Exercise walk-through

1.2

External Sources of Change: Introductory Economics

GAC Business

You must be able to

- define opportunity cost using a next-best alternative
- distinguish demand from supply
- explain a shortage or surplus using price and quantity

1 The method

Method — Opportunity cost

A café buys a delivery bicycle instead of a second oven. The opportunity cost is the **second oven**: the next best option it gave up, not the bicycle's price.

Method — Finding a useful price

At 3 yuan, 120 students want sandwiches but the café has 80. At 4 yuan, about 80 want one. The 4-yuan price matches quantity demanded with quantity supplied, so it is an **equilibrium price 均衡价格**.

2 Practice

Practice 2.1 ▪ 2 marks

Define opportunity cost.

Solution 2.1

Method: Opportunity cost — p.4

Worked steps

- A choice means another option is given up. B1
- **Opportunity cost is the next best alternative given up.** B1

Practice 2.2 ▪ 1 mark

At a price of 2 yuan, 100 drinks are demanded but only 70 are supplied. State whether this is a shortage or surplus.

Solution 2.2

Method: Finding a useful price — p.5

Worked steps

- Demand exceeds supply by 30 drinks. **B1**
- **Shortage** **B1**

Practice 2.3 ▪ 2 marks

Explain why a price rise may make supply more attractive to a firm.

Solution 2.3

Worked steps

- A higher selling price can increase revenue per unit. **B1**
- The firm may expect production to be more worthwhile. **B1**

3 Exam-style

Exam-style 3.1 ▪ 4 marks

A café has 80 sandwiches. At 3 yuan, 120 are demanded; at 5 yuan, 50 are demanded; at 4 yuan, 80 are demanded. Recommend a price and justify your answer.

Solution 3.1

Method: Finding a useful price — p.5

Worked steps

- At 4 yuan, quantity demanded is 80 and the café supplies 80. B1 A1
- At 3 yuan, demand exceeds supply and customers may leave disappointed. B1
- At 5 yuan, stock may remain unsold. B1
- **Recommendation:** choose 4 yuan because it matches today's supply and demand. (E1)

Exam-style 3.2 ▪ 4 marks

A small business spends its savings on a delivery bicycle rather than a second oven. Explain the opportunity cost and one possible advantage of the bicycle.

Solution 3.2

Method: Opportunity cost — p.4

Worked steps

- The opportunity cost is the **second oven**, the next best alternative not bought. B1 A1
- The bicycle may allow deliveries to customers who cannot visit the café. B1
- This may increase sales or convenience. A1