Question 2 (Answer: **A**)

- Opportunity cost is the benefit of the next best alternative that is given up.
- It is a *loss of potential benefit*, which is exactly the wording here.
- Scarcity is the underlying condition; a shortage is a market situation.

2(a)	**Define *multinational company.*** A firm that is based / has its headquarters in one country (1). Operates / produces / sets up / works (1) in another country or countries (1).
2(b)	**Explain <u>two</u> reasons why a firm may charge a different price for the same product in two different countries.** Logical explanation which might include: • demand may be higher / lower in one country (1) resulting in higher / lower prices (1) • supply maybe higher / lower in one country (1) resulting in lower prices (1) • higher income / GNP per head in one country (1) means more able to afford to pay higher price (1) • price elasticity of demand may vary (1) more power to raise price where demand is inelastic (1) • greater competition in one country / more substitutes (1) leads to lower prices to be competitive (1) • indirect tax rates may vary e.g. higher GST / VAT / import tariffs (1) will lead to higher price (1) • government subsidies may be given in some countries (1) lowering price (1) • local material costs / wages may be lower in one country (1) lowering costs of production mean lower prices (1) • different transport costs (1) may be cheaper to transport to countries close by (1) • quality of good may be higher (1) enable firm to charge a higher price (1).

2(c)	**Analyse how opportunity cost influences the decisions made by consumers, workers and producers.** Coherent analysis which might include: • opportunity cost is the (next) best alternative (1) forgone / given up (1) • example of consumers e.g. must decide between buying different products (1) due to limited income (1) • example of workers e.g. must decide between different jobs or between work and leisure (1) as time is limited (1) • example of producers / firms e.g. must decide what to make / how to make it / where to locate (1) as they have limited (financial) resources (1).

2(d)	**Discuss whether or not consumers would benefit from an increase in the number of small firms in an industry.** In assessing each answer, use the table opposite. Why they might: • more competition, lower price, higher quality • small firms may provide a more personal service • may produce niche products • may be more flexible **/** react quickly to consumer needs • may introduce new ideas / new varieties of products • may be easier access – consumers may not have to travel so far. Why they might not: • may be wasteful duplication • may waste consumers time with too much information to process • may have higher costs as unable to take advantage of economies of scale • may reduce profits of larger firms, reducing their spending on research and development • may not stay in business for long.

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2(d)	

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Question 9 (Answer: **B**)

- An external cost falls on a *third party* – someone who is neither buyer nor seller.
- The building cost is a private cost, paid by the government.
- The loss suffered by people who valued the forest is external, since nobody compensates them.

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Question 3 (Answer: **B**)

- Moving between two points on the PPC means giving up one good to get more of the other.
- So read off how much of one axis is lost and how much of the other is gained.
- That sacrifice is the opportunity cost of the move.

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Question 3 (Answer: **C**)

- The line shows the trade-off between leisure and earnings.
- Every extra hour of leisure means an hour not worked, so earnings fall.
- The slope therefore measures the opportunity cost of leisure – the wage given up.