IGCSE Economics: **s25 11**

Question 2 (Answer: **A**)

- Vans are man-made aids to production, so they are capital.
- Drivers supply human effort, so they are labour.
- So expanding this way uses more capital and more labour.

IGCSE Economics: **s25 21**

3(a)	**Identify the rewards to capital and land.** • Interest (1) • rent (1)
3(b)	**Explain <u>two</u> causes of a decrease in enterprise in an economy.** Logical explanation which might include: • Decrease in profit / increase in corporate income (corporation) tax (1) increase in interest rates for borrowing (1) reduce financial incentive to become an entrepreneur (1). • Reduction in education (1) reduce those with the skills to become entrepreneurs (1). • Reduction in immigration / reduction in population (1) reduce the number of people who can become entrepreneurs (1). • Entrepreneurs move abroad (1) better prospects / less tax (1). • Reduction in the retirement age (1) reduces supply of potential entrepreneurs (1). • Recession / war (1) firms may go out of business / reduces willingness to take risks / reduces confidence / certainty (1). • Increased government regulation (1) excessive rules may discourage entrepreneurs (1). • Nationalisation of an industry / growth of monopolies (1) removal of entrepreneurs (1).

3(c)	**Analyse how changes in conditions of supply can affect a firm's prices.** Coherent analysis which might include: • Increase in costs of production (1) due to rise in wages / raw material costs / capital goods costs / tariffs (1) raise price (1) to maintain profit (1). • Natural disasters (1) can create a shortage (1) raise price (1). • Changes in weather (1) good weather can create a surplus in supply e.g. agriculture (1) prices fall (1) or poor weather can create a shortage (1) prices rise (1) • Increase in indirect tax / corporate income (corporation) tax (1) a firm may pass this onto consumers as higher prices (1) especially if demand is inelastic (1). • Government subsidies to firms (1) reduce the cost of production (1) the firm may be able to gain the same revenue and profit (1) with a lower price (1). • Discovery of new source of raw materials (1) enabling the firm to supply (1) more at a lower price (1). • Advances in technology (1) example (1) could lower costs of production (1) reducing price (1). • Improvements in education and training (1) raise productivity (1) lower prices (1).

3(d)	**Discuss whether or not a rise in a national minimum wage will harm an economy.** In assessing each answer, use the table opposite. Why it might: • increase unemployment if firms cannot afford to pay higher wages • higher unemployment would reduce total demand • lower total demand would reduce output • tax revenue may fall, and expenditure on state benefits may rise • if higher wages are paid, there may be inflation. Why it might not: • reduce poverty as raise the income of the low-paid • encourage more people to enter the labour force • increase productivity as workers may be more motivated • encourage firms to train workers to gain better return • may be set below the existing equilibrium wage level.

IGCSE Economics: **s25 21**

3(d)	

IGCSE Economics: **m25 22**

3(a)	**Define *factor of production.*** A resource / input (1) used to produce goods and services / used in the production process (1).
3(b)	**Explain two reasons why building workers may not become teachers.** Logical explanation which might include: May lack skills (1) occupationally immobile (1). May not have the necessary qualifications / may not have sufficient education / may lack training / may lack willingness or ability to undertake training (1). May be paid more as building workers (1) a more physically demanding / more dangerous job (1) enjoy a higher standard of living as building workers may be in more demand than teachers (1). May be geographically immobile (1) unable to move to where the teaching jobs are (1). May not like the working conditions experienced by teachers (1) e.g. may want flexible working hours / less stress (1). May be unaware of job vacancies (1) information failure (1). May lack job vacancies (1) demand for teachers may fall (1). May enjoy working outside / gain more job satisfaction from working as a builder (1) benefit of fresh air (1).

3(c)	**Analyse how a small firm can compete successfully with a large firm in the same industry.** Coherent analysis which might include: It may provide a personal service / customised service (1) specialist product / unique product (1) catering for a niche part of the market (1). It may build up a relationship with customers / develop consumer loyalty / have a good reputation (1) more aware of their customers' requirements (1) good location (1) may be easy to manage (1). It may be subsidised by the government / given a government grant (1) may be charged a lower rate of (corporate income) tax (1) more revenue / lower cost (1) this could enable it to charge a low / competitive price (1). It may have a good relationship with workers / good communication with staff (1) increase their motivation (1) May be innovative (1) produce a high quality product (1). It may be more flexible (1) responding quickly to changes in market conditions (1). A large firm may experience diseconomies of scale (1) example of a diseconomy of scale (1) higher average cost / higher cost of production (1) higher prices (1).

3(d)	**Discuss whether or not an increase in the money supply will benefit an economy.** In assessing each answer, use the table opposite. Why it might: • raise consumer expenditure / government spending / investment • reduce interest rate • increase total demand • increase economic growth and employment • increase bank lending • provide finance for firms to expand. Why it might not: • cause demand-pull inflation / fall in internal value of money • increase imports • current account deficit may increase / current account surplus may fall • may cause a fall in the rate of interest • increase in bank lending may result in some households and firms getting into debt.

3(d)	

IGCSE Economics: **w24 11**

Question 2 (Answer: **D**)

- Land earns rent, labour earns wages, capital earns interest and enterprise earns profit.
- Rent, wages and interest can all be agreed in advance.
- Profit is the *residual* – it can only be known once the goods are sold, so it cannot be set beforehand.

Question 26 (Answer: **A**)

- A large increase in the working age population increases the supply of *labour*.
- Labour is the human effort available for production.
- More labour raises potential output, which is why the growth is expected.

IGCSE Economics: **w24 13**

Question 2 (Answer: **A**)

- New aircraft are man-made aids to production, so they are capital.
- Retraining raises the quality of the workforce, which is labour.
- So the airline has improved both its capital and its labour.