

Revision

Pearson Edexcel · International A-Level · Economics

1 Consumer behaviour and markets

- marginal benefit
- equilibrium

U1-Q1

At $P = 10$, which imbalance occurs?

Available marks: 2.

Worked answer

$Q_d = 100$ and $Q_s = 50$, so excess demand is 50.

U1-Q2

Explain the mechanism or reasoning in this original case: A commuter keeps buying a familiar ticket despite a cheaper option. The market model is useful, but assumptions about rational choice need checking.

Available marks: 4.

Worked answer

Demand is $Q_d = 120 - 2P$ and supply is $Q_s = 20 + 3P$. Set $Q_d = Q_s$: $120 - 2P = 20 + 3P$. Then $100 = 5P$, $P = 20$ and $Q = 80$. Check both equations before drawing the intersection.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

An algebraic equilibrium is conditional on the functions and other factors staying constant. / A supply shift does not shift demand: it changes equilibrium through movement along the existing demand curve.

2 Market failure and policy

- public good
- government failure

U2-Q1

Which condition identifies the efficient output in the simple externality model?

Available marks: 2.

Worked answer

Marginal social benefit equals marginal social cost.

U2-Q2

Explain the mechanism or reasoning in this original case: Drivers choose routes using their own journey cost while adding delays for other users. A private optimum can differ from the social optimum.

Available marks: 4.

Worked answer

A congestion charge can raise the private cost of peak journeys. If drivers respond, journeys and delays fall. Compare the charge with public transport investment: one discourages journeys, the other improves alternatives.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

A transfer of tax revenue is not itself a social resource cost. / Policy evaluation should consider the size of the externality, enforcement costs, equity and unintended effects.

3 National income and aggregate activity

- multiplier
- real GDP

U3-Q1

What happens to the simple multiplier when the marginal propensity to save rises?

Available marks: 2.

Worked answer

It falls because more of each extra unit of income leaks from spending.

U3-Q2

Explain the mechanism or reasoning in this original case: A country reports higher GDP, but its population and prices also grew. The headline increase alone does not show higher average real living standards.

Available marks: 4.

Worked answer

In a simple closed model with no tax or imports, $MPC = 0.8$ gives multiplier $k = 1/(1 - 0.8) = 5$. An autonomous injection of 10 gives a modelled income rise of 50; taxes and imports add leakages in a fuller model.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

State the model assumptions before using 5 as a prediction. / An AD increase can raise real output or mainly raise prices, depending on spare capacity and supply conditions.

4 Macroeconomic objectives and policies

- monetary policy
- supply-side policy

U4-Q1

Which information matters most when choosing an inflation policy?

Available marks: 2.

Worked answer

Whether inflation is driven mainly by excess demand or rising costs.

U4-Q2

Explain the mechanism or reasoning in this original case: A government wants lower inflation and lower unemployment at the same time. Whether these goals conflict depends on why prices and unemployment changed.

Available marks: 4.

Worked answer

An interest-rate rise may reduce borrowing, spending and aggregate demand, easing demand-pull inflation. If inflation came from imported fuel, the policy may lower output without directly repairing the fuel shortage.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

Do not write that higher rates always reduce inflation immediately. / Compare effectiveness, exchange-rate effects, indebted households, confidence and lags before reaching a conditional judgement.

5 Firms, costs and market structures

- marginal cost
- contestability

U5-Q1

Should the firm add the 101st unit under these figures?

Available marks: 2.

Worked answer

No: marginal cost exceeds marginal revenue, reducing profit.

U5-Q2

Explain the mechanism or reasoning in this original case: A firm can sell more only by reducing its price. Extra sales add revenue, but may also reduce revenue on units already sold.

Available marks: 4.

Worked answer

At $Q = 100$, total revenue is 1,000 and total cost is 800, giving profit 200. At $Q = 101$, revenue is 1,006 and cost is 809. The extra unit adds $MR = 6$ and $MC = 9$, so profit falls by 3; expansion is not justified by revenue alone.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

Market concentration does not prove collusion. Contestability depends on entry and exit barriers, including sunk costs. / Separate short-run shutdown decisions from long-run exit and distinguish profit from cash flow.

6 Labour markets and intervention

- derived demand
- monopsony

U6-Q1

What is the worker's marginal revenue product in this case?

Available marks: 2.

Worked answer

96 yuan for the period used in the calculation.

U6-Q2

Explain the mechanism or reasoning in this original case: A workshop considers hiring another worker who can add output. The hiring decision depends on the revenue that output adds and the worker's cost.

Available marks: 4.

Worked answer

An extra worker adds 8 units sold at a constant 12 yuan per unit, so $MRP = 8 \times 12 = 96$ yuan. If the relevant wage is 80 yuan, the simplified model supports hiring; other employment costs still matter.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

A minimum wage can have different employment effects under competitive labour markets and monopsony. / Do not apply one diagram to every institution: state bargaining, market structure and enforcement assumptions.

7 Globalisation, trade and payments

- comparative advantage
- current account

U7-Q1

Which country has comparative advantage in radios?

Available marks: 2.

Worked answer

Country B, because its opportunity cost is one shirt rather than two.

U7-Q2

Explain the mechanism or reasoning in this original case: Country A needs 2 hours to make a shirt and 4 for a radio. Country B needs 6 for a shirt and 6 for a radio. A is faster at both, but relative costs still differ.

Available marks: 4.

Worked answer

In A, one radio costs two shirts; in B, one radio costs one shirt. B has comparative advantage in radios. A has comparative advantage in shirts: one shirt costs half a radio in A and one radio in B.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

The model assumes mobility within a country and a simplified production structure.
/ Exchange-rate changes may not repair a current-account deficit quickly because contracts and elasticities matter.

8 Development, inequality and the state

- development
- inequality

U8-Q1

Which evidence best supports a claim of wider development?

Available marks: 2.

Worked answer

Improved health and education alongside real income gains, with attention to who benefits.

U8-Q2

Explain the mechanism or reasoning in this original case: An economy exports more minerals, yet local health and schooling remain poor. Higher output is not sufficient evidence of broad development.

Available marks: 4.

Worked answer

A rural road can lower transport costs and connect producers to buyers. Health services can improve workers' capabilities. Compare the projects using local bottlenecks, distribution, environmental effects and opportunity cost, rather than GDP alone.

- Accurate relevant concept (1)
- Specific evidence from the case (1)
- Connected reasoning (2)

Aid may support capacity or create dependency; debt relief frees resources only if spending and institutions use them well. / Use several indicators and recognise inequality hidden by national averages.