excessive administration costs resulting from regulation
- ☐ D A firm exiting the market because it was making a loss

Answer

Pearson Edexcel WEC11/01 Economics · June 2025 Unit 1, Question 1

3. Which **one** of the following is an example of market failure?

1 mark

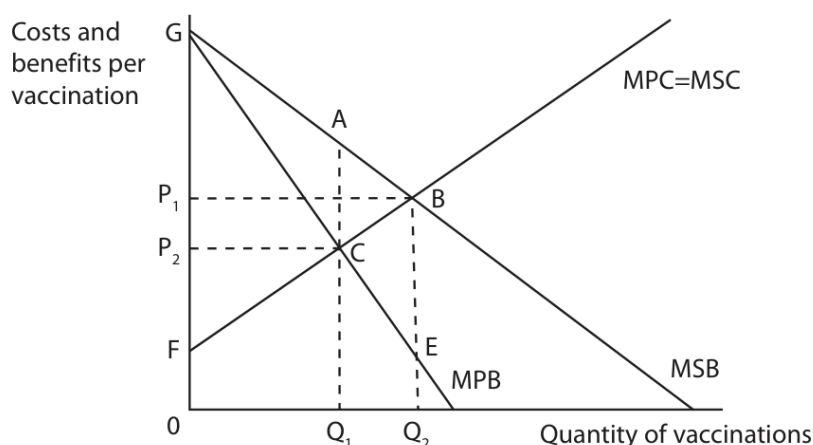
- ☐ A Government provision of flood defences that is greater than the social optimum output
- ☐ B Doctors prescribe too many medicines because the cost is covered by health insurance
- ☐ C Lower prices create an incentive for firms to switch production to more profitable activities
- ☐ D Unintended consequences that follow the introduction of an indirect tax

Answer

Pearson Edexcel WEC11/01 Economics · January 2020 Unit 1, Question 3

4. The diagram shows the market for vaccinations against measles.

1 mark



Which **one** of the following can be deduced from the diagram?

- ☐ A The social optimum output is Q_1
- ☐ B The market equilibrium output is Q_2
- ☐ C Welfare gain is shown by the area BCE
- ☐ D Welfare gain is shown by the area ABC

Answer

Pearson Edexcel WEC11/01 Economics · January 2022 Unit 1, Question 4

5. Before the global financial crisis of 2008, commercial banks expected that their governments would not allow them to fail because of the threats to the rest of the economy. This meant that some staff at banks took excessive risks when lending and investing. 1 mark

Which **one** of the following concepts best describes the behaviour of staff at these banks?

- ☐ A Inertia
- ☐ B The free-rider problem
- ☐ C Moral hazard
- ☐ D Market bubble

Answer

— Pearson Edexcel WEC11/01 Economics · January 2023 Unit 1, Question 5

6. 70 million citizens in Bangladesh live in areas where there is a risk of flooding. 1 mark
- The Government of Bangladesh plans to spend \$400 billion to build 600 kilometres of sea defences.

Sea defences are an example of which **one** of the following?

- ☐ A Consumer goods
- ☐ B Free goods
- ☐ C Private goods
- ☐ D Public goods

Answer

— Pearson Edexcel WEC11/01 Economics · January 2024 Unit 1, Question 2

7. A housing market bubble is most likely to occur in the cities of Tokyo, in Japan and Miami, in the USA. 1 mark

Which **one** of the following best defines a market bubble?

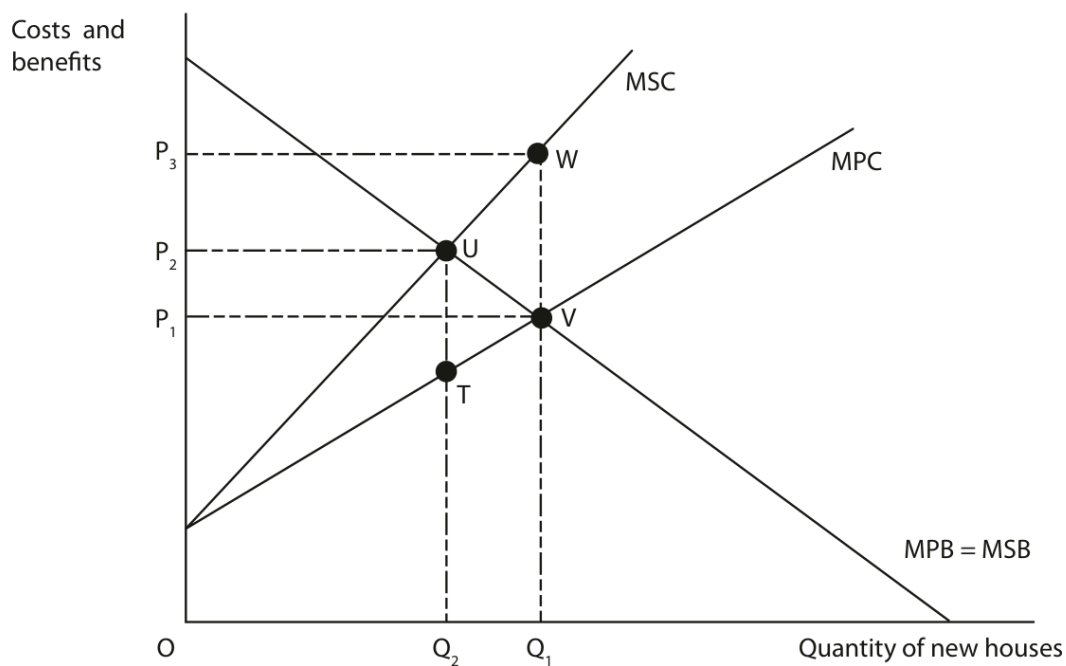
- ☐ A Where consumption of a product has no opportunity cost
- ☐ B Where free-riders consume a product without paying for it
- ☐ C Where the price of the product rises rapidly above its sustainable level
- ☐ D Where providers of a service have more information than its consumers

Answer

— Pearson Edexcel WEC11/01 Economics · October 2025 Unit 1, Question 3

8. The diagram shows the market for new house construction.

1 mark



The housing construction industry is a major source of pollution.

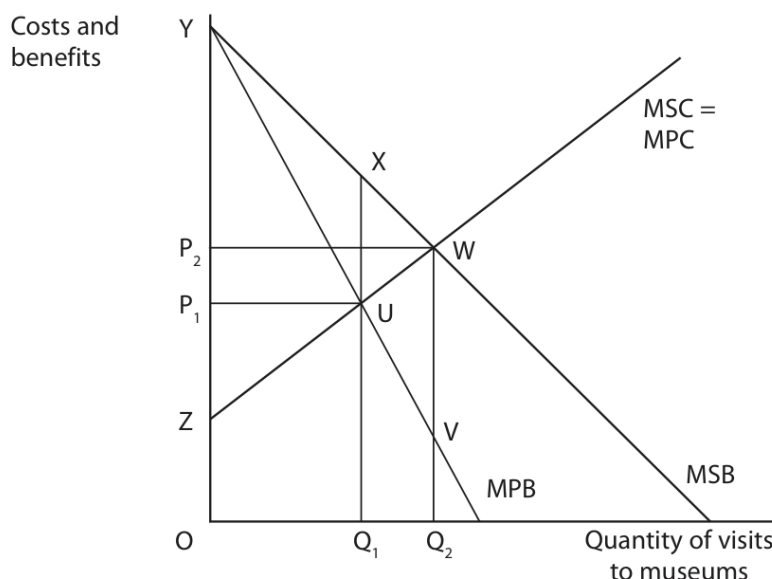
Which **one** of the following can be deduced from the diagram?

- ☒ **A** The social optimum output is Q_1
- ☒ **B** The market equilibrium output is Q_2
- ☒ **C** Welfare loss is shown by the area UVT
- ☒ **D** Welfare loss is shown by the area UWV

Answer

9. The diagram shows the market for museum visits in Spain.

1 mark



Which **one** of the following can be deduced from this diagram?

- ☐ A The market equilibrium quantity is at Q_2
- ☐ B The social optimum quantity is at Q_1
- ☐ C The welfare gain area would be equal to UYW
- ☐ D The welfare gain area would be equal to UWX

Answer

Pearson Edexcel WEC11/01 Economics · January 2023 Unit 1, Question 4

10. Which **one** of the following is an example of market failure?

1 mark

- ☐ A The free-rider problem that results in the underprovision of public goods
- ☐ B Higher prices create an incentive for firms to increase the production of a good
- ☐ C New government regulations that result in excessive administration costs
- ☐ D Government provision of healthcare to move towards the social optimum output

Answer

Pearson Edexcel WEC11/01 Economics · June 2021 Unit 1, Question 3

Section B · Short answer

8 questions · 32 marks

11. 8 Governments of European Union countries spend a total of €3 billion a year on street lighting.

4 marks

With reference to the provision of street lights, explain what is meant by the term 'public good'.

— Pearson Edexcel WEC11/01 Economics · October 2019 Unit 1, Question 8

12. In 2020 the US city of Miami had the highest risk of a housing market bubble in the world. Between 2019 and 2024 the average price of a house increased by 50%.

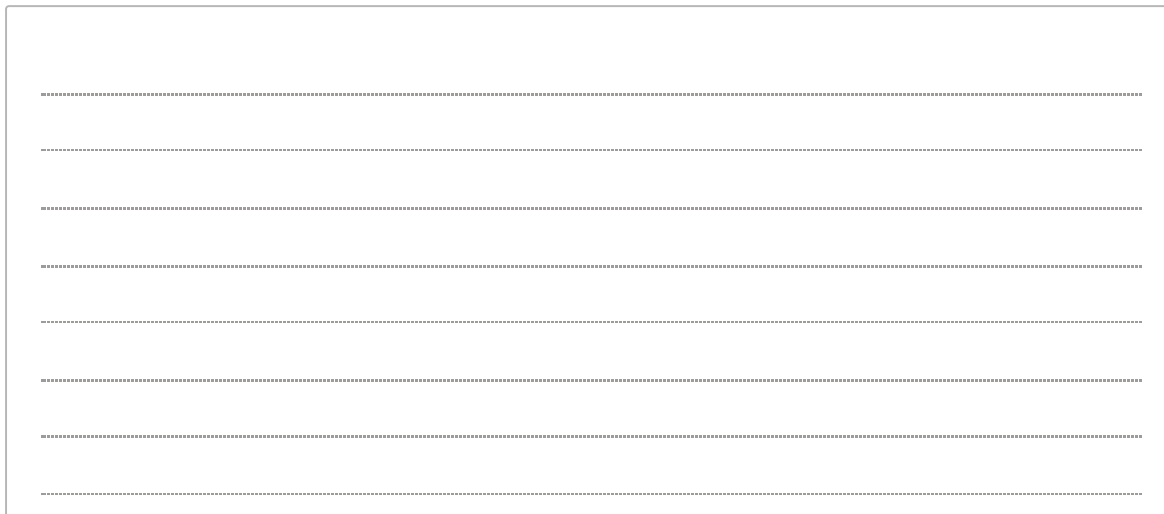
4 marks

With reference to Miami's housing market, explain what is meant by a 'market bubble'.

— Pearson Edexcel Economics · January 2026 Unit 1 (paper A), Question 8

13. In 2021 the number of citizens taking online education courses in the Philippines was 1 300 000. 4 marks

Draw a diagram to illustrate the likely external benefits resulting from online education in the Philippines.



— Pearson Edexcel WEC11/01 Economics · June 2025 Unit 1, Question 7

14. In 2022 there were 24 300 lighthouses globally. Between 2013 and 2022 the number of losses of ships at sea fell from 109 to 38. 4 marks

With reference to lighthouses, explain the difference between 'non-rivalry' and 'non-excludability'.



— Pearson Edexcel WEC11/01 Economics · June 2024 Unit 1, Question 9

15. In the USA 92% of people had private health insurance in 2021. It is estimated that, in the USA, \$200 billion per year is spent on unnecessary operations. 4 marks

Explain **one** microeconomic reason why people might have unnecessary operations in the USA.

[illegible]

— Pearson Edexcel WEC11/01 Economics · June 2023 Unit 1, Question 9

16. Most of the Netherlands is below sea level and is therefore liable to flooding. The Dutch Government spends €1 billion per year on flood defences. 4 marks

Explain **one** reason for the provision of this public good by the Dutch Government.

[illegible]

— Pearson Edexcel WEC11/01 Economics · October 2021 Unit 1, Question 9

17. Between 2017 and 2022 the Singapore Government replaced 95 000 streetlights along its roads.

4 marks

Explain **one** microeconomic reason why the Singapore Government provides streetlights.

— Pearson Edexcel WEC11/01 Economics · June 2022 Unit 1, Question 9

18. The table shows annual percentage changes in house prices in Australia between 2020 and 2022.

4 marks

	Percentage change
2020	3.6
2021	24.5
2022	−4.9

(Source adapted from: <https://www.abc.net.au/news/2024-01-02/australia-house-pricing-home-value-index-2023/103278170>)

Explain **one** reason why there might have been a housing market bubble in Australia in 2021.

— Pearson Edexcel WEC11/01 Economics · January 2025 Unit 1, Question 8

Section C · Essays

4 questions · 80 marks

Answer on lined paper. Draw every diagram asked for, fully labelled.

19. In 2024 the global manufacturing and construction industries: 20 marks

- produced 6.22 bn tonnes of greenhouse gases
- used 50% of all global natural resources extracted
- used 15% of the world's freshwater
- used 25% of the world's wood.

Evaluate possible external costs associated with the manufacturing and construction industries.

Illustrate your answer with an appropriate diagram.

— Pearson Edexcel WEC11/01 Economics · January 2026 Unit 1, Question 13

20. In 2023 Silicon Valley Bank and Signature Bank failed in the USA. However, their customers were protected by the financial regulators who guaranteed the \$15.8 bn saved with these two banks. 20 marks

In 2024, 21% of car insurance customers in the USA admitted to not providing accurate information on their insurance applications.

Evaluate the causes of market failure in the banking and insurance industries.

— Pearson Edexcel WEC11/01 Economics · October 2025 Unit 1, Question 14

21. In the UK, in 2018, 10 million consumers travelling abroad did not take out travel insurance. This is despite 30% of consumers with travel insurance having to make a claim and the average medical bill costing £5620. 20 marks

Evaluate reasons for the underconsumption of travel insurance.

— Pearson Edexcel WEC11/01 Economics · June 2020 Unit 1, Question 14

22. Between 2012 and 2021 government spending on education per person per year in high-income countries increased from \$7 507 to \$8 515. In low-income countries the increase was from \$42 to \$56 per person. 20 marks

Evaluate the microeconomic benefits of increased spending on education.

— Pearson Edexcel WEC11/01 Economics · January 2025 Unit 1, Question 14