

Question 15 (Answer: **D**)

- Total cost is fixed cost plus variable cost.
- So read total cost at that output and subtract the fixed cost.
- Fixed cost is the value of total cost where the curve meets the vertical axis, at zero output.

Question 16 (Answer: **B**)

- Total revenue is price multiplied by quantity.
- Before: $4 \times 20 = 80$. After: $5 \times 10 = 50$.
- Revenue falls, which shows demand was elastic over that range.

Question 15 (Answer: **D**)

- Total cost = total variable cost + total fixed cost = $300 + 2700 = 3000$.
- Average total cost is total cost divided by output.
- $3000/100 = \$30$.

Question 15 (Answer: **D**)

- Profit per unit is average revenue minus average cost.
- Total profit is that difference multiplied by the output.
- So work out the gap at each output and multiply – the largest gap is not always the largest total.

Question 17 (Answer: **A**)

- Governments provide public goods and merit goods, redistribute income and regulate markets.
- They also promote trade agreements and pay state benefits.
- Paying dividends to shareholders is what a *company* does, not a government.

2(a)	Define <i>multinational company</i>. 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.

2(d)

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Question 16 (Answer: **A**)

- Average fixed cost falls continuously as output rises, since the fixed cost is spread more thinly.
- Average total cost is average fixed plus average variable cost, so it falls then rises.
- The vertical gap between the two curves *is* average variable cost.

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Question 14 (Answer: **A**)

- Average cost is total cost divided by output.
- Total cost is fixed costs plus variable costs.
- So add the two, divide by each firm's output, and compare the results.

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Question 15 (Answer: **C**)

- Total cost is fixed cost plus variable cost, so add the 100 to each figure.
- Average cost is that total divided by output.
- Marginal cost is the *change* in total cost from one extra unit – so subtract consecutive totals.

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Question 16 (Answer: **C**)

- Total revenue is average revenue multiplied by output.
- So work out 10×1 , 8×2 , 6×3 , 4×4 .
- That gives 10, 16, 18, 16 – revenue rises, peaks and then falls.