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 curve showing all combinations of two goods that give a consumer the same total utility (2 for a clear definition; 1 for a partial idea)

2.2

- where the budget line is tangent to the highest reachable indifference curve (1)

2.3

- the substitution effect is the change in quantity from a good becoming relatively cheaper; the income effect is the change from the consumer's real income rising (2 for a clear difference; 1 for a partial idea)

3.1 B

- Equilibrium is at the tangency with the highest reachable indifference curve

3.2

- *[8]* AO1 1 + **AO3 diagram up to 4** (budget line, indifference map, tangency) + AO2/AO3 up to 3 — the consumer wants the highest utility they can afford
- they reach the highest indifference curve the budget line touches
- at the tangency the slope of the budget line equals the slope of the indifference curve (the marginal rate of substitution equals the price ratio)

3.3

- *[8]* AO1 1 + AO3 up to 7 — when a Giffen good's price falls, the substitution effect raises quantity, but it is a very inferior good, so the income effect (higher real income
- buy less of it) is **stronger** and works the opposite way
- the net effect is that quantity demanded falls as price falls
- demand slopes upward