Question 9 (Answer: **C**)

- Equilibrium is the price at which quantity demanded equals quantity supplied.
- So scan the table for the row where the two columns match.
- Above it there is excess supply; below it, excess demand.

Question 10 (Answer: **D**)

- Valuing goods and recording transactions is the *unit of account* function.
- Medium of exchange is using money to buy things.
- Store of value is holding it over time, and standard of deferred payment is using it for debts.

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Question 6 (Answer: **B**)

- A downward-sloping demand curve shows the law of demand.
- As price falls, quantity demanded rises – and vice versa.
- It says nothing about income or tastes; those would *shift* the curve rather than shape it.

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Question 7 (Answer: **A**)

- PES = percentage change in quantity supplied ÷ percentage change in price.
- Price rises from \$3.00 to \$4.80, which is +60%; quantity rises from 100 to 130, which is +30%.
- $30/60 = 0.5$, so supply is inelastic.

2(a)	**Define *market equilibrium.*** Demand equalling supply (2). No shortage (1) no surplus (1). Balance of demand and supply (2).
2(b)	**Explain <u>two</u> ways an economy could reach a point outside its current PPC.** Logical explanation which might include the following. • Increase investment (1) devoting more resources to capital goods (1). • Encourage immigration (1) increase size of the labour force (1). • Land reclamation (1) creating more land on which to e.g. grow crops (1). • Increase in education and training (1) raise quality / efficiency / productivity of labour (1). • Increase spending on research and development / new technology (1) increase quality / efficiency / productivity of capital (1). • Discovery of sources of resources (1) example/enables extra output to be produced (1).

2(c)	**Analyse how price elasticity of demand can influence a firm's pricing decisions.** Coherent analysis which might include the following. Price elasticity of demand is a measure of the responsiveness of demand to a change in price (1). If demand is elastic, a rise in price will cause a greater percentage change in demand (1) may indicate the firm's product has close substitutes / is not a necessity / takes a significant proportion of consumers' incomes (1) may encourage firms to lower price (1) raise revenue (1). If demand is inelastic, a rise in price will cause a smaller percentage change in demand (1) may indicate the firm's product has few substitutes / is a necessity / takes a small proportion of consumers' incomes (1) may encourage firms to raise prices (1) revenue would increase (1).

2(d)	**Discuss whether or not firms benefit from their workers undertaking training.** In assessing each answer, use the table opposite. Why they might: • may increase productivity • may enable workers to work with more advanced technology • may lower costs of production • may be able to fill promoted posts • reduce waste • raise quality of output • training may be provided by the government at no direct cost for firms. • increase workers motivation, reducing labour turnover • increase flexibility to cover absences. Why they might not: • if the firms provide the training, increase costs / opportunity cost • output may fall while workers are being trained • training may not be successful • trained workers may demand higher wages • trained workers may leave to work for other firms – other firms will gain the benefits of the training.

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2(d)	

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Question 6 (Answer: **D**)

- A maximum price only bites if it is set *below* equilibrium; a minimum price only if *above*.
- A binding maximum causes a shortage; a binding minimum causes a surplus.
- So identify which line is drawn, and on which side of P, before reading the effect.

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Question 5 (Answer: **C**)

- Equilibrium is where quantity demanded equals quantity supplied.
- So scan the table for the price at which the two columns are equal.
- Above that price there is a surplus; below it, a shortage.

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Question 5 (Answer: **C**)

- At the current price, compare quantity demanded with quantity supplied.
- If demand exceeds supply there is a shortage and price will rise.
- If supply exceeds demand there is a surplus and price will fall.

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Question 6 (Answer: **B**)

- Decide first which curve moves, and in which direction.
- A change in a determinant of demand shifts D; a change in costs or technology shifts S.
- Then read the new intersection to see what happens to price and to quantity.

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Question 6 (Answer: **C**)

- Decide which curve shifts, and in which direction, before looking at the options.
- Then find the new intersection of demand and supply.
- Read both the new price and the new quantity from that point.