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 extra satisfaction (utility) gained from consuming one more unit of a good (2 for a clear definition; 1 for a partial idea)

2.2

- as more of a good is consumed, each extra unit gives less extra satisfaction than the one before (2 for a clear statement; 1 for a partial idea)

2.3

- $\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$ (1)

3.1 C

- Utility is maximised when the marginal utility per dollar is equal across goods

3.2

- *[6]* AO1 1 + AO3 up to 5 — each extra unit gives less marginal utility, so it is worth less to the consumer
- they will only buy more units if the price is lower
- quantity demanded rises as price falls
- the demand curve slopes downward

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Useful:** it explains the downward demand curve and consumer equilibrium, and underpins the idea of consumer surplus. **Limits:** utility cannot be measured in numbers, consumers do not calculate like this, and it ignores habit, advertising and bounded rationality. Judgement: the theory gives useful insight into choice, but behavioural factors mean it is a simplification — its value depends on the decision being modelled