

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- a measure of how much the quantity demanded responds to a change in the good's price, equal to $\% \Delta Q_d \div \% \Delta P$ (2 for a clear definition; 1 for a partial idea)

2.2

- $PED = \frac{+15}{-5} = -3$; ignoring the sign, $3 > 1$, so demand is **elastic** (2; award 1 for a correct value with no classification)

2.3

- $YED = \frac{-4}{+10} = -0.4$; negative, so the good is **inferior** (2; award 1 for a correct value with no classification)

3.1 B

- With PED 0.4 (inelastic), raising the price raises total revenue

3.2

(a)

- $XED = \frac{+5}{+20} = +0.25$ (2; award 1 for a correct method with the wrong figure)

(b)

- positive XED, so A and B are **substitutes** — a rise in B's price makes buyers switch to A (2 for relationship + reason; 1 for relationship only)

3.3

- [8] AO1/AO2/AO3 up to 5 + AO4 up to 3. **Useful:** PED predicts how a price change affects quantity and total revenue, helping the firm price for maximum revenue and judge a tax or discount. **Limits:** PED values come from estimates, change over time, and assume ceteris paribus; rivals may react. Judgement: PED is a valuable guide for pricing, but only alongside knowledge of costs and competitors — its usefulness depends on how reliable the estimate is