2 **(a)** With the help of a diagram, explain the difference between producer surplus and consumer surplus **and** consider the extent to which producers always gain when the price of a product increases due to higher costs of production. [8]

(b) Assess the view that a business should be more concerned about the income elasticity of demand for its product than its cross elasticity of demand when incomes are falling. [12]

OR

A-Level Economics: **Specimen 1**

11 A government imposes a specific indirect tax on a product.

When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

A When the product has price elastic demand and price elastic supply.

B When the product has price elastic demand and price inelastic supply.

C When the product has price inelastic demand and price elastic supply.

D When the product has price inelastic demand and price inelastic supply.

12 The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a nightclub.

	$
Jane	10.00
Sara	8.00
Yasmin	6.00

The fare for the taxi is $12. Assume they share the taxi fare as shown in the table below.

Which row shows how much they each should pay so that they each obtain the same consumer surplus?

	Jane $	Sara $	Yasmin $
A	2.00	4.00	6.00
B	4.00	4.00	4.00
C	5.00	4.00	3.00
D	6.00	4.00	2.00