Past-paper walk-through

Demand and supply curves ▪ 2.1

eXercise

Questions in this set

- 9708/12 N25 Q4 ▪ 1 mark
- 9708/13 N25 Q7 ▪ 1 mark
- 9708/12 J25 Q9 ▪ 1 mark
- 9708/12 J25 Q15 ▪ 1 mark
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- 9708/1 23 Q5 ▪ 1 mark

Question 4

9708/12 N25 ▪ Q4 ▪ 1 mark

4 A student chooses to study for a degree in engineering at university rather than take a job working as an apprentice engineer. The apprenticeship lasts five years and involves training while working.

What will decrease the opportunity cost of this choice?

A a decrease in the wages paid to apprentice engineers

B a decrease in the number of students studying engineering degrees

C a decrease in the number of top grade engineering degrees awarded

D a decrease in the length of an engineering apprenticeship to four years

Solution 4

Answer: **A**

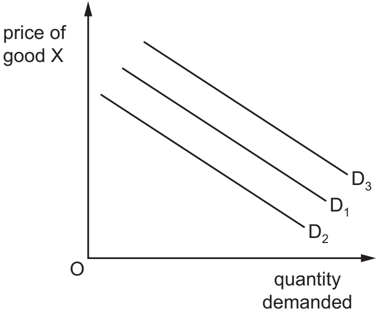
Why

- Opportunity cost is the value of the next best alternative given up.
- Choosing the degree means giving up the apprenticeship.
- So the cost is what the apprenticeship would have provided – the earnings and training forgone, not the fees paid.

Question 7

9708/13 N25 ▪ Q7 ▪ 1 mark

7 Market demand curves normally slope downwards. They may also shift from D_1 to either D_2 or D_3.



Question 7

What would cause a movement along D_1 for good X and **not** a shift to either D_2 or D_3?

A advertising of good X increases sales

B consumer incomes rise

C the price of good X falls

D the prices of other goods fall

Solution 7

Answer: **C**

Why

- A movement *along* the demand curve is caused by a change in the good's own price.
- A shift of the curve is caused by anything else – income, tastes, other prices.
- So the answer must be the good's own price changing, not one of the other determinants.

Question 9

9708/12 J25 ▪ Q9 ▪ 1 mark

9 An increase in which variable will **always** lead to an increase in the consumer surplus?

A cost of production

B maximum price

C minimum price

D subsidy

Solution 9

Answer: **D**

Why

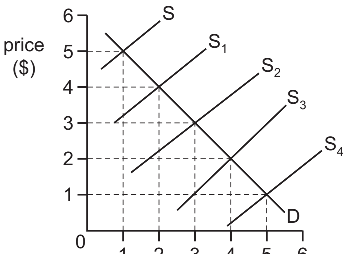
- Consumer surplus is the area under the demand curve above the price paid.
- So anything that *lowers* the price raises consumer surplus.
- A subsidy shifts supply right and lowers the price, so it always increases consumer surplus.

Question 15

9708/12 J25 ▪ Q15 ▪ 1 mark

15 In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves S_1–S_4.



Question 15

1 2 3 4 5 6

quantity ('000 tonnes)

How much in total will the government need to pay to support farmers over the four subsequent years?

A $0 **B** $3000 **C** $6000 **D** $10 000

Solution 15

Answer: **A**

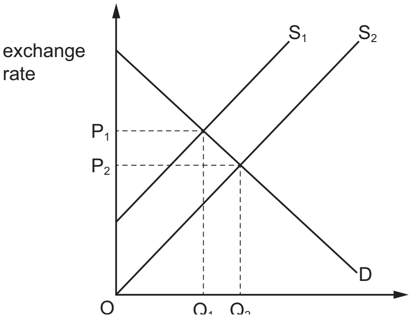
Why

- Guaranteeing a minimum income means guaranteeing a minimum price.
- At a price above equilibrium, supply exceeds demand, so there is a surplus.
- The government must then buy up that surplus to hold the price there.

Question 30

9708/12 J25 ▪ Q30 ▪ 1 mark

30 The Euro (€) is the main currency of the European Union. The diagram shows the exchange rate between the Euro and the US dollar.



What is likely to have caused this change in the value of the Euro?

A a decrease in European Union inflation

B a decrease in US interest rates

C an increase in European Union imports

D an increase in European Union unemployment

Solution 30

Answer: **C**

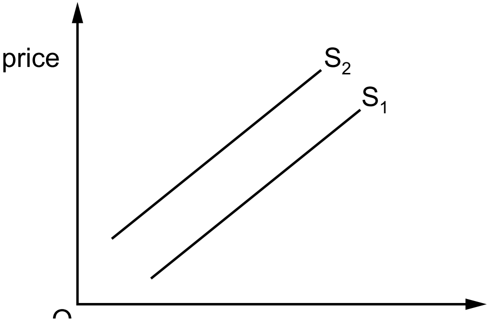
Why

- Read which curve has shifted and in which direction.
- An increase in the supply of Euros, or a fall in demand for them, lowers the exchange rate.
- A lower euro makes eurozone exports cheaper and imports dearer.

Question 5

9708/1 23 ▪ Q5 ▪ 1 mark

5 The diagram shows a shift in a firm's supply curve from S_1 to S_2.



Question 5

quantity

What may have caused the shift from S_1 to S_2?

A a decrease in the costs of production of the firm

B a decrease in the popularity of the firm's product

C a decrease in the subsidy on the good

D a decrease in the tax on the good

Solution 5

Answer: **C**