Week 5

IGCSE Economics

Homework bundle for this week

本周作业合集

exercises.lol

Contents 目录

IGCSE Economics Name: ____________________ Score: ______

1. A market is best defined as:
   - ☐ any system where buyers and sellers trade
   - ☐ a physical shop only
   - ☐ a government office
   - ☐ a place where only food is sold
2. The law of demand states that, other things equal, as price falls:
   - ☐ quantity demanded rises
   - ☐ quantity demanded falls
   - ☐ demand shifts left
   - ☐ supply rises
3. The law of supply states that, other things equal, as price rises:
   - ☐ quantity supplied rises
   - ☐ quantity supplied falls
   - ☐ supply shifts left
   - ☐ demand rises
4. Market equilibrium is where:
   - ☐ quantity demanded equals quantity supplied
   - ☐ price is highest
   - ☐ supply is zero
   - ☐ demand is zero
5. A rise in demand (the demand curve shifts right) leads to:
   - ☐ higher equilibrium price and quantity
   - ☐ lower price and quantity
   - ☐ higher price, lower quantity
   - ☐ no change
6. Price rises 10% and quantity demanded falls 30%. What is the size of PED?

   ____

7. Price rises 20% and quantity supplied rises 10%. What is PES?

____

8. In a mixed economy, the government typically: (Select all that apply.)

   ☐ provides public goods

   ☐ provides merit goods like schools

   ☐ redistributes income

   ☐ sets every single price

   Tick every correct option.

9. Prices ration scarce goods to those willing and able to pay.

   ☐ True ☐ False

10. Demand requires being both willing and able to pay.

   ☐ True ☐ False

IGCSE Economics

1. **any system where buyers and sellers trade**

   A market is any arrangement bringing buyers and sellers together.

2. **quantity demanded rises**

   Lower price, more demanded — the curve slopes down.

3. **quantity supplied rises**

   Higher price, more supplied — the curve slopes up.

4. **quantity demanded equals quantity supplied**

   Equilibrium clears the market — Qd = Qs.

5. **higher equilibrium price and quantity**

   More demand raises both equilibrium price and quantity.

6. **3**

   PED = 30% / 10% = 3 (ignoring the sign) — elastic.

7. **0.5**

   PES = 10% / 20% = 0.5 — inelastic.

8. **provides public goods; provides merit goods like schools; redistributes income**

   It corrects failures and provides essentials, but does not plan every price.

9. **True**

   Rationing is one of the key functions of the price mechanism.

10. **True**

    Wanting a good is not demand unless you can also afford it.

IGCSE ECONOMICS • EXERCISE SHEET

2.1 The role of markets in allocating resources

Name: ______________ Class: __________ Date: ____________ **Total: 18 marks**

KEY WORDS resources 资源 • market 市场 • allocate 配置 • incentive 激励 • price mechanism 价格机制

Objective

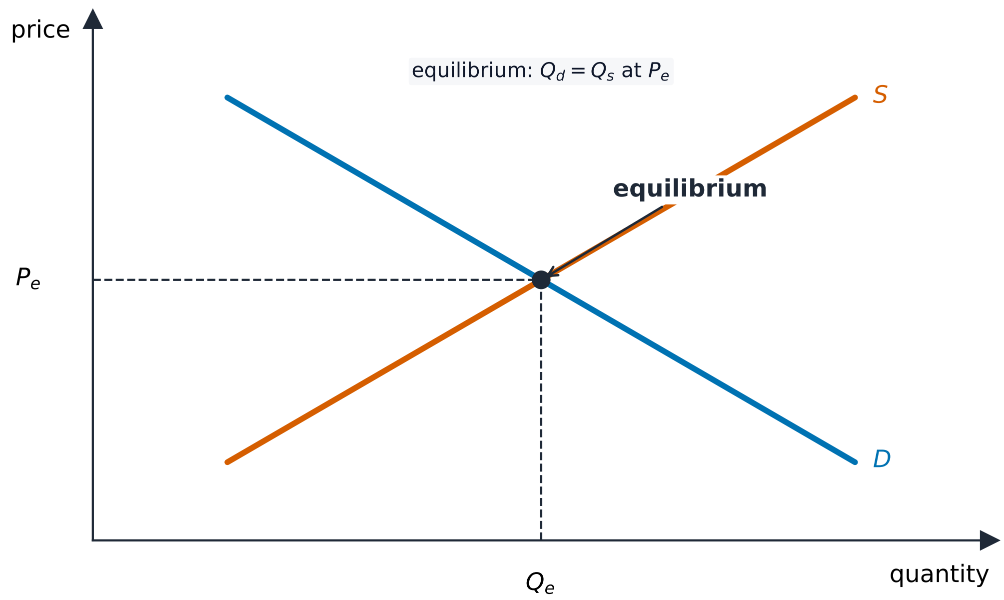
Build the skills to answer exam questions on **the role of markets in allocating resources 市场配置资源的作用** — what a **market 市场** is, **micro and macroeconomics 微观与宏观**, and the **price mechanism 价格机制**.

You must be able to:

- distinguish micro from macroeconomics
- explain what a market is
- explain the three functions of the price mechanism

1 Worked examples

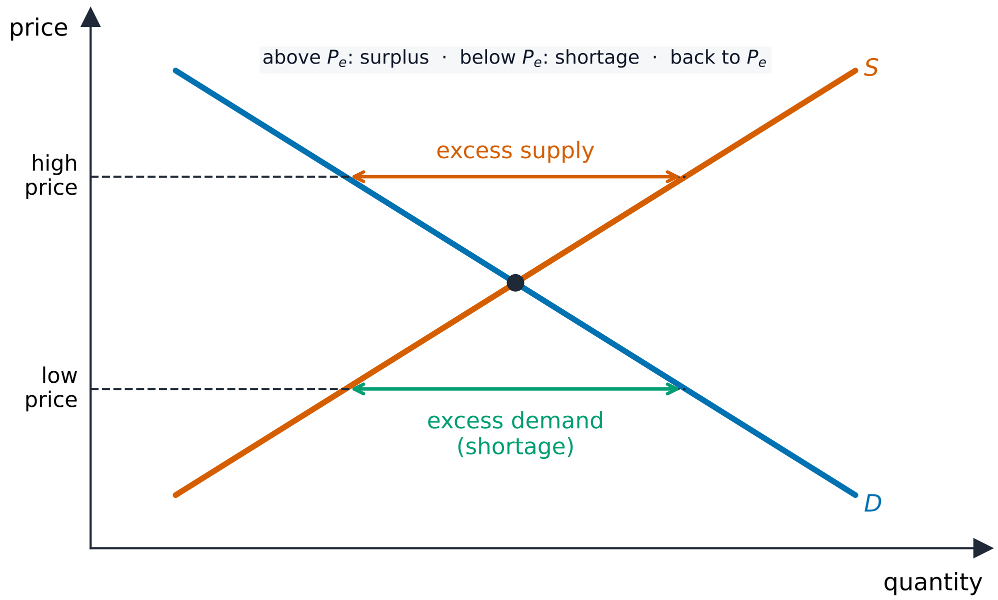
■ How a market allocates resources



In a free market, prices — not planners — decide what is made

- **Microeconomics 微观**: single markets/products. **Macroeconomics 宏观**: the whole economy.

- **Market** 市场: where buyers and sellers trade (a place, online, or by phone).
- **Price mechanism** 价格机制 does three jobs: **signalling** 信号 (shows what to make), **incentive** 激励 (rewards more output), **rationing** 配给 (shares out a scarce good).



Price does the rationing: a shortage pushes price up, a surplus pushes it down, until the market clears

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *market*. [2]

2.2 State the three functions of the price mechanism. [3]

2.3 State the difference between microeconomics and macroeconomics. [2]

3 Exam-style questions

3.1 A rising price acts as an **incentive** because it: [1]

- **A** signals what to produce
- **B** gives firms a reason to produce more
- **C** rations a scarce good
- **D** reduces consumer demand

3.2 Explain how the price mechanism allocates resources in a free market. [4]

3.3 Analyse how the price of a good responds to a sudden rise in demand for it. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 any place or system where buyers and sellers meet to trade (2 for a clear definition; 1 for a partial idea).

2.2 signalling; incentive; rationing (1 + 1 + 1).

2.3 microeconomics studies single parts of the economy (one market/firm); macroeconomics studies the whole economy (total jobs, prices, growth) (2 for a clear difference; 1 for a partial idea).

3.1 B. An incentive gives firms a reason to produce more.

3.2 *[4]* K 1 + An up to 3 — a price change *signals* what buyers want and gives firms an *incentive* to supply more of wanted goods, while *rationing* scarce goods to those willing to pay → resources move to where they are most valued, with no planner.

3.3 *[6]* K/App/An — a rise in demand means buyers want more at the current price → this creates a shortage (excess demand) → buyers compete and bid the price up → the higher price gives firms an incentive to supply more → the market moves to a new, higher equilibrium price and quantity.

4 What are both macroeconomic decisions?

	decision 1	decision 2
A	a school recruits more teachers	a firm sets the prices for its products
B	a central bank reduces money supply	a government spends more on defence
C	a government increases tax rates	a farmer decides which crops to grow
D	a household cuts its energy use	a worker accepts an offer of overtime

IGCSE Economics: **s25 13**

4 What is the function of the price mechanism in a market economy?

A allocating resources and guiding choices

B allowing governments to provide price stability

C enabling markets to operate fairly

D preventing competitors from entering a market

IGCSE Economics: **m25 12**

8 What is a characteristic of a market economic system?

A consumers decide whether production is labour-intensive or capital-intensive

B factors of production are government-owned

C high levels of government intervention

D land and capital are privately owned

IGCSE Economics: **w24 12**

2 What is opportunity cost?

A the allocation of resources in an economy

B the cost to the individual when they consume a good

C the lack of goods and services available to satisfy unlimited wants

D the next best alternative forgone when making an economic decision

2.2 Demand

Name: ______________ Class: __________ Date: ____________ **Total: 16 marks**

KEY WORDS demand 需求 • good 物品 • income 收入 • consumers 消费者 • demand curve 需求曲线

Objective

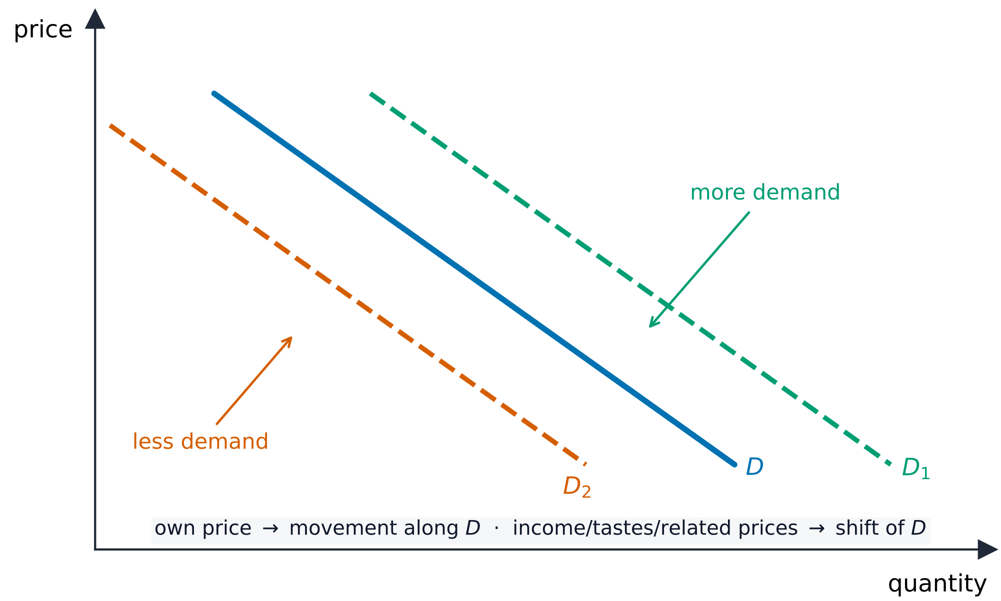
Build the skills to answer exam questions on **demand 需求** — the **law of demand 需求定律**, **movements along** versus **shifts** of the curve, and the **conditions of demand 需求条件**.

You must be able to:

- state the law of demand and explain the downward curve
- distinguish a movement along from a shift of the demand curve
- explain the conditions that shift demand

1 Worked examples

■ The demand curve



Own-price change = movement along; any other change = shift

- **Law of demand:** price up → quantity demanded down (an **inverse relationship 反向关系**), *ceteris paribus*.

- **Conditions of demand** (shift the curve): **income** 收入, **tastes** 偏好, price of a **substitute** 替代品 / **complement** 互补品, **population** 人口, advertising.

Answer shapes: an **Analyse** [**up to 6**] answer may use a demand diagram; **Discuss** [**8**] adds a judgement (Ev).

2 Practice

2.1 State the *law of demand.* [2]

2.2 State two conditions that shift the demand curve. [2]

2.3 State the effect on the demand for tea of a rise in the price of coffee (a substitute). [1]

3 Exam-style questions

3.1 A fall in the good's **own price** is shown on a demand diagram as: [1]

- **A** rightward shift of demand
- **B** leftward shift of demand
- **C** movement down along the demand curve
- **D** shift of supply

3.2 Using a demand diagram, explain how a rise in consumer income affects the demand for a normal good. [4]

3.3 Analyse how a successful advertising campaign would affect the demand for a product. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 when the price of a good rises, the quantity demanded falls, and when the price falls, the quantity demanded rises (2 for a clear statement; 1 for a partial idea).

2.2 any two of: income; tastes; price of a substitute/complement; population; advertising (1 + 1).

2.3 the demand for tea rises (1).

3.1 C. An own-price change is a movement along the demand curve.

3.2 *[4]* K 1 + **diagram up to 2** (labelled axes, demand shifts right $D \to D_1$) + An 1 — higher income raises demand for a normal good → the curve shifts right → more is demanded at every price.

3.3 *[6]* K/App/An — advertising is a condition of demand → a successful campaign makes the product more popular and known → at every price, more consumers want to buy it → the whole demand curve shifts to the right → demand rises (and, with supply unchanged, the price and quantity rise).

4 The price of petrol increases in a country with a market economic system.

What is a consequence of this?

A More cars are bought.

B The costs of road transport increase.

C The quantity of petrol supplied falls.

D There is a shortage of petrol.

5 What determines a consumer's demand for a product?

	the consumer's income	the consumer's willingness to buy the product	the price of the product
A	✓	✓	✓
B	✓	✓	✗
C	✗	✓	✓
D	✓	✗	✓

key

✓ = yes

✗ = no

IGCSE Economics: **s25 11**

4 In 2020, to prevent the spread of a pandemic, many governments temporarily closed restaurants and cafés.

What would be a macroeconomic impact of such a policy?

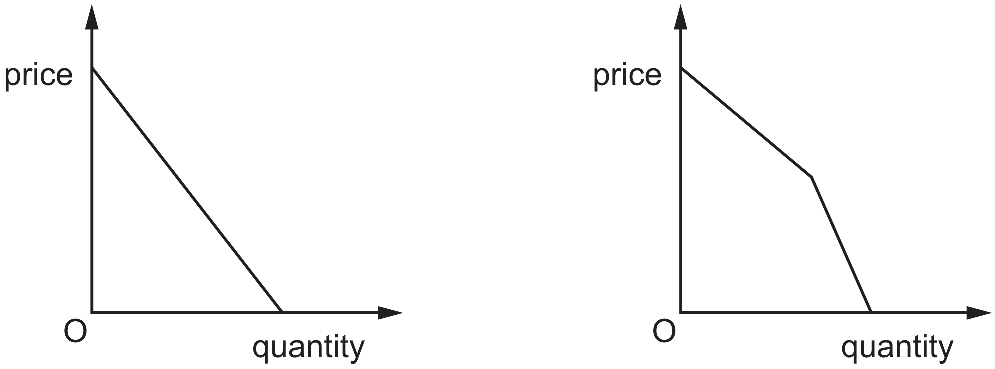
A Demand for food to be consumed at home would rise.

B Gross Domestic Product (GDP) would fall.

C The profits from restaurants and cafés would fall.

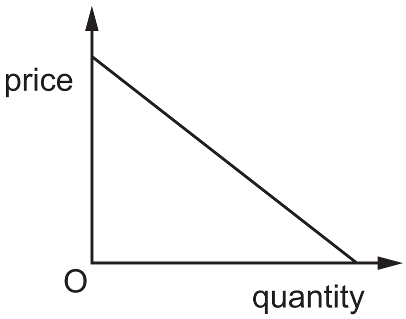
D Staff working in restaurants and cafés would lose income.

6 The diagrams show the demand curves for the only two buyers in a market.

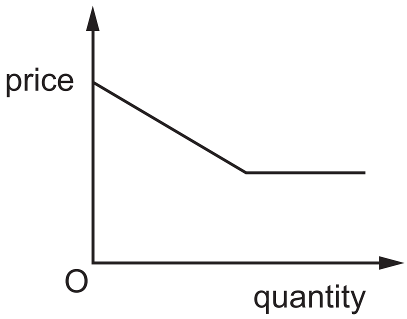


What will be the shape of the market demand curve for the good?

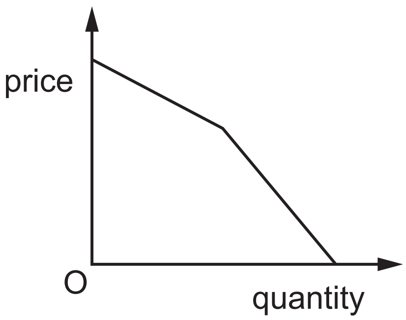
A



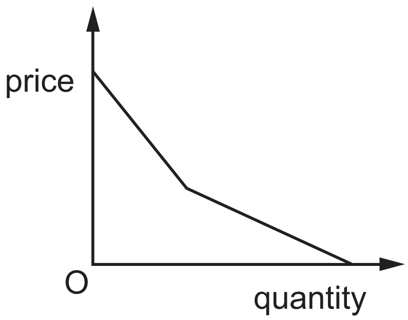
B



C



D



4 As cities experience economic growth, the buildings in the city become taller. This is driven by an increase in the willingness and ability of consumers to live in tall buildings. Changes in the conditions of supply have also increased the number of tall buildings being constructed. However, there is a limit to the height of buildings – above a certain height, the total cost of constructing the building will exceed the total revenue generated.

(a) Define *total cost*. [2]

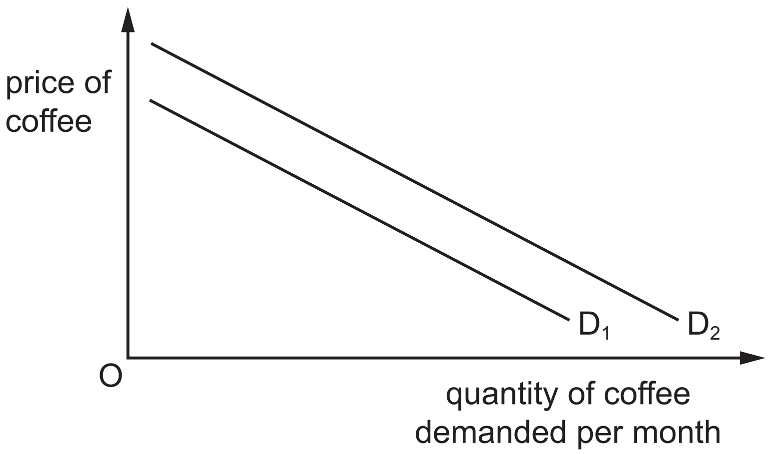
(b) Explain **two** causes of an increase in the supply of a product. [4]

(c) Analyse factors that can increase the willingness and ability of consumers to buy a certain product. [6]

(d) Discuss whether or not economic growth will improve living standards in a city. [8]

IGCSE Economics: **w24 12**

5 The diagram shows a change in demand for coffee.



What would cause the demand for coffee to change from D_1 to D_2?

A a good coffee harvest

B a rise in the price of substitute drinks

C a rise in the wages of coffee workers

D a successful advertising campaign for tea

4 The world price of cocoa has been falling while the prices of products made from cocoa have been rising.

Which combination might explain this?

	market for cocoa	advertising expenditure on products made from cocoa
A	excess demand	decrease
B	excess supply	decrease
C	excess demand	increase
D	excess supply	increase

IGCSE Economics: **w24 22**

4 In 2021, there were extensions and contractions in demand for a number of South African products. In that year, a South African court stopped a multinational company (MNC) exploring for oil along South Africa's coastline. South Africa experienced an increase in output, driven largely by the growth in its tertiary sector. However, its unemployment rate was 35%, a long way from full employment.

(a) Define an *extension in demand*. [2]

(b) Explain **two** external costs that may be caused by exploring for oil. [4]

(c) Analyse how growth in a country's tertiary sector can increase its living standards. [6]

(d) Discuss whether or not workers who lose their jobs are likely to stay unemployed for a long time. [8]

2.3 Supply

Name: ____________ Class: ________ Date: __________ **Total: 16 marks**

KEY WORDS supply 供给 • conditions of supply 供给条件 • supply curve 供给曲线 • technology 技术 • costs of production 生产成本

Objective

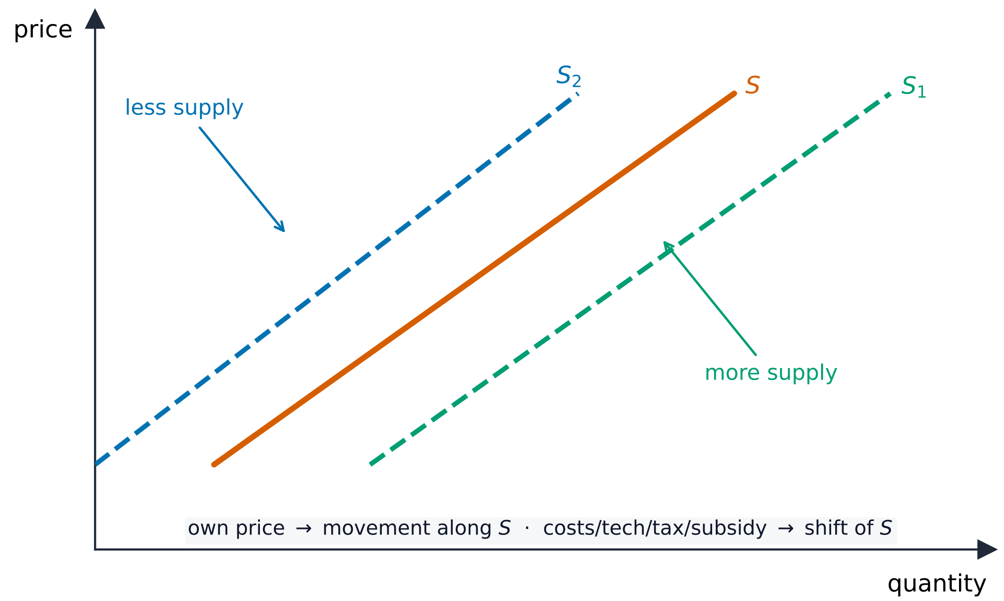
Build the skills to answer exam questions on **supply 供给** — the **law of supply 供给定律**, **movements along** versus **shifts**, and the **conditions of supply 供给条件**.

You must be able to:

- state the law of supply and explain the upward curve
- distinguish a movement along from a shift of the supply curve
- explain the conditions that shift supply

1 Worked examples

The supply curve



Own-price change = movement along; any other change = shift

- **Law of supply:** price up → quantity supplied up (a **direct relationship** 正向关系) — firms earn more, so supply more.

- **Conditions of supply** (shift the curve): **costs of production** 生产成本, **technology** 技术, a **tax** 税收 or **subsidy** 补贴, weather, number of firms.

Answer shapes: an **Analyse** [**up to 6**] answer may use a supply diagram; **Discuss** [**8**] adds a judgement (Ev).

2 Practice

2.1 State the *law of supply*. [2]

2.2 State two conditions that shift the supply curve. [2]

2.3 State the effect on supply of a rise in the costs of production. [1]

3 Exam-style questions

3.1 A government **subsidy** to producers will shift the supply curve: [1]

- **A** left, because costs rise
- **B** right, because costs fall
- **C** left, because demand falls
- **D** there is no effect on supply

3.2 Using a supply diagram, explain how a rise in the cost of raw materials affects supply. [4]

3.3 Analyse how an improvement in technology would affect the supply of a good. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 when the price of a good rises, the quantity supplied rises, and when the price falls, the quantity supplied falls (2 for a clear statement; 1 for a partial idea).

2.2 any two of: costs of production; technology; taxes/subsidies; weather; number of firms (1 + 1).

2.3 supply falls (the curve shifts left) (1).

3.1 B. A subsidy lowers costs, shifting supply right.

3.2 *[4]* K 1 + **diagram up to 2** (supply shifts left $S \to S_1$) + An 1 — dearer raw materials raise firms' costs → they supply less at every price → the supply curve shifts left.

3.3 *[6]* K/App/An — technology is a condition of supply → better technology lowers firms' costs of production → they can make more for the same cost → at every price they supply more → the supply curve shifts right → supply rises (and, with demand unchanged, the price falls and quantity rises).

2 A worker decides to leave their job as a bus driver and take a job as a lorry driver.

What will increase the opportunity cost of this decision?

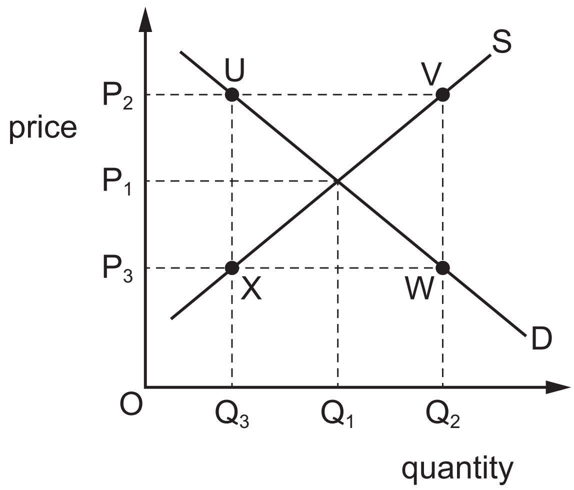
A an increase in the holidays for lorry drivers

B an increase in the income tax paid by bus drivers

C an increase in the wages of bus drivers

D an increase in the wages of lorry drivers

6 The diagram shows the market for a product.



Which distance shows a market disequilibrium caused by excess supply?

A U to V **B** U to X **C** V to W **D** X to W

IGCSE Economics: **s25 13**

14 What is most likely to increase the demand for labour in an industry?

A a decrease in the price of capital used by the industry

B a decrease in the productivity of labour in the industry

C an increase in the demand for the industry's product

D an increase in the wage paid to labour in the industry

IGCSE Economics: **m25 12**

4 What is an example of microeconomics?

A a fall in the cost of growing wheat

B a fall in the unemployment rate

C an increase in the rate of inflation

D an increase in government spending

6 The table shows the supply for a product at different prices.

price ($)	supply (units)
10	120
12	160
14	200
16	240
18	280

If the price changes from $12 to $14, what will be the change in supply?

A Supply will contract by 40 units and there will be a movement down along the supply curve.

B Supply will contract by 200 units and there will be an inward shift of the supply curve.

C Supply will extend by 40 units and there will be a movement up along the supply curve.

D Supply will extend by 200 units and there will be an outward shift of the supply curve.

9 A government intends to build a new international airport in an area of outstanding natural beauty.

What would be an external cost of this decision?

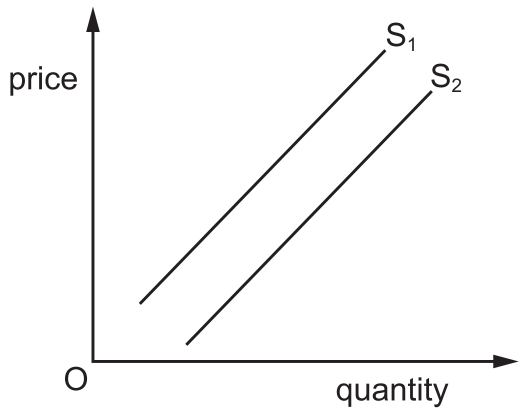
A the cost of importing construction materials

B the enjoyment lost by those unable to use the countryside

C the increase in profits for local businesses

D the wages paid to the construction workers

5 The diagram shows a shift in the supply curve for New Zealand's airlines from S_1 to S_2.



What is the most likely cause of this shift?

A a decrease in the costs of New Zealand's airlines

B a decrease in the number of people wanting to fly to New Zealand

C an increase in the price of train and bus travel in New Zealand

D an increase in the tax on air travel in New Zealand

IGCSE ECONOMICS • EXERCISE SHEET

2.4 Price determination

Name: ______________ Class: __________ Date: ____________ **Total: 15 marks**

KEY WORDS equilibrium 均衡 • price determination 价格决定 • demand 需求 • supply 供给 • market 市场

Objective

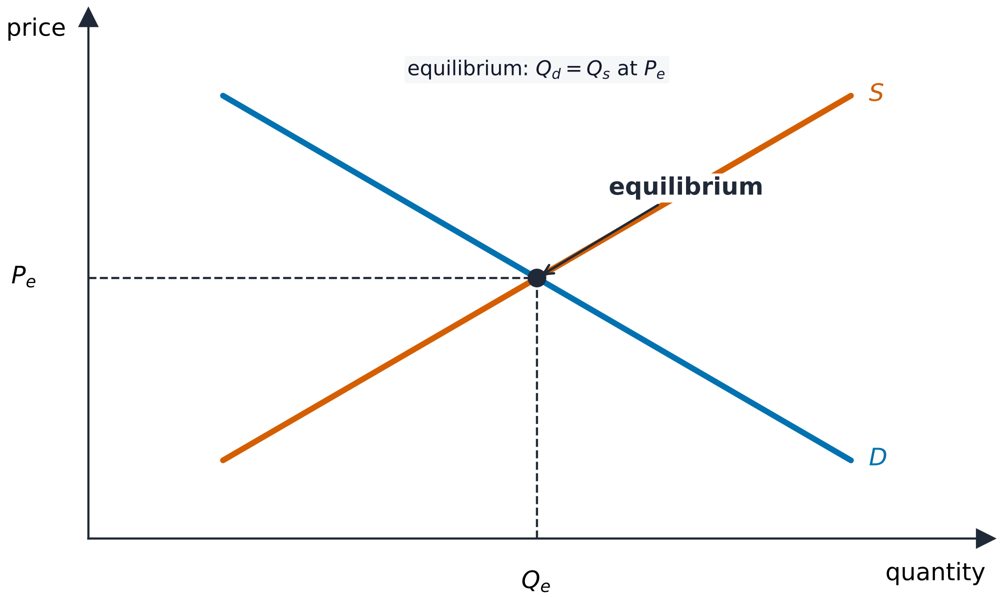
Build the skills to answer exam questions on **price determination 价格决定** — market **equilibrium 均衡**, the equilibrium price and quantity, and reading a demand-and-supply diagram.

You must be able to:

- draw demand and supply and find the equilibrium
- explain why equilibrium is where quantity demanded equals quantity supplied
- read changes in equilibrium from a diagram

1 Worked examples

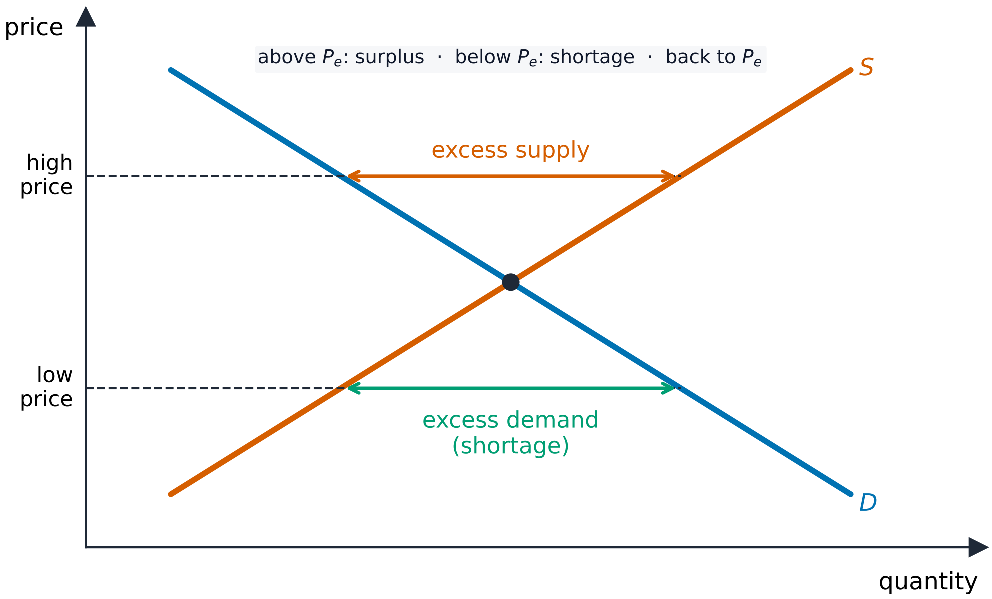
■ Market equilibrium



At equilibrium P_e, Q_e: quantity demanded = quantity supplied

- **Equilibrium 均衡**: the price where the amount buyers want to buy exactly equals the amount firms want to sell.

- At equilibrium there is no shortage and no surplus — no pressure for the price to change.
- The crossing point of the two curves gives the equilibrium price **and** quantity.



Away from equilibrium a shortage or surplus forces the price back to P_e

Answer shapes: an **Analyse** [**up to 6**] answer should use a labelled diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

2.1 Define the term *equilibrium price*. [2]

2.2 State what is true about quantity demanded and quantity supplied at equilibrium. [1]

2.3 State what determines the price of a good in a free market. [1]

3 Exam-style questions

3.1 At the equilibrium price: [1]

- **A** there is excess demand
- **B** there is excess supply
- **C** quantity demanded equals quantity supplied
- **D** the price is rising

3.2 Using a demand and supply diagram, show and explain the equilibrium price and quantity. [4]

3.3 Analyse how the equilibrium price and quantity change when demand for a good increases. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the price at which the quantity demanded equals the quantity supplied, so there is no pressure for it to change (2 for a clear definition; 1 for a partial idea).

2.2 they are equal (1).

2.3 the interaction of demand and supply (where they cross) (1).

3.1 **C**. At equilibrium, quantity demanded equals quantity supplied.

3.2 *[4]* K 1 + **diagram up to 2** (labelled demand and supply curves crossing) + An 1 — the two curves cross at one point → this gives the equilibrium price P_e and quantity Q_e → here the amount buyers want exactly equals the amount firms supply.

3.3 *[6]* K/App/An (diagram: demand shifts right) — an increase in demand shifts the demand curve right → at the old price there is excess demand (a shortage) → buyers compete and bid the price up → as price rises, quantity supplied rises along the supply curve → a new equilibrium at a higher price and higher quantity.

9 The table shows the weekly demand for, and supply of, good X at three prices.

price ($)	demand (tonnes)	supply (tonnes)
20	16	10
30	12	12
40	10	14

What will be the effect if the government imposes a minimum price of $40 per tonne?

A a fall in the price of X

B a shortage of X

C a surplus of X

D no change in the market equilibrium

10 What is the function of money when it is used to value goods and record transactions?

A a medium of exchange

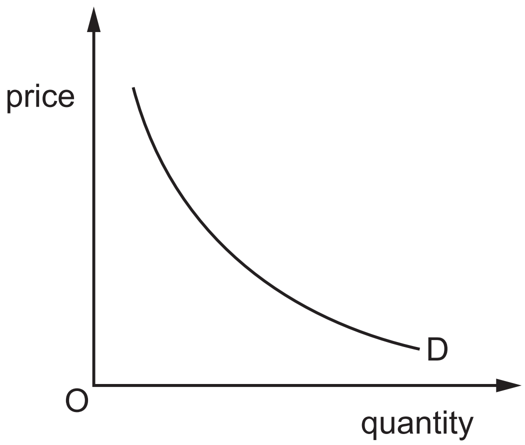
B a standard of deferred payment

C a store of wealth

D a unit of account

Name: ____________ IGCSE Economics: **w25 12**

6 The diagram shows the demand curve for a good.



What can be concluded about a single downward-sloping demand curve?

A consumers increase demand when their incomes rise

B consumers plan to buy less when prices rise

C firms produce less as prices rise

D firms sell more when prices rise

IGCSE Economics: **w25 13**

7 The price of fish has increased from $3.00 to $4.80. The quantity supplied of fish has increased from 100 units to 130 units.

What is the price elasticity of supply (PES) of fish?

A 0.5 **B** 1.3 **C** 1.8 **D** 2

IGCSE Economics: **w25 22**

2 Some markets in Belgium are in equilibrium. The country produces a wide range of goods and services with different degrees of price elasticity of demand. The Belgian Government wants the economy to move to a production possibility point beyond its current production possibility curve (PPC). Belgium's scientific industry is one industry which is doing well. Workers in this industry are highly specialised.

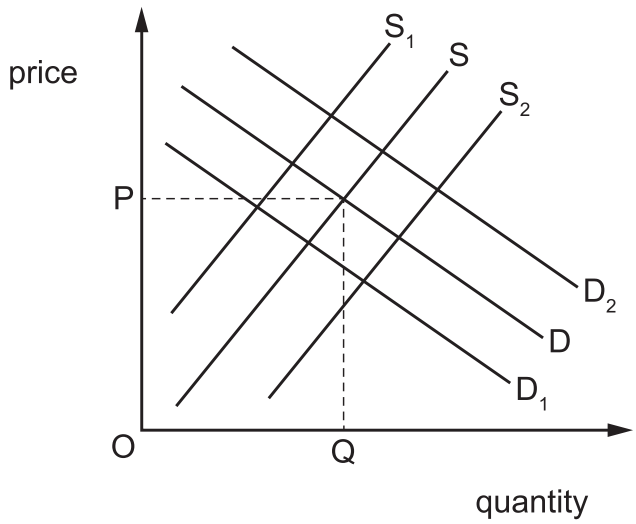
(a) Define *market equilibrium*. [2]

(b) Explain **two** ways an economy could reach a point outside its current PPC. [4]

(c) Analyse how price elasticity of demand can influence a firm's pricing decisions. [6]

(d) Discuss whether or not firms benefit from their workers undertaking training. [8]

6 The diagram shows demand and supply curves for a product at its equilibrium price P.



How would the introduction of a subsidy be shown?

A Demand would shift to D_1.

B Demand would shift to D_2.

C Supply would shift to S_1.

D Supply would shift to S_2.

IGCSE Economics: **s25 12**

5 The table shows the quantity of coffee demanded per day and the quantity supplied per day.

price ($) per kilo	demand (kilos)	supply (kilos)
12	16	26
11	18	23
10	20	20
9	22	17
8	24	14
7	26	11

At the equilibrium price, what will be the total expenditure on coffee?

A $10 **B** $20 **C** $200 **D** $400

5 The table shows the demand and supply schedules for rice. The current price is $2.00 per kilo.

price per kilo $	quantity demanded (million tonnes)	quantity supplied (million tonnes)
2.50	5	30
2.00	10	25
1.50	20	20
1.00	30	15
0.50	40	10

What will happen if the price is reduced to $1.00 per kilo?

A The demand curve will shift to the left.

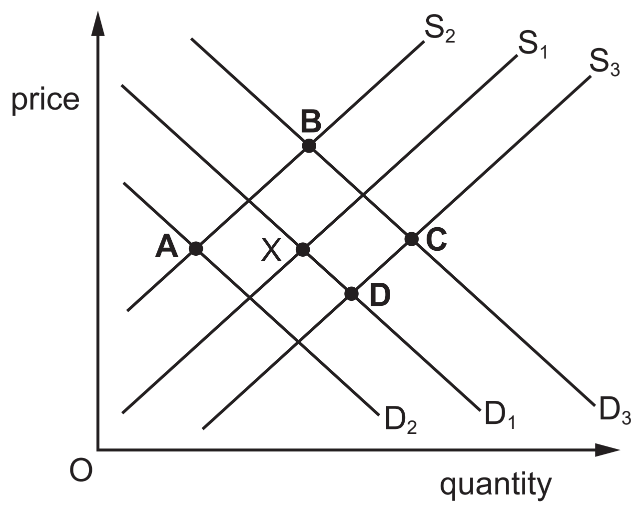
B The market will move from shortage to surplus.

C The market will move from surplus to shortage.

D The supply curve will shift to the right.

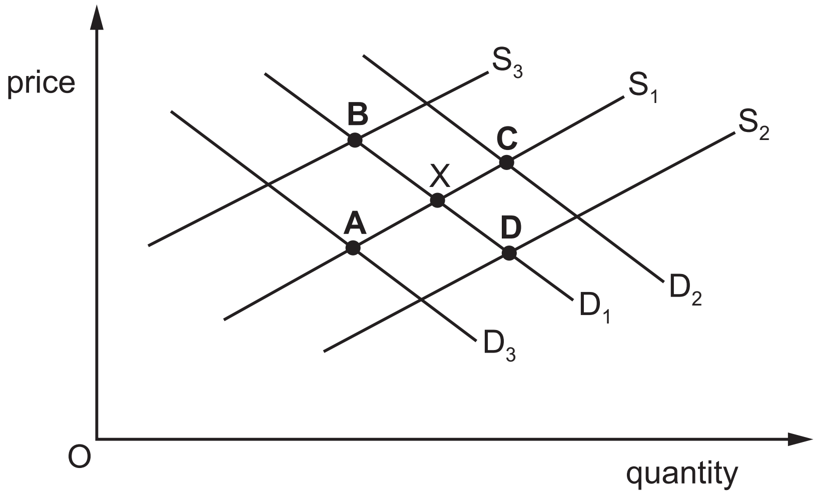
6 The diagram shows demand and supply curves for a good. The market is in equilibrium at point X.

What would be the new equilibrium position if there were a successful advertising campaign for the good and an increase in the cost of raw materials?



6 The diagram shows the demand for and supply of a product. The original equilibrium is at X.

Which point indicates the new equilibrium position if there is an increase in the price of a close substitute for the product while other things remain the same?



2.5 Price changes

Name: ____________ Class: ________ Date: __________ **Total: 16 marks**

KEY WORDS shortage 短缺 • excess demand 超额需求 • excess supply 超额供给 • surplus 过剩 • disequilibrium 非

Objective

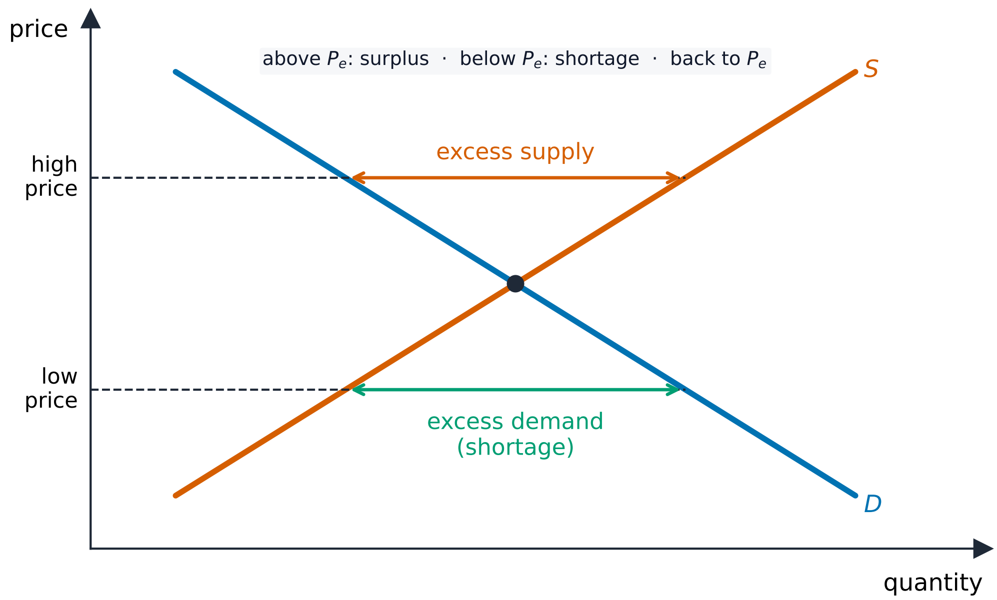
Build the skills to answer exam questions on **price changes 价格变化** — how a **shift** in demand or supply changes the equilibrium, and **disequilibrium 非均衡** (**excess demand and excess supply 超额需求与超额供给**).

You must be able to:

- state how a shift in demand or supply changes price and quantity
- explain excess demand (a shortage) and excess supply (a surplus)
- analyse how the market returns to equilibrium

1 Worked examples

Disequilibrium

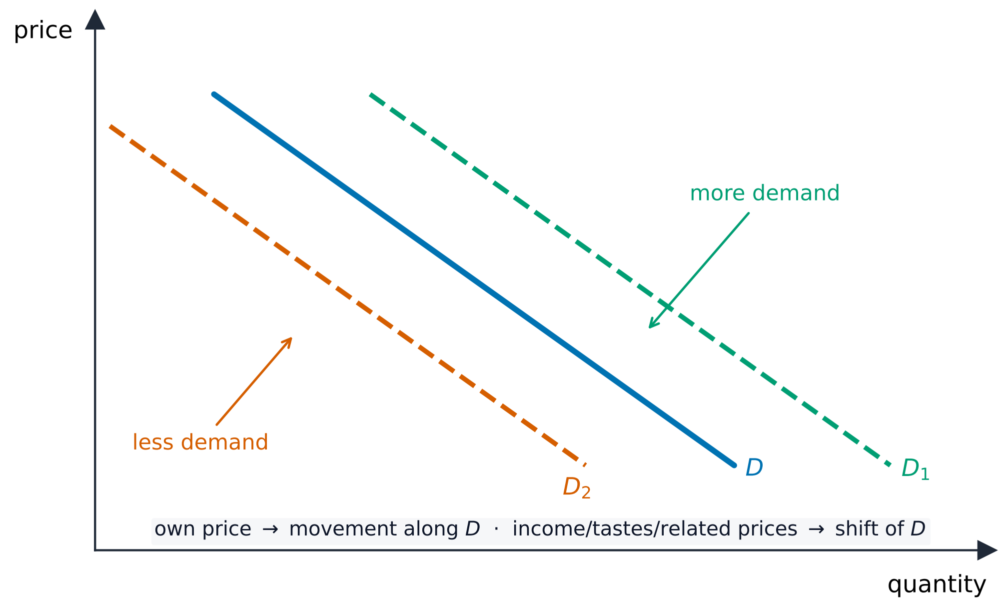


Either way the price is pushed back to equilibrium

- **Demand right** → price ↑, quantity ↑. **Supply right** → price ↓, quantity ↑.
- **Excess demand 超额需求** (price too low) = a **shortage 短缺** → buyers compete,

price rises.

- **Excess supply** 超额供给 (price too high) = a **surplus** 过剩 → sellers cut the price.



A shift in demand (or supply) moves the equilibrium to a new price and quantity

Answer shapes: an **Analyse [up to 6]** answer should use a labelled diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

2.1 Define the term *excess demand*. [2]

2.2 State what happens to price when there is a **surplus** (excess supply). [1]

2.3 State the effect on equilibrium price and quantity of a rightward shift in supply. [2]

3 Exam-style questions

3.1 A price set **below** the equilibrium price will cause: [1]

- **A** excess supply, pushing price down
- **B** excess demand, pushing price up
- **C** the market to stay in equilibrium
- **D** the demand curve to shift left

3.2 Explain how a market with a **surplus** returns to equilibrium. [4]

3.3 Bad weather destroys part of a coffee harvest. Analyse the effect on the market for coffee. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 when, at the current price, the quantity demanded is greater than the quantity supplied (a shortage) (2 for a clear definition; 1 for a partial idea).

2.2 the price falls (1).

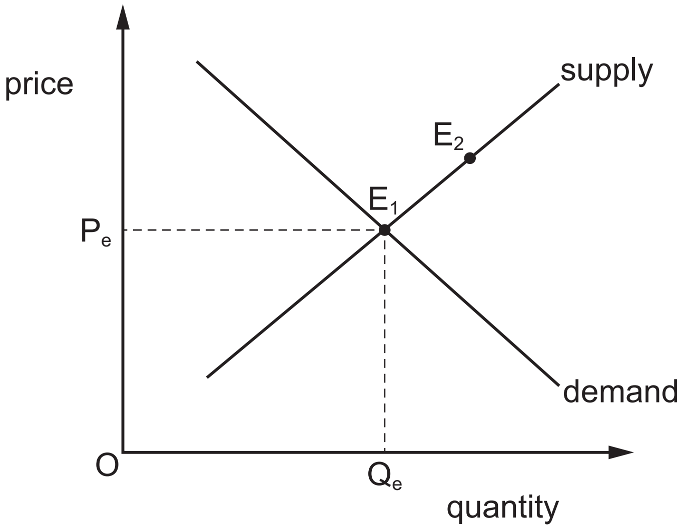
2.3 price falls and quantity rises (1 + 1).

3.1 B. Below equilibrium there is excess demand, which pushes the price up.

3.2 *[4]* K 1 + An up to 3 — a surplus means firms supply more than buyers want at the current price → unsold stock builds up → sellers cut the price → as price falls, quantity demanded rises and quantity supplied falls → the market returns to equilibrium.

3.3 *[6]* K/App/An (diagram: supply shifts left) — destroying part of the harvest cuts supply → the supply curve shifts left → at the old price there is excess demand → the price is bid up → the new equilibrium has a higher price and lower quantity of coffee.

5 The diagram shows the supply and demand curves for a good. The initial market equilibrium is given at point E_1. There is a change in the market that leads to a new equilibrium at E_2.



What is the cause of the change in the market equilibrium?

A a decrease in the price of a substitute good

B a decrease in raw material prices

C an increase in the price of a substitute good

D an increase in raw material prices

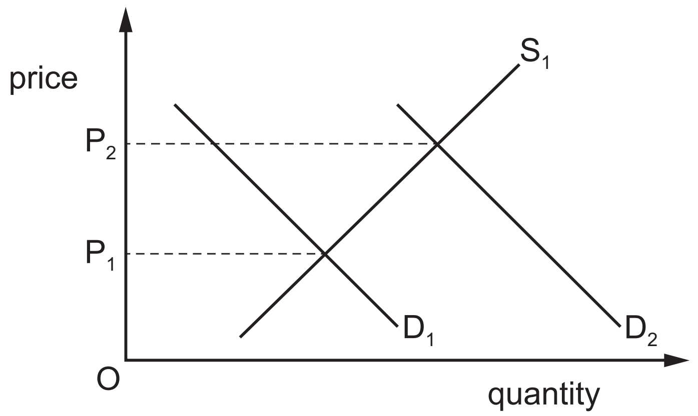
IGCSE Economics: **s25 11**

5 Good weather results in an increase in the demand for and supply of peaches.

How will this affect the price and quantity traded in the market for peaches?

	price of peaches	quantity of peaches traded
A	fall	fall
B	rise	rise
C	rise	uncertain
D	uncertain	rise

7 The diagram shows the market for ice cream and the effects of very hot weather.



If prices had remained at P_1 even during the hot weather, what was likely to have happened in the market for ice cream?

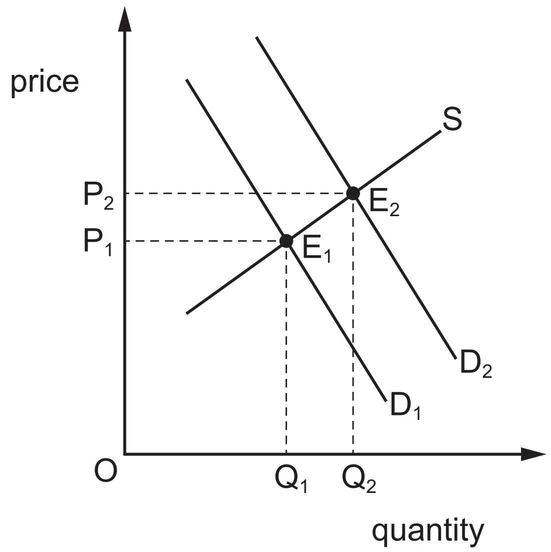
A equilibrium

B excess supply

C rising profits

D shortage

6 The diagram shows the market for cherries in Chile.



What would cause a change in the market equilibrium from E_1 to E_2?

A a newspaper article stating cherries are good for your health

B a poor harvest for cherries due to bad weather

C an increase in the imports of cherries from Israel

D the government reducing the sales tax or ries

4 A period of bad weather leads to a failure of the rice crop.

What is the effect on the market for rice?

A a shortage of rice and a fall in its price

B a shortage of rice and a rise in its price

C a surplus of rice and a fall in its price

D a surplus of rice and a rise in its price

IGCSE Economics: **s24 11**

6 What could cause the price of tea to increase?

A decrease in the demand for tea

B decrease in the price of a substitute good

C increase in the price of a substitute good

D increase in the supply of tea

IGCSE ECONOMICS • EXERCISE SHEET

2.6 Price elasticity of demand (PED)

Name: ______________ Class: __________ Date: ____________ **Total: 16 marks**

KEY WORDS elastic 富有弹性 • inelastic 缺乏弹性 • price elasticity of demand 需求价格弹性 • total revenue 总收
• elastic and inelastic 富有弹性与缺乏弹性

Objective

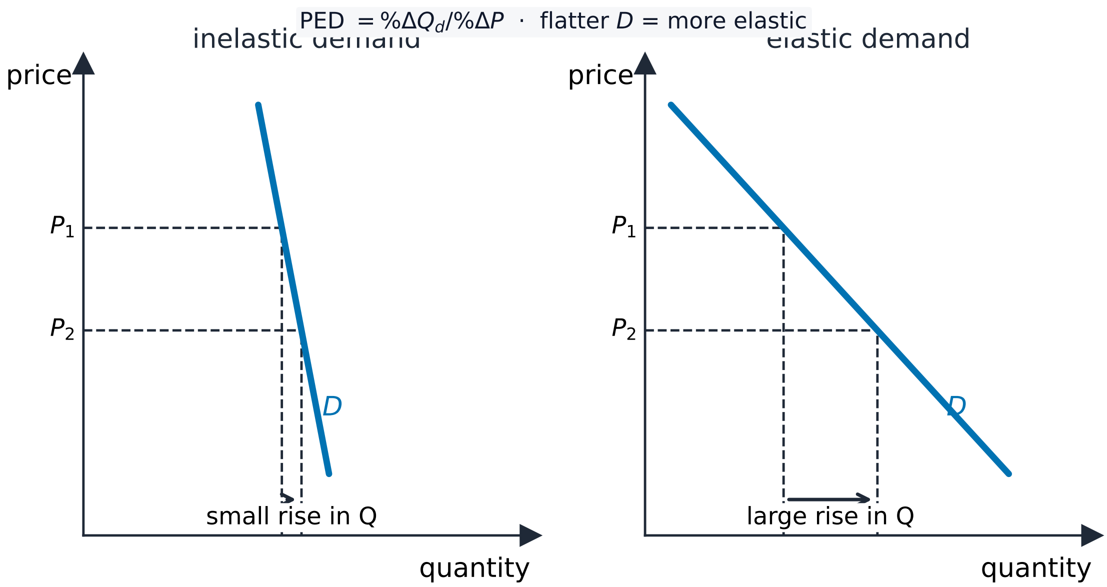
Build the skills to answer exam questions on **price elasticity of demand 需求价格弹性** (PED) — its formula, **elastic and inelastic 富有弹性与缺乏弹性** demand, the determinants, and the link with **total revenue 总收益**.

You must be able to:

- calculate and interpret PED
- classify demand as elastic or inelastic
- explain the link between PED and total revenue

1 Worked examples

■ Measuring PED



Inelastic: quantity barely moves; elastic: quantity moves a lot

$$\text{PED} = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

> - **Worked:** price +20%, quantity −10% → PED = $\frac{10}{20}$ = 0.5 → **inelastic** (<1).
> - **Elastic** (>1): many substitutes, a luxury. **Inelastic** (<1): a need, few substitutes (petrol, salt).
> - **Revenue:** if demand is inelastic, raising the price **raises** total revenue.
>
> **Answer shapes:** K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define *price elasticity of demand (PED).* [2]

2.2 Price rises by 10% and quantity demanded falls by 30%. Calculate the PED and classify the demand. [2]

2.3 State one factor that makes demand for a good elastic. [1]

3 Exam-style questions

3.1 A good has a PED of 0.3. To raise its total revenue, a firm should: [1]

- **A** lower the price
- **B** raise the price
- **C** keep the price the same
- **D** stop producing it

3.2 Explain why the demand for petrol is price inelastic. [4]

3.3 Analyse why a government often places taxes on goods with inelastic demand, such as cigarettes. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 a measure of how much the quantity demanded responds to a change in price (% change in quantity ÷ % change in price) (2 for a clear definition; 1 for a partial idea).

2.2 PED $= \frac{30}{10} = 3$; greater than 1, so demand is **elastic** (2; award 1 for a correct value with no classification).

2.3 any one of: the good has many substitutes; it is a luxury; it takes a large share of income (1).

3.1 **B**. With PED 0.3 (inelastic), raising the price raises total revenue.

3.2 *[4]* K 1 + An up to 3 — petrol is a necessity for drivers with few close substitutes → when its price rises, people still need to drive → so the quantity demanded falls only a little → demand is price inelastic.

3.3 *[6]* K/App/An — for an inelastic good like cigarettes, a tax raises the price but the quantity bought falls only a little → so people keep buying and paying the tax → the government collects a large, steady amount of revenue → and it may also slightly reduce smoking (a demerit good), achieving two aims.

7 The price elasticity of demand (PED) of a good is –1.

What will happen to both demand and total revenue as price increases?

A demand will fall and total revenue will not change

B demand will fall and total revenue will rise

C demand will rise and total revenue will not change

D demand will rise and total revenue will rise

IGCSE Economics: **s25 11**

7 The table shows the quantity demanded at different prices.

price $	quantity demanded
6	3
5	4
4	5
3	7
2	9

For which fall in price is the demand price-inelastic?

A from \$6 to \$5

B from \$5 to \$4

C from \$4 to \$3

D from \$3 to \$2

IGCSE Economics: **s25 13**

7 A German car producer estimates the price elasticity of demand (PED) for its cars is –2.0.

What can be concluded from this information?

A its cars are price elastic

B its cars are price inelastic

C its cars are unitary elastic

D its cars take time to produce

7 The price elasticity of demand for smartphones is believed to be –2.0. A manufacturer decides to cut prices by 10%.

What will be the effect of this change in price?

A demand will fall by 20%

B demand will rise by 5%

C quantity supplied will remain unchanged

D revenue will increase

28 The US puts a 25% tariff on Chinese steel to protect jobs in the US steel industry.

Under which condition would this policy be most effective?

A The price elasticity of demand for Chinese steel is –2.5.

B The price elasticity of demand for Chinese steel is –0.5.

C The price elasticity of supply for Chinese steel is 2.5.

D The price elasticity of supply for Chinese steel is zero.

IGCSE Economics: **w24 12**

8 When the price of shirts rises from $8 to $10, the demand for shirts falls from 1000 to 500.

What is the value of the price elasticity of demand for shirts?

A greater than 1

B unitary

C less than 1

D zero

5 The table shows the amounts demanded and supplied of tomatoes at different prices. The initial equilibrium is at a price of $40.

price ($)	demand (kg)	supply (kg)
10	20	2
20	16	5
30	12	8
40	10	10
50	8	12

The following year, more efficient harvesting means that the supply increases by 50% at each price.

What will happen to the suppliers' total revenue?

A It will fall by $10.

B It will fall by $40.

C It will rise by $10.

D It will rise by $200.

IGCSE Economics: **s24 11**

7 A firm changes the price of its product and finds that its revenue increases.

Which combination of price change and price elasticity of demand would have caused this?

	price	price elasticity of demand
A	falls	between 0 and 1
B	falls	equal to 1
C	rises	between 0 and 1
D	rises	greater than 1

2.7 Price elasticity of supply (PES)

Name: ____________ Class: ________ Date: __________ **Total: 17 marks**

KEY WORDS time 时间 • price elasticity of supply 供给价格弹性 • spare capacity 闲置产能 • stocks 库存 • good 物品

Objective

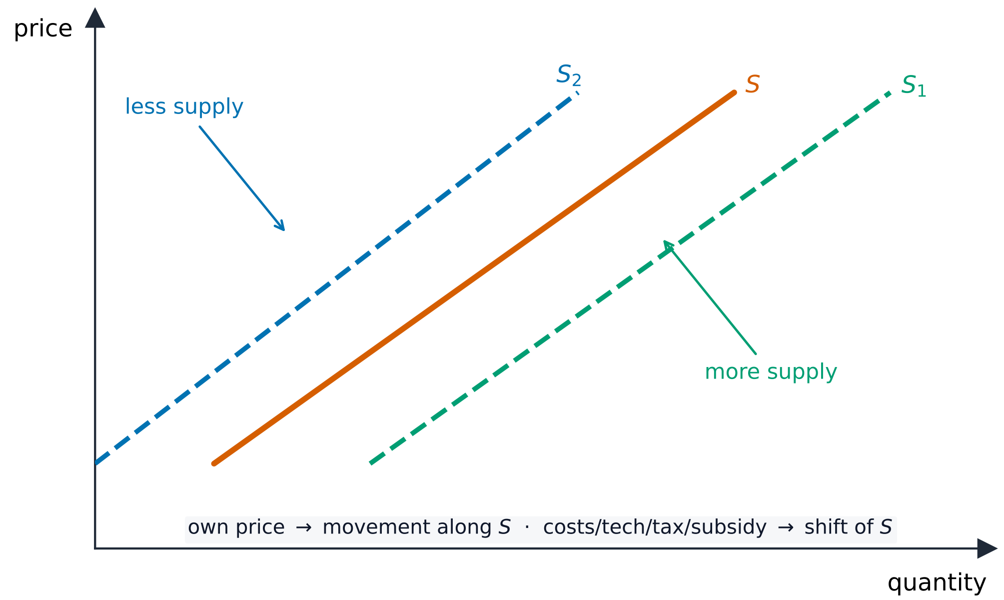
Build the skills to answer exam questions on **price elasticity of supply 供给价格弹性** (PES) — its formula, **elastic and inelastic** supply, and the determinants.

You must be able to:

- calculate and interpret PES
- classify supply as elastic or inelastic
- explain the determinants of PES (time, spare capacity, stocks)

1 Worked examples

■ Measuring PES



PES measures how strongly quantity supplied responds to price

$$\text{PES} = \frac{\%\ \text{change in quantity supplied}}{\%\ \text{change in price}}$$

- **Worked:** price +10%, quantity supplied +30% → PES = $\frac{30}{10} = 3$ → **elastic** (>1).
- **More elastic supply when:** more **time** 时间, **spare capacity** 闲置产能, **stocks** 库存, easily switched factors.
- Farm goods often have **inelastic** supply in the short run (crops take a season to grow).

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define *price elasticity of supply (PES).* [2]

2.2 Price rises by 20% and quantity supplied rises by 10%. Calculate the PES and classify the supply. [2]

2.3 State two factors that make supply more elastic. [2]

3 Exam-style questions

3.1 Supply is most likely to be price **inelastic** when: [1]

- **A** the firm has spare capacity
- **B** the good can be stored as stock
- **C** the good takes a long time to produce
- **D** factors move easily into the industry

3.2 Explain why the supply of fresh vegetables is often price inelastic in the short run. [4]

3.3 Analyse why the supply of a manufactured good is usually more elastic than the supply of a farm crop. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 a measure of how much the quantity supplied responds to a change in price (% change in quantity supplied ÷ % change in price) (2 for a clear definition; 1 for a partial idea).

2.2 PES $= \frac{10}{20} = 0.5$; less than 1, so supply is **inelastic** (2; award 1 for a correct value with no classification).

2.3 any two of: more time; spare capacity; stocks held; easily switched factors (1 + 1).

3.1 **C**. A long production time makes supply slow to respond, so it is inelastic.

3.2 *[4]* K 1 + An up to 3 — fresh vegetables take a growing season to produce and cannot be stored long → so if the price rises, farmers cannot quickly grow more this season → the quantity supplied responds little → supply is inelastic in the short run.

3.3 *[6]* K/App/An — a manufactured good can be made faster: firms can add shifts, use spare capacity, or draw on stocks → so when the price rises they raise output quickly → supply is elastic. A farm crop takes a whole season to grow and cannot be stored long → output cannot rise quickly → supply is inelastic → so the manufactured good's supply responds more to price.

IGCSE Economics: **w25 12**

7 When the price of butter increased by 10%, the quantity supplied of butter increased by 20%.

What is the price elasticity of supply (PES) of butter?

A –2.0 **B** –0.5 **C** +0.5 **D** +2.0

IGCSE Economics: **s25 11**

8 The price elasticity of supply (PES) of coffee is calculated as +0.2 for the current year and +2.0 in the long run.

Why is the PES of coffee higher in the long run?

A Coffee plants take several years to grow.

B Consumers will not buy coffee at higher prices.

C There are many substitutes for coffee.

D There are no stocks of coffee.

IGCSE Economics: **s25 12**

8 The supply of which good is likely to be most price elastic?

	the good is easily stored	time taken to produce the good
A	no	one day
B	no	one year
C	yes	one day
D	yes	one year

IGCSE Economics: **w24 11**

7 A firm has the following supply schedule.

price ($)	quantity supplied
5	10
10	20

What is the price elasticity of supply of the good as the price increases from $5 to $10?

A –0.5 **B** +0.5 **C** +1.0 **D** +2.0

IGCSE ECONOMICS • EXERCISE SHEET

2.8 Market economic system

Name: ____________ Class: ________ Date: __________ **Total: 18 marks**

KEY WORDS market economy 市场经济 • price mechanism 价格机制 • the market economic system 市场经济体制 • fail 失灵 • advantages and disadvantages 优缺点

Objective

Build the skills to answer exam questions on **the market economic system 市场经济体制** — how the **price mechanism 价格机制** allocates resources, and the **advantages and disadvantages 优缺点** of the market system.

You must be able to:

- explain how a market economy answers what, how and for whom to produce
- state the advantages and disadvantages of the market system
- analyse and evaluate the market system

1 Worked examples

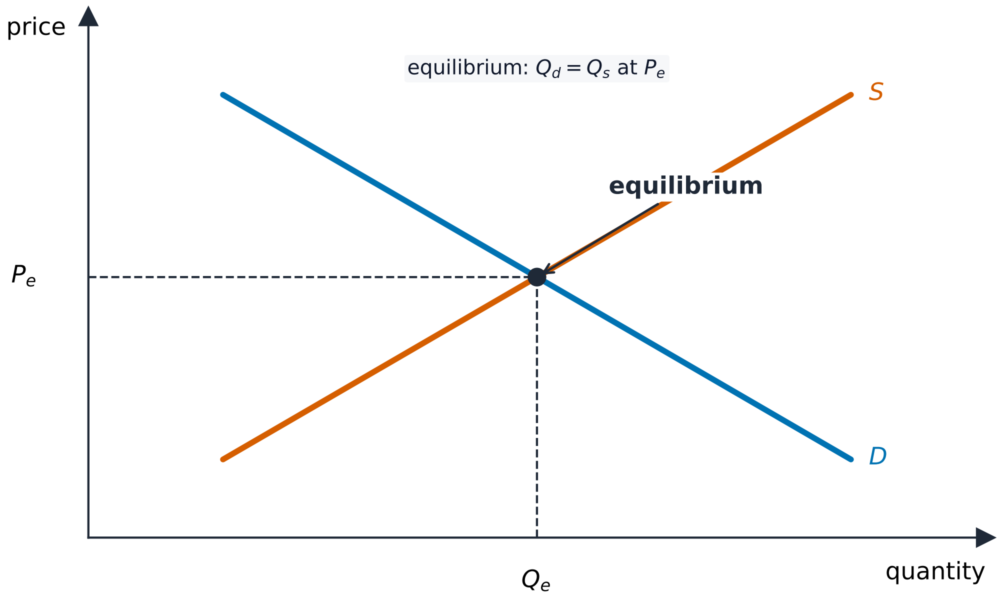
■ The market system

In a market economy, prices — not planners — make the choices

- **Market economy 市场经济:** the price mechanism makes all the choices (no government planning). The opposite is a **planned economy 计划经济**.
- **Advantages:** prices guide resources without planning; firms compete (lower costs,

new goods); wide consumer choice.

- **Disadvantages:** some useful goods are not made (no profit); the rich do well, the poor may get little; markets can **fail** 失灵.



How the market system works: the price mechanism clears the market without any planner

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *market economy*. [2]

2.2 State two advantages of the market economic system. [2]

2.3 State one disadvantage of the market economic system. [1]

3 Exam-style questions

3.1 In a market economy, decisions about what to produce are made by: [1]

- **A** the government
- **B** the price mechanism (demand and supply)
- **C** a central planner
- **D** trade unions

3.2 Explain one disadvantage of relying only on the market system to allocate resources. [4]

3.3 Discuss whether a market economy is the best way to allocate a country's resources. [8]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 an economy in which the price mechanism (demand and supply) makes all the resource-allocation decisions, with no government planning (2 for a clear definition; 1 for a partial idea).

2.2 any two of: prices guide resources without planning; competition lowers costs and creates new goods; wide consumer choice (1 + 1).

2.3 any one of: useful but unprofitable goods are not made; the poor may get little; markets can fail (1).

3.1 B. In a market economy the price mechanism decides what to produce.

3.2 *[4]* K 1 + An up to 3 — the market only makes goods that earn a profit → so public goods (like street lighting) and merit goods may be under-provided → and the poor, who cannot pay, may go without essentials → this is an inefficient or unfair outcome.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **For:** prices allocate resources efficiently without planning, competition drives lower costs and innovation, and consumers have choice. **Against:** it under-provides public and merit goods, ignores external costs (pollution), and can leave the poor with too little. **Judgement (Ev):** the market works well for most goods, but it fails for some, so a *mixed* economy — market plus government correction — usually allocates resources better; it depends on the type of good.

IGCSE Economics: **w25 12**

27 What is an advantage of international specialisation?

A Choice is limited.

B Countries become over-dependent on each other.

C Resources are used more efficiently.

D Transport costs are decreased.

IGCSE Economics: **w25 13**

4 What is **not** a function of prices in a market economy?

A prices allow income to be distributed equally

B prices ration scarce resources among economic agents

C prices rise and fall to reflect shortages and surpluses

D prices send information to consumers and producers

IGCSE Economics: **m25 12**

5 There are three key questions to be decided in determining resource allocation within an economy.

What does **not** relate to one of the choices in the three key questions?

A whether all income groups receive the output

B whether consumer or industrial goods are produced

C whether economic goods or free goods are supplied

D whether labour or capital is used in production

IGCSE Economics: **w24 22**

3 The central bank of Madagascar intervenes in the country's foreign exchange market. However, Madagascar has a largely market economic system. Nearly 70% of Madagascar's population live in poverty. Most of the country's industries are labour-intensive. In 2020, Madagascar had an economic growth rate of 6% and a deficit on the current account of its balance of payments of $0.6bn.

(a) Define *foreign exchange market*. [2]

(b) Explain **two** reasons why a firm may adopt labour-intensive production. [4]

(c) Analyse how the macroeconomic aims of economic growth and balance of payments stability may conflict. [6]

(d) Discuss whether or not a high level of poverty is likely to exist in a market economic system. [8]

2.9 Market failure

Name: ______________ Class: __________ Date: ____________ **Total: 17 marks**

KEY WORDS external cost 外部成本 • external benefit 外部效益 • private benefit 私人效益 • private cost 私人成本 • public goods 公共物品

Objective

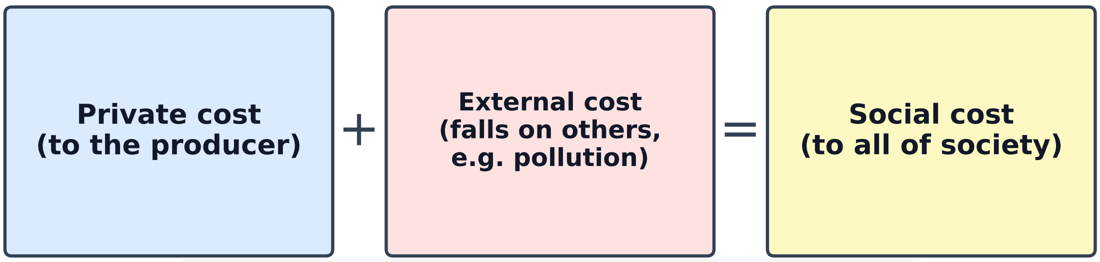
Build the skills to answer exam questions on **market failure** 市场失灵 — **external costs and benefits** 外部成本与外部效益, **merit, demerit and public goods** 有益、有害、公共物品, and the **abuse of monopoly power** 垄断势力的滥用.

You must be able to:

- define private, external and social costs and benefits
- distinguish merit, demerit and public goods
- analyse the causes of market failure

1 Worked examples

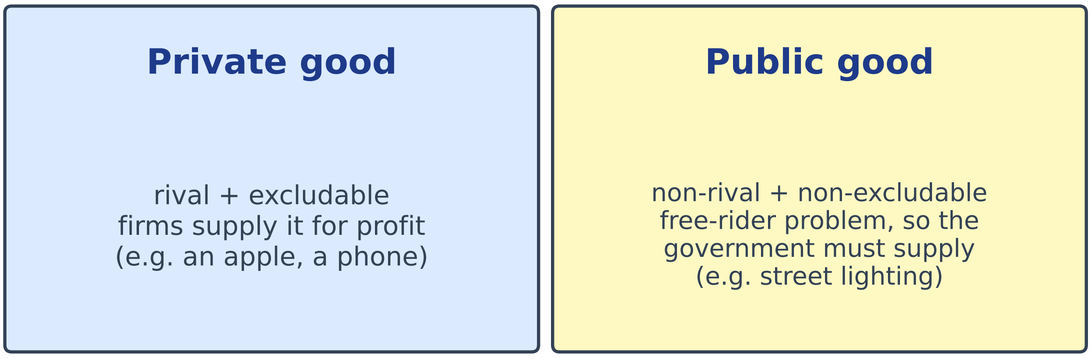
■ Why markets fail



MSC = MPC + external cost (negative production externality)

Firms ignore external costs, so the market over-produces

- **Private cost** 私人成本: to the person acting. **External cost** 外部成本: paid by others (pollution). **Social cost** 社会成本 = private + external.
- **Merit goods** 有益物品 (education): under-produced. **Demerit goods** 有害物品 (cigarettes): over-produced. **Public goods** 公共物品 (street lights): the market makes none.
- **Monopoly** 垄断: one firm → high prices, poor quality.



Exam: public goods fail the free-rider test — non-rival and non-excludable → government supply

Public goods are a clear market failure — non-excludable, so no firm can charge for them

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *external cost.* [2]

2.2 State the difference between a *merit* and a *demerit* good. [2]

2.3 Define the term *public good.* [2]

3 Exam-style questions

3.1 A factory that pollutes a river is an example of: [1]

- **A** an external benefit
- **B** an external cost
- **C** a public good
- **D** a merit good

3.2 Explain why a free market produces too much of a demerit good. [4]

3.3 Analyse why public goods are not provided by a free market. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 a cost of an activity that falls on a third party (others), not the person doing it (2 for a clear definition; 1 for a partial idea).

2.2 a merit good is under-consumed because people undervalue its benefit (education); a demerit good is over-consumed because people underestimate its harm (cigarettes) (2 for a clear difference; 1 for a partial idea).

2.3 a good that everyone can use and no one can be stopped from using, so the market provides none (e.g. street lighting) (2 for a clear definition; 1 for a partial idea).

3.1 B. Pollution from a factory is an external cost.

3.2 *[4]* K 1 + An up to 3 — buyers of a demerit good think only of their private benefit, not the harm to themselves or others → they value it too highly → so they consume too much → the market over-produces it.

3.3 *[6]* K/App/An — a public good is non-excludable (no one can be stopped from using it) and non-rival (one person's use does not reduce another's) → because non-payers cannot be shut out, people can use it without paying (free riders) → a firm cannot make buyers pay, so earns no revenue → it makes no profit and supplies none → the government must provide public goods instead.

Name:

IGCSE Economics: **w25 11**

1 Consumers and producers face the same problem of satisfying wants.

What is the most likely reason wants cannot be satisfied?

A consumers and producers cannot establish an equilibrium price

B consumers have excess choice when producers oversupply

C consumers have limited income and producers have finite resources

D consumers lack information to buy and producers lack motivation to supply

IGCSE Economics: **w25 12**

10 What is **not** a role of the central bank?

A to act as the lender of last resort

B to hold deposits from the general public

C to issue notes and coins

D to manage the gold reserves of the country

IGCSE Economics: **w25 13**

2 Which value does opportunity cost measure?

A environmental damage

B next best alternative forgone

C output of labour

D price paid

IGCSE Economics: **s25 11**

17 What is a macroeconomic aim of a government?

A high external costs

B high sales tax

C low unemployment

D low wages

18 What is a principle of taxation?

A equality between social cost and social benefit

B fairness between taxpayers

C profit maximisation by firms

D tax revenue maximisation

9 What is a characteristic of a demerit good?

A it is more beneficial to the consumer than they realise

B it is overconsumed in the free market

C it is underproduced in the free market

D it provides external benefits

IGCSE Economics: **m25 12**

2 An economics graduate chooses to work in a bank rather than teach economics which was the next best alternative.

Which cost is incurred as a result of this decision?

A external cost

B internal cost

C opportunity cost

D private cost

IGCSE Economics: **w24 13**

9 What is external benefit?

A private benefits minus private costs

B private benefits plus social benefits

C social benefits minus private benefits

D social benefits plus social costs

IGCSE Economics: **s24 11**

9 What is a correct definition of a demerit good?

A a good which generates external benefits

B a good with higher private costs than social costs

C a good which is more harmful to consumers than they realise

D a good which provides no costs to third parties

IGCSE ECONOMICS • EXERCISE SHEET

2.10 Mixed economic system

Name: ______________ Class: __________ Date: ____________ **Total: 18 marks**

KEY WORDS public sector 公共部门 • private sector 私营部门 • intervention 干预 • maximum price 最高价格 • minimum price 最低价格

Objective

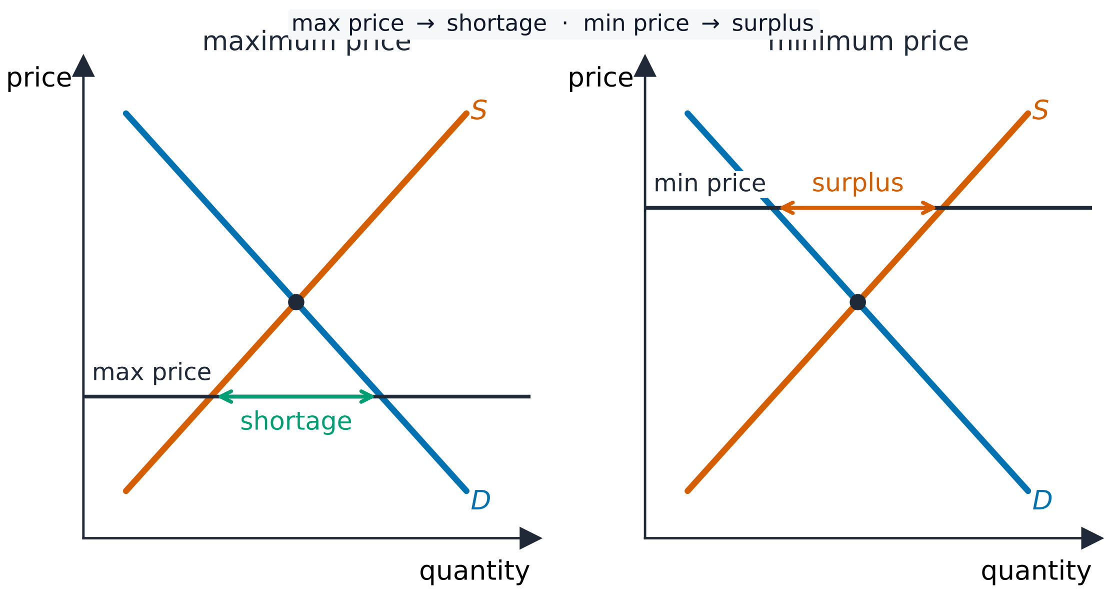
Build the skills to answer exam questions on **the mixed economic system 混合经济体制** — the **private and public sectors 私营与公共部门**, and government **intervention** 干预 (**maximum and minimum prices 最高与最低价格**, taxes, subsidies, regulation, direct provision).

You must be able to:

- explain what a mixed economy is
- describe the methods of government intervention
- analyse and evaluate government intervention to correct market failure

1 Worked examples

■ Government intervention



A mixed economy has both a private and a public sector

- **Mixed economy** 混合经济: a **private sector** 私营部门 (price mechanism) + a **public sector** 公共部门 (government).
- **Maximum price** 最高价格 (below equilibrium) → a shortage. **Minimum price** 最低价格 (above equilibrium) → a surplus.
- **Indirect tax** 间接税 (cuts demerit goods), **subsidy** 补贴 (raises merit goods), **regulation** 监管, **direct provision** 直接提供.

Merit good	Demerit good
better for you than you realise → under-consumed (e.g. education, healthcare)	worse for you than you realise → over-consumed (e.g. cigarettes, alcohol)

Exam: merit → under-consumed (subsidise); demerit → over-consumed (tax / regulate)

The public sector steps in for merit and demerit goods the market gets wrong

Answer shapes: an **Analyse** [**up to 6**] answer may use a price-control diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

2.1 Define the term *mixed economy*. [2]

2.2 State the effect of a **maximum price** set below the equilibrium price. [1]

2.3 Identify two methods of government intervention. [2]

3 Exam-style questions

3.1 A government sets a **minimum price** above the equilibrium. This will cause: [1]

- **A** a shortage
- **B** a surplus
- **C** the market to clear
- **D** demand to rise

3.2 Using a diagram, explain the effect of a maximum price set below the equilibrium price. [4]

3.3 Discuss whether a government should use an indirect tax to reduce consumption of a demerit good. [8]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 an economy with both a private sector (guided by the price mechanism) and a public sector (run by the government) (2 for a clear definition; 1 for a partial idea).

2.2 a shortage (excess demand), because quantity demanded exceeds quantity supplied (1).

2.3 any two of: maximum/minimum price; indirect tax; subsidy; regulation; direct provision (1 + 1).

3.1 B. A minimum price above equilibrium causes a surplus.

3.2 *[4]* K 1 + **diagram up to 2** (demand and supply, a maximum price line below P_e, excess demand) + An 1 — a maximum price held below equilibrium means quantity demanded exceeds quantity supplied → a shortage forms, because the price is not allowed to rise to clear the market.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **For a tax:** it raises the price → cuts consumption of the harmful good, raises government revenue, and makes consumers pay for the external cost. **Against:** if demand is inelastic (addiction), consumption falls little; the tax is regressive (hits the poor more); a black market may form. **Judgement (Ev):** a tax helps, but works best combined with education and regulation — its success depends on the price elasticity of demand for the good.

Name: IGCSE Economics: **w25 11**

8 Which pair of economic institutions can be found in a market economy?

A charities and public sector firms

B multinational companies and commercial banks

C public sector firms and private sector firms

D stock exchanges and government-funded hospitals

IGCSE Economics: **w25 12**

8 How are economic decisions determined in a market economic system?

A by a mixture of market forces and government intervention

B by central planners of production and consumption

C by government regulation of the price mechanism

D by the forces of demand and supply

IGCSE Economics: **s25 11**

9 What would a person believe who wished to encourage the use of the market system?

A people should have equal living standards

B people should have freedom of action

C profit maximisation is wrong

D the government should correct people's bad behaviour

IGCSE Economics: **s25 13**

9 Which combination correctly describes features of a market economic system?

	resource allocation	ownership of land and capital
A	by government	private sector
B	by government	public sector
C	by price mechanism	private sector
D	by price mechanism	public sector

3 The public sector in Andorra is focusing on developing the healthcare, biotechnology and sports industries. Andorra has the natural advantage of being a mountainous country. Several winter sports firms in Andorra have recently merged. This will affect the level of competition in the winter sports market in Andorra.

(a) Define *public sector*. [2]

(b) Explain **two** types of merger. [4]

(c) Analyse how differences in healthcare can lead to differences in economic development between countries. [6]

(d) Discuss whether or not competitive markets are beneficial for consumers. [8]

IGCSE Economics: **m25 22**

4 Nigeria has a mixed economic system. In January 2023, Nigeria had a high unemployment rate of 33% which created a number of costs. Its high inflation rate of 22% had several effects on the country's firms. In 2022 and the start of 2023, Nigerians increased their demand for foreign currency.

(a) Identify **two** costs of unemployment. [2]

(b) Explain how the key resource allocation decisions are made in a mixed economic system. [4]

(c) Analyse the causes of an increase in the demand for foreign currency. [6]

(d) Discuss whether or not inflation will harm a country's firms. [8]

IGCSE Economics: **w24 11**

8 Why does a government provide certain goods and services in a mixed economic system?

A The government always provides goods more cheaply than private firms.

B The government considers only private costs and private benefits.

C The government provides goods to prevent the development of monopolies.

D The government provides public goods because private firms cannot charge for them.