Edexcel AS/A-level Year 1 Economics A exam practice answers

2 How markets work

1 (a) Correct answer B: maximise satisfaction. [1]

 (b) Factors include:

* price of the product relative to its marginal utility
* advertising
* other people’s purchases [3]

2 (a) Correct answer D: marginal utility will decrease. [1]

 (b) Since the marginal utility declines as more is consumed, a producer must reduce price to encourage more consumption. Consequently, there will be an inverse relationship between price and quantity demanded. [3]

3 (a) Correct answer D: an increase in real incomes of consumers. [1]

 (b) an increase in the price of substitutes

 an increase in the size of the world’s population

 a successful advertising campaign [3]

4 (a) The supply curve usually slopes upwards from left to right.

 This implies that the quantity supplied increases as price increases.

 Firms are more likely to produce more as the price rises because the prospects for making a profit are greater than when prices are low. [3]

 (b) Correct answer A: the cost of fertiliser increases. [1]

5 (a) Original total revenue: $500 (100 × $5).

 New total revenue: $560 (140 × $4).

 Therefore, change in total revenue = +$60. [1]

 (b) Demand is price elastic because price and total revenue have moved in different directions. [2]

6 Correct answer D: price elasticity of demand is inelastic and income elasticity of demand is negative. [1]

7 (a) PES = % change in quantity supplied

 % change in price

 Therefore: 0.5 = x = 15%

 30% [3]

(b) Correct answer D: the specialist machinery required for Product Y is fully utilised. [1]

8 (a) Correct answer B: 70 000 [1]

 (b) Factors include:

* Availability of substitutes, e.g. raspberries.
* Non-durability: fresh strawberries cannot be stored easily so demand is more likely to be price elastic.
* Proportion of income spent on strawberries: it could be argued that they are a relatively expensive fruit, and therefore demand is likely to be price elastic. [3]

9 Outline answers:

(a) If stocks are available, which is possible in the case of non-perishable commodities such as wheat. [4]

(b) Diagram showing both rightward shift in supply curve (caused by increased supplies from fracking) and leftward shift of demand curve (caused by slowdown in economic growth, for example, in China). [6]

(c) Percentage change is calculated as follows: change divided by the original multiplied by 100. So, in this case, the calculation would be 95/330 × 100 = 28.8%, i.e. the price has fallen by nearly 29% in less than a year. [5]

(d) Definition of cross elasticity of demand; use of extract to note that wheat and oil are complements so that cross elasticity of demand will be negative. The value of XED will depend on how close the products are as complements. Also, this may change over time, e.g. if farmers could become less dependent on oil. [10]

(e) Typically, the demand for wheat is income inelastic in developed countries. Therefore, expenditure on food will increase by a smaller percentage than the increase in real incomes. However, as living standards increase in developing countries, demand for wheat could increase significantly. This could be illustrated by a supply and demand diagram. However, consumers might respond by buying cheaper food products or shopping in cut-price supermarkets or by drawing on savings to maintain their existing lifestyles. [15]

(f) Definition of a minimum guaranteed price; diagram to illustrate a guaranteed minimum price above the free market price.

 Analysis of how a minimum guaranteed price could reduce price fluctuations.

 Evaluation: reasons why a minimum guaranteed price might not work, e.g. if the minimum price is set too high, resulting in continuous surpluses, or if it becomes too expensive to operate. [20]

(g) Consumers’ surplus would increase.

 Since demand for many foodstuffs is price inelastic, falling food prices would mean that consumers have more to spend on other goods and services.

 Farmers would suffer a decrease in total revenue (assuming demand is price inelastic). As suggested in the article, farmers might change their land use from wheat to other commodities.

 Evaluation: impact on demand for other goods and services depends on other factors, e.g. changes in real incomes; consumer confidence.

 Farmers may not change land use if they consider that wheat prices will recover in the future. [20]