Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

specific tax: a fixed amount per unit, e.g. \$1 per litre; supply shifts up in parallel; ad valorem: a percentage of the price, e.g. 20% VAT; the gap grows at higher prices

2.2

any two: to lower prices for consumers, e.g. basic food; to support producers' incomes, e.g. farmers; to increase output of goods with positive externalities, e.g. solar energy, vaccines; to help a new industry compete

2.3

diagram with a maximum price below equilibrium and the shortage Q_s to Q_d shown; quantity demanded rises and quantity supplied falls, giving a shortage of flats; any two consequences: long waiting lists / queues; illegal "key money" or black markets; landlords spend less on repairs, so quality falls; some flats move to other uses, so supply falls further in the long run

3.1

(a) gains: wheat farmers (higher price and income); loses: consumers (pay more) / taxpayers

(b) diagram: minimum price above equilibrium, surplus between Q_d and Q_s; higher price lowers quantity demanded and raises quantity supplied; to keep the price up, the government must buy the surplus, at a cost of minimum price $\times$ surplus; storage costs, waste, or selling abroad cheaply (dumping), which hurts foreign farmers; resources are over-allocated to wheat: allocative inefficiency / welfare loss