Question 27 (Answer: **C**)

- Specialisation lets resources be used where they are most productive.
- That raises total output and lowers costs, so prices fall and choice widens.
- Over-dependence and limited choice are the *disadvantages*, not the advantages.

Question 4 (Answer: **A**)

- Prices ration scarce resources, signal where resources should go, and give incentives to produce.
- Those are the three functions of the price mechanism.
- Distributing income *equally* is not one of them – markets distribute according to ability to pay.

Question 5 (Answer: **C**)

- The three questions are what to produce, how to produce it, and for whom.
- Each is about allocating scarce resources between competing uses.
- So anything that is not a choice about *allocation* does not belong.

3(a)	**Define *foreign exchange market.*** An arrangement / place (1) where different countries' currencies are bought/demanded (1) and sold/supplied (1) one currency is exchanged for another currency (1).
3(b)	**Explain <u>two</u> reasons why a firm may adopt labour-intensive production.** Logical explanation which might include: • Labour may be low in price / wages may be low (1) which might make labour cheaper than capital / there may be a high supply of labour (1). • Labour may be very productive / efficient (1) which can make employment profitable / result in low costs of production (1). • The government may subsidise the employment of workers (1) to reduce unemployment (1). • The firm may provide personal services (1) with individual attention (1). • Labour may be more creative / adaptable / provide feedback (1) produce high quality products / improve methods of production (1) • Labour may be unskilled / low level of education (1) unable to use high-tech capital equipment (1).

3(c)	**Analyse how the macroeconomic aims of economic growth and balance of payments stability may conflict.** Coherent analysis which might include: Economic growth may increase employment (1) increase wages / incomes / purchasing power (1) this may increase imports (1). Higher consumer spending (1) may encourage firms to switch products to the domestic market (1) reduce exports (1) increase / cause a current account deficit (1). To produce more goods and services, firms may import more raw materials (1) capital goods (1). Economic growth may result in inflation (1) which would make domestic products less price competitive (1). Economic growth may deplete resources (1) increase need for imports (1). Economic growth may be export-led (1) may be achieved by restricting imports (1) result in a current account surplus (1). Migrant workers may send more money home (1). Export-led growth may increase the exchange rate (1) which may increase imports / reduce exports (1).

3(d)	**Discuss whether or not a high level of poverty is likely to exist in a market economic system.** In assessing each answer, use the table opposite. Why it might: • may be unemployment • lack of welfare benefits • likely to be income inequality • merit goods including healthcare and education may be under-consumed and so underproduced • monopolies may develop resulting in higher prices. Why it might not: • competition / profit motive may result in low prices • efficiency is encouraged which can result in high wages and high employment • greater response to changes in consumer demand, may increase economic growth • countries with efficient private sector firms may have relative poverty but low absolute poverty.