7.

A government decides to encourage the use of public transport by the provision of a subsidy.

(a) Using a demand and supply diagram, analyse the effect of a subsidy on the equilibrium price and the equilibrium quantity in such a market. [6]

(b) Explain what factors influence the price elasticity of demand for public transport. [6]

(c) Discuss whether transport in a country should be provided by the public sector or by the private sector. [8]

8.

Many governments seek to discourage people from smoking cigarettes, whilst encouraging them to eat more fruit, including bananas and apples. The government's ability to influence people's consumption is determined, in part, by the price elasticity of supply and the price elasticity of demand of the products, and by changes in market conditions.

(a) Define 'price elasticity of supply'. [2]

(b) Explain three reasons why the supply of bananas may decrease. [6]

(c) Analyse what effect a rise in the price of apples, which are a substitute for bananas, will have on the market for bananas. [4]

(d) Discuss whether a government should increase the tax on cigarettes. [8]