

- 2 (a) Explain how governments face increasing opportunity cost in their decision-making. Use a production possibility curve diagram to support your answer. [8]
- (b) Discuss whether decision-making is more effective when undertaken by governments in a planned economy rather than by individuals in a free market economy. [12]
- 3 (a) Explain the way in which economists measure how much the supply of a good changes as its price changes. Explain **two** factors that influence the result. [8]
- (b) Discuss how supply-side policies might increase the stock of capital goods and the quantity of labour supplied to an economy. Consider whether these policies will be effective for each of these factors of production. [12]

2(a)	<p><b>AO1: knowledge and understanding</b> illustrated with a correctly labelled diagram with a concave PPC (Up to 2 marks)</p> <p>For an explanation of the choice and opportunity cost facing governments in deciding which goods and services to produce in their economy (Up to 2 marks)</p> <p><b>AO1: maximum 4 marks</b></p> <p><b>AO2: application</b> recognising that the opportunity cost increases as resources shift from the production of one type of good to another (1 mark)</p> <p>Explanation of why costs increase as the combination of goods produced changes with due reference to the suitability of resources. (Up to 3 marks)</p> <p><b>AO2: maximum 4 marks</b></p>	8	<p>Opportunity cost is the cost in terms of the next best alternative foregone. Governments face opportunity cost when they have to decide what to produce. This can be expressed using ppc diagrams. For example, the opportunity cost of government spending on health is the spending on defence that has to be foregone. As resources are shifted from the production of one good to another the cost increases. The sacrifice becomes greater as less appropriate resources are used to produce alternative goods and services.</p>
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Question	Answer	Marks	Guidance
2(b)	<p><b>AO3: analysis</b> of the advantages and disadvantages that arise when resources are allocated through central planning. (Up to 4 marks)</p> <p><b>Analysis</b> of advantages and disadvantages that arise when resources are allocated through the free market. (Up to 4 marks)</p> <p><b>AO3: maximum 8 marks</b></p> <p>For <b>evaluation</b> of the strengths and weaknesses of the two systems (Up to 3 marks)</p> <p>Conclusion on which system is most effective. (1 mark)</p> <p><b>AO4: maximum 4 marks</b></p>	12	<p>In a planned economy national, regional and local planning committees undertake decision-making. Decision-making in this system lacks signals transmitted through the price mechanism to express consumer wants.</p> <p>In a free market economy the factor enterprise allocates resources in response to signals from consumers through the price mechanism.</p>
3(a)	<p><b>AO1: knowledge and understanding</b> showing an accurate formula to measure price elasticity of supply (1 mark)</p> <p>For a clear and accurate understanding of <b>either</b> elastic supply or inelastic supply (1 mark)</p> <p><b>AO1 and AO2: knowledge and understanding and application</b> providing explanation of two factors that influence the price elasticity of supply. (Up to 3 marks per factor explained)</p> <p><b>Maximum 8 marks</b></p>	8	<p>Candidates need to understand the concept of price elasticity of supply and the factors that influence it such as the availability of factors of production, the nature of the product and the time period under consideration.</p>
3(b)	<p><b>AO3: analysis</b> explaining how supply-side policies could improve the stock of capital goods. (Up to 4 marks)</p> <p><b>Analysis</b> explaining how supply-side policies could improve the supply of labour. (Up to 4 marks)</p> <p><b>AO3: maximum 8 marks</b></p> <p>For <b>evaluative comment</b> considering whether these policies would be effective in both cases (Up to 3 marks)</p> <p>Conclusion (1 mark)</p> <p><b>AO4: maximum 4 marks</b></p>	12	<p>Supply side policy attempts to increase aggregate supply in an economy. This can be achieved in a number of ways. For e.g. improving incentives through tax cut, subsidising capital formation and increasing the provision of education in an economy. Candidates need a firm grasp of the appropriate policy for increased capital formation and increases in the supply and quality of labour.</p>

- 2 (a) Explain what determines the change in equilibrium price and equilibrium quantity of a good when there is a rise in incomes in an economy. [8]
- (b) Discuss the effectiveness of any possible measures to ensure that food would be available to consumers in an economy where food supplies are frequently disrupted because of drought. [12]
- 3 (a) The government raises taxes to provide a toll road bridge and streetlights in a country. Explain how an economist would classify each of these provisions. [8]
- (b) Discuss the view that direct taxes are the fairest and the most effective way for governments to raise revenue. [12]

Question	Answer	Marks	Guidance
2(a)	<p><b>Explain what determines the change in equilibrium price and equilibrium quantity of a good when there is a rise in incomes in an economy.</b></p> <p>For <b>knowledge and understanding</b> of the concept of income elasticity of demand (1 mark) and how it is measured (1 mark) (KU: up to 2 marks)</p> <p>For <b>application</b> in terms of the impact upon equilibrium price and quantity in the case of a normal good (2 marks)</p> <p>For <b>application</b> in terms of the impact upon equilibrium price and quantity in the case of a necessary good (2 marks)</p> <p>For <b>application</b> in terms of the impact upon equilibrium price and quantity in the case of an inferior good (2 marks) (APP: up to 6 marks)</p>	8	<p>If the candidate identifies the correct movement of the demand curve in the case of each type of elasticity then 1 mark maximum if there is no reference to the impact on equilibrium price and equilibrium quantity</p>
2(b)	<p><b>Discuss the effectiveness of any possible measures to ensure that food would be available to consumers in an economy where food supplies are frequently disrupted through drought.</b></p> <p>Up to 4 marks for analysis of any one measure with due reference to the difficulties that are likely to arise</p> <p>At least two measures are required for full marks (AN: up to 8 marks)</p> <p>For <b>evaluative comment</b> on the relative effectiveness of each measure or consideration of intervention in general terms with 1 mark reserved for a reasoned conclusion (EVAL: up to 4 marks)</p>	12	<p>Candidates must discuss at least 2 measures with up to 4 marks for each, but may explain a more wide ranging number of measures.</p> <p>Candidates need to recognise that the problem is a lack of supply of food. Measures referred to might be to manage demand or supply. Price controls and rationing, importing foods from abroad might be short-term measures explained. Government organised stockpiling during years of good harvests. They all are associated with difficulties. In the long term measures might be taken to improve the supply of water for irrigation.</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>The government raises taxes to provide a toll road bridge and streetlights in a country. Explain how an economist would classify each of these provisions.</b></p> <p>For <b>knowledge and understanding</b> of the characteristics that allow the classification of goods i.e. excludability (1 marks) and rivalry in consumption (1 marks) (KU: up to 2 marks)</p> <p>For <b>application</b> that</p> <ul style="list-style-type: none"> <li>classifies a toll road bridge as a private good (3 marks)</li> <li>and streetlights as a public good (3 marks) (APP: up to 6 marks)</li> </ul>	8	<p>The classification relies upon whether the goods are excludable and rival in consumption. It does not matter how they are paid for.</p> <p>Reference to merit goods should still conclude that these are private goods in terms of excludability and rivalry.</p>
3(b)	<p><b>Discuss the view that direct taxes are the fairest and the most effective way for governments to raise revenue.</b></p> <p>Up to 4 marks for analysis that compares direct and indirect taxation in terms of fairness (with reference to regressive and progressive taxes).</p> <p>Up to 4 marks for analysis that compares direct and indirect taxation in terms of effectiveness. (with reference to issues such as revenue raising, disincentive effects etc) (AN: up to 8 marks)</p> <p>For <b>evaluative comment</b> with 1 mark reserved for a reasoned conclusion (EVAL: up to 4 marks)</p>	12	<p>Candidates should consider both fairness and effectiveness in their answers. There might be reference to the canons of taxation, but candidates may focus on one assessment of fairness or effectiveness in their answer. Canons of taxation that may be discussed include certainty, cost, convenience, transparency.</p> <p>Both types of taxation must be assessed in terms of the criteria for 4 marks. If a candidate only considers the fairness of direct taxes then award 3 maximum.</p>

- 2 (a) Explain, with the help of a diagram, the process through which the equilibrium price and equilibrium quantity of a good changes when there is an improvement in the technology underlying the production of that good. [8]
- (b) Discuss the problems in applying supply-side policies in an economy and assess whether these problems can be overcome. [12]
- 3 (a) Explain how knowledge of the price elasticity of demand for a good can help businesses to assess the impact of price changes upon their total revenue. [8]
- (b) 'Since the demand for a demerit good such as cigarettes is price inelastic, a tax on the product is a waste of time. What is needed is better awareness amongst consumers of the negative effects of smoking cigarettes.'

Discuss this view.

[12]

Question	Answer	Marks	Guidance
2(a)	<p><b>Explain, with the help of a diagram, the process through which the equilibrium price and equilibrium quantity of a good changes when there is an improvement in the technology underlying the production of that good.</b></p> <ul style="list-style-type: none"> <li>□ accurate <b>diagram</b> showing the demand and supply of a good (1 mark)</li> <li>□ with equilibrium market price and quantity (1 mark) (KU: up to 2 marks)</li> <li>□ explanation that an improvement in technology will shift the supply curve to the right (1 mark); because more can be produced at each price / the same quantity can be produced at lower costs/price (1 mark)</li> <li>□ accurate <b>diagram</b> showing a shift to the right of the supply curve (1 mark); and the resulting fall in equilibrium price and rise in equilibrium quantity (1 mark)</li> <li>□ explanation of the <b>process</b> that drives price down and quantity to rise to re-establish equilibrium (up to 2 marks) (APP: up to 6 marks)</li> </ul>	8	<p>When there is an improvement in technology the supply curve will shift to the right, this causes an excess supply and as a result, equilibrium market price will fall, and equilibrium quantity will rise.</p> <p>The candidate may provide two diagrams. One to show equilibrium price and quantity and one to show the impact of a shift in the supply curve to the right which results from the improvement in technology. It is possible however to show knowledge and understanding and application of the key points on one diagram. If clearly drawn and labelled this could be awarded the full 4 diagram marks.</p> <p>For a diagram to be considered 'accurate' it must have appropriate labels.</p> <p>To be awarded marks for the process that explains how equilibrium is re-established the candidate must explain that price falls because of an excess supply in the market and the fall in price leads to an extension or rise in equilibrium quantity demanded.</p>

Question	Answer	Marks	Guidance
2(b)	<p><b>Discuss the problems in applying supply-side policies in an economy and assess whether these problems can be overcome.</b></p> <ul style="list-style-type: none"> <li>□ explanation the general aims of supply-side policy and the specific aims of at least two supply-side measures (up to 4 marks)</li> <li>□ explanation of the problems encountered in implementing supply-side policies (up to 4 marks) (AN: up to 8 marks)</li> <li>□ evaluation assessing whether the problems can be overcome (up to 3 marks); and a concluding comment (1 mark) (EV: up to 4 marks)</li> </ul>	12	<p>The general aim of supply-side policy is to shift the aggregate supply curve to the right.</p> <p>The candidate needs to show an understanding of at least two supply side measures and the difficulties in implementing them. Possible measures that could be explained are wide ranging. These include: Improved training of labour, reductions in personal and/or business taxes, deregulation of markets, privatisation, subsidisation of investment, etc.</p> <p>The problems in implementation could be general or specific to the measures explained although the better answers are likely to focus on the problems associated with the specific measures explained. General problems include the cost and the long time period required to increase supply.</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>Explain how knowledge of the price elasticity of demand for a good can help businesses to assess the impact of price changes upon their total revenue.</b></p> <ul style="list-style-type: none"> <li>□ states what price elasticity of demand measures (1 mark)</li> <li>□ accurate formula (1 mark)</li> </ul> <p style="text-align: right;">(KU: up to 2 marks)</p> <ul style="list-style-type: none"> <li>□ accurate explanation of the meaning of relatively price elastic demand (1 mark); and the link between changes in the price of elastic goods and changes in total revenue (1 mark)</li> <li>□ accurate explanation of the meaning of relatively price inelastic demand (1 mark); and the link between changes in the price of inelastic goods and changes in total revenue (1 mark)</li> <li>□ accurate explanation of the meaning of unitary price elastic demand (1 mark); and the link between changes in the price of unitary elastic goods and changes in total revenue (1 mark)</li> </ul> <p style="text-align: right;">(APP: up to 6 marks)</p>	8	<p>Price elasticity of demand measures the response of demand to a change in price.</p> <p>An 'accurate explanation' will refer to relative % changes in price and quantity demanded e.g. in the case of goods that are relatively price elastic a % change in price will lead to a greater % change in quantity.</p> <p>If the candidate uses more vague terms to express the relationship between changes in price and changes in quantity demanded such as, 'price changes, and demand changes to a greater extent', then 1 mark maximum in each case. It must be clear that the candidate understands the relationship between % changes in price and % changes in quantity.</p> <p>Effective use of diagrams that explain the relationship between changes in price, the value of elasticity and changes in total revenue can be awarded 2 marks if it is clear that the candidate understands the concept of elastic/inelastic/unitary elastic.</p>
Question	Answer	Marks	Guidance
3(b)	<p><b>'Since the demand for a demerit good such as cigarettes is price inelastic, a tax on the product is a waste of time. What is needed is better awareness amongst consumers of the negative effects of smoking cigarettes'. Discuss this view.</b></p> <ul style="list-style-type: none"> <li>□ analysis that explains why there will not be a significant reduction in consumption of demerit goods when indirect taxes are imposed if the demand is price inelastic (up to 4 marks)</li> <li>□ analysis that explains that since the consumption of demerit goods is due to information failure an awareness campaign can be used to decrease demand (up to 4 marks)</li> </ul> <p style="text-align: right;">(AN: up to 8 marks)</p> <ul style="list-style-type: none"> <li>□ evaluation that considers the overall impact of the indirect tax (up to 3 marks); and a concluding comment on whether this is 'a waste of time' (1 mark)</li> </ul> <p style="text-align: right;">(EV: up to 4 marks)</p>	12	<p>This discussion relates to whether a tax on cigarettes is a 'waste of time' because the demand for cigarettes is price inelastic. The discussion also requires a consideration of policies to create better awareness amongst consumers.</p> <p>If the demand for a demerit good is price inelastic, the imposition of an indirect tax will not significantly reduce its consumption. The demand for demerit goods needs to be reduced. This could be done by using the revenue gained from an indirect tax to fund an awareness campaign. This will result in the demand curve for cigarettes shifting to the left.</p> <p>Diagrams are not required, but award credit if these are used effectively to support the explanation.</p> <p>Evaluative comment might suggest that the taxation is not a waste of time because it will reduce smoking to some extent. Others might suggest that revenue from the taxation could be used to fund the awareness campaign.</p>