

1.1 Choice, models and market adjustment

Name: _____ Class: _____ Date: _____

Total: 6 marks

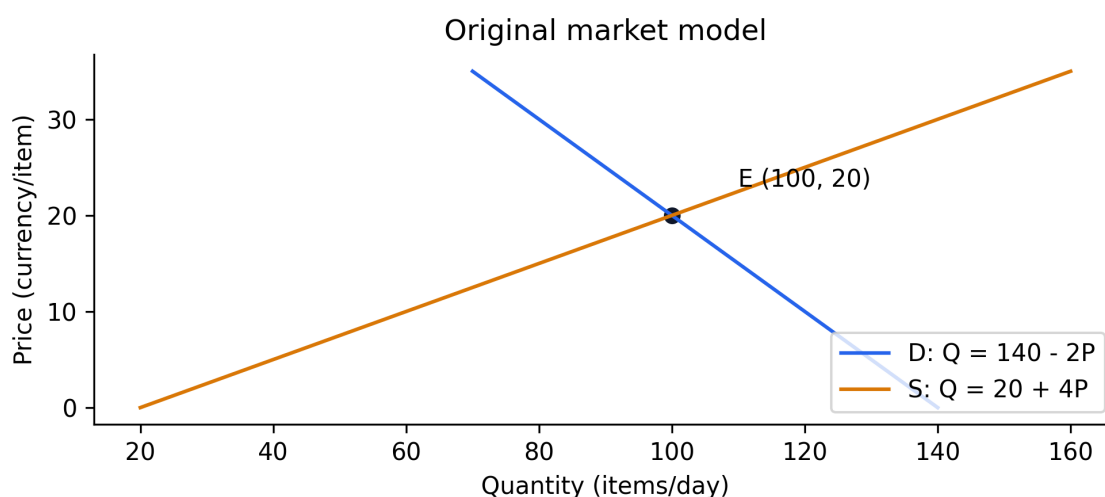
KEY WORDS scarcity • opportunity cost • equilibrium
• excess demand

Objective

Apply the supported native methods to original data and justify a qualified transfer conclusion.

1 Key knowledge and worked examples

A model specifies variables and holds other relevant influences constant. Scarcity requires choice; opportunity cost is the benefit of the next-best alternative. Marginal choice compares additional benefit and cost. A positive statement can in principle be tested; a normative statement adds a value judgement. Consumer and firm objectives are model assumptions, not a claim that everyone calculates perfectly.



In an original market model, $Q_d = 140 - 2P$ and $Q_s = 20 + 4P$, where P is currency units per item and Q is items per day. Explain equilibrium and a price of 15.

Equilibrium requires $Q_d = Q_s$. Thus $140 - 2P = 20 + 4P$; $120 = 6P$; $P = 20$ currency units/item. $Q_d = 140 - 2(20) = 100$ items/day and $Q_s = 20 + 4(20) = 100$ items/day. At $P = 15$, $Q_d = 110$ and $Q_s = 80$ items/day, giving excess demand $= 110 - 80 = 30$ items/day.

In the simple adjustment story, buyers bid up price or suppliers change prices; quantities then move along unchanged curves. A demand shift requires a different determinant, such as income or preferences. Shortages do not prove instantaneous adjustment or unrestricted competition.

2 Practice

2.1 For the worked case, state the method, show its application and give a limitation. [3]

3 Exam-style questions

3.1 A publicity campaign raises demand while a supplier's input costs increase. Explain why equilibrium quantity cannot be predicted from these directions alone and describe the diagram. [3]
