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

- the price at which the quantity demanded equals the quantity supplied, so there is no pressure for it to change (2 for a clear definition; 1 for a partial idea)

2.2

- the price rises (2 for "rises, because buyers compete for the shortage"; 1 for "rises")

2.3

- price falls and quantity rises (1 + 1)

3.1 B

- Below equilibrium there is excess demand, which pushes the price up

3.2

- *[8]* AO1 1 + **AO3 diagram up to 4** (labelled axes, demand shifts right $D \to D_1$, new equilibrium) + AO2/AO3 up to 3 — higher demand creates excess demand at the old price
- the price is bid up
- as price rises, quantity supplied rises along the supply curve
- a new equilibrium at a higher price and higher quantity

3.3

- *[12]* AO1/AO2/AO3 up to 8 (diagram: supply shifts left, price ↑, quantity ↓) + AO4 up to 4. **Analysis:** dearer beans raise production costs
- supply of coffee shifts left
- equilibrium price rises and quantity falls; how much depends on PED. **Evaluation:** if demand for coffee is inelastic, the price rises a lot but quantity falls little; producers of complements (e.g. milk) may lose; consumers may switch to substitutes. Judgement: the size of the effect depends on elasticities and whether the cost rise is temporary