Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

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

2.1

any two: **growth**; **boom**; **downturn**; **slump**; **recovery**

2.2

- $(52 - 50) \div 50 \times 100$
- $= \mathbf{4}$ %

2.3

car dealer (2):

- sales **fall** (1): a car is a costly item customers can delay buying when incomes fall or jobs are at risk (1)

discount supermarket (2):

- sales may **rise** or stay steady (1): food is a necessity, and shoppers switch from dearer shops to save money (1)

3.1

B

3.2

C

3.3

(a)

- the **cost of borrowing** money, shown as a percentage of the loan each year (or the reward for saving)

(b)

- $2\,000\,000 \times (0.05 - 0.03)$
- $= \$\mathbf{40\,000}$ a year

(c) two policies, each outlined (K + App each):

- **government spending** on roads and schools near new estates, or on social housing contracts
- **taxes**: a higher income tax cuts buyers' income; a property tax raises the cost of a house
- **supply-side**: training builders eases a shortage of skilled labour
- planning laws on where houses can be built

(d) two effects, each explained (K, App, An each):

- **higher costs**: $40,000 more interest a year cuts profit and leaves less to invest
- **lower demand**: mortgages cost more, so fewer customers can afford a house; unsold houses tie up cash
- customers may wait for rates to fall, so sales are delayed

(e) cut prices: (An)

- keeps houses selling, so cash comes in to pay the loan; but lower profit on each house; may not work if buyers cannot get a mortgage at all

delay projects: (An)

- no new borrowing at a higher rate; avoids building houses nobody buys; but workers may leave; rivals may take the land and market when rates fall

decision: (Ev) for example, delay the projects and offer small price cuts on finished houses, because cash from unsold houses is what Home Build needs now, and starting new projects at 5 % adds debt when demand is falling.

Level 3 (5–6): a justified decision for this business, weighing both sides. Level 2 (3–4): points explained and applied. Level 1 (1–2): points identified.