Past-paper walk-through

Opportunity cost ▪ 1.3

eXercise

Questions in this set

- 0455/12 N25 Q2 ▪ 1 mark
- 0455/23 N25 Q2 ▪ 20 marks
- 0455/12 M25 Q9 ▪ 1 mark
- 0455/11 N24 Q3 ▪ 1 mark
- 0455/13 N24 Q3 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 2

0455/12 N25 ▪ Q2 ▪ 1 mark

2 Which term describes the loss of potential benefit to a consumer when making a choice between alternatives?

A opportunity cost

B scarcity

C shortage

D the economic problem

Solution 2

Answer: **A**

Why

- Opportunity cost is the benefit of the next best alternative that is given up.
- It is a *loss of potential benefit*, which is exactly the wording here.
- Scarcity is the underlying condition; a shortage is a market situation.

Question 2

0455/23 N25 ▪ Q2 ▪ 20 marks

2 A Swiss multinational food manufacturer increased prices for its products by an average of 8% in 2022. It increased its prices in the USA by 11.6%. This multinational company (MNC) is one of the world's oldest MNCs. It started as a small firm but has grown over the last 160 years. Over this period, its decisions have always been influenced by opportunity cost.

(a) Define multinational company. [2]

(b) Explain two reasons why a firm may charge a different price for the same product in two different countries. [4]

(c) Analyse how opportunity cost influences the decisions made by consumers, workers and producers. [6]

(d) Discuss whether or not consumers would benefit from an increase in the number of small firms in an industry. [8]

Question 2

(a) (a) Define multinational company. [2] **[2]**

(b) (b) Explain two reasons why a firm may charge a different price for the same product in two different countries. [4] **[4]**

(c) (c) Analyse how opportunity cost influences the decisions made by consumers, workers and producers. [6] **[6]**

(d) (d) Discuss whether or not consumers would benefit from an increase in the number of small firms in an industry. [8] **[8]**

Solution 2

(a)

Mark scheme

- Define multinational company.
- A firm that is based / has its headquarters in one country (1).
- Operates / produces / sets up / works (1) in another country
- or countries (1).
- 2 No mark for an example of an MNC.

Solution 2

(b) Mark scheme

- Explain two reasons why a firm may charge a different
- price for the same product in two different countries.
- Logical explanation which might include:
- ▪
- demand may be higher / lower in one country 1
- resulting in higher / lower prices 1
- ▪
- supply maybe higher / lower in one country (1) resulting

Solution 2

- in lower prices 1
- ▪
- higher income / GNP per head in one country (1) means
- more able to afford to pay higher price 1
- ▪
- price elasticity of demand may vary (1) more power to
- raise price where demand is inelastic 1
- ▪
- greater competition in one country / more substitutes 1
- leads to lower prices to be competitive 1

Solution 2

- ▪
- indirect tax rates may vary e.g. higher GST / VAT /
- import tariffs (1) will lead to higher price 1
- ▪
- government subsidies may be given in some countries
- (1) lowering price 1
- ▪
- local material costs / wages may be lower in one
- country (1) lowering costs of production mean lower
- prices 1

Solution 2

- ▪
- different transport costs (1) may be cheaper to transport
- to countries close by 1
- ▪
- quality of good may be higher (1) enable firm to charge
- a higher price (1).
- 4 One mark each for two reasons identified and one mark
- each for two explanations.
- If more than two reasons are given, consider the first three.
- Note: There will be other relevant reasons. To get the

Solution 2

- development mark there must be a justification of why that
- factor will affect prices.
- Do not accept answers based on foreign exchange rate.
- 0455/23
- October/November 2025
- Guidance

Solution 2

(c) Mark scheme

- Analyse how opportunity cost influences the decisions
- made by consumers, workers and producers.
- Coherent analysis which might include:
- ▪
- opportunity cost is the (next) best alternative (1) forgone
- / given up 1
- ▪
- example of consumers e.g. must decide between

Solution 2

- buying different products (1) due to limited income 1
- ▪
- example of workers e.g. must decide between different
- jobs or between work and leisure (1) as time is limited 1
- ▪
- example of producers / firms e.g. must decide what to
- make / how to make it / where to locate (1) as they have
- limited (financial) resources (1).
- 6 Maximum of 4 marks if candidates do not cover at least two
- out of consumers / workers / producers.

Solution 2

- 0455/23
- October/November 2025
- Guidance

Solution 2

(d) Mark scheme

- Discuss whether or not consumers would benefit from
- an increase in the number of small firms in an industry.
- In assessing each answer, use the table opposite.
- Why they might:
- ▪
- more competition, lower price, higher quality
- ▪
- small firms may provide a more personal service

Solution 2

- ▪
- may produce niche products
- ▪
- may be more flexible / react quickly to consumer needs
- ▪
- may introduce new ideas / new varieties of products
- ▪
- may be easier access – consumers may not have to
- travel so far.
- Why they might not:

Solution 2

- ▪
- may be wasteful duplication
- ▪
- may waste consumers time with too much information to
- process
- ▪
- may have higher costs as unable to take advantage of
- economies of scale
- ▪
- may reduce profits of larger firms, reducing their

Solution 2

- spending on research and development
- ▪
- may not stay in business for long.
- 8
- Level
- Description
- 3
- A reasoned discussion which accurately
- examines both sides of the economic
- argument, making use of economic

Solution 2

- information and clear and logical analysis
- to evaluate economic issues and
- situations. One side of the argument may
- have more depth than the other, but
- overall, both sides of the argument are
- considered and developed.
- There is thoughtful evaluation of
- economic concepts, terminology,
- information and/or data appropriate to
- the question. The discussion may also

Solution 2

- point out the possible uncertainties of
- alternative decisions and outcomes.
- 6–8
- 2
- A reasoned discussion which makes use
- of economic information and clear
- analysis to evaluate economic issues
- and situations. The answer may lack
- some depth and development may be
- one-sided. There is relevant use of

Solution 2

- economic concepts, terminology,
- information and data appropriate to the
- question.
- 3–5
- 0455/23
- October/November 2025
- Guidance
- Level
- Description
- 1

Solution 2

- There is a simple attempt at using
- economic definitions and terminology.
- Some reference may be made to
- economic theory, with occasional
- understanding.
- 1–2
- 0
- A mark of zero should be awarded for no
- creditable content.
- 0

Solution 2

- L1 and up to 2 marks for an understanding of consumers,
- small firms or industry.

Question 9

0455/12 M25 ▪ Q9 ▪ 1 mark

9 A government intends to build a new road through a forest.

What will be an external cost of this?

A the cost of building the road

B the loss suffered by those who would have used the forest

C the cost of maintaining the road

Question 9

D the new jobs created from the construction of the road

Solution 9

Answer: **B**

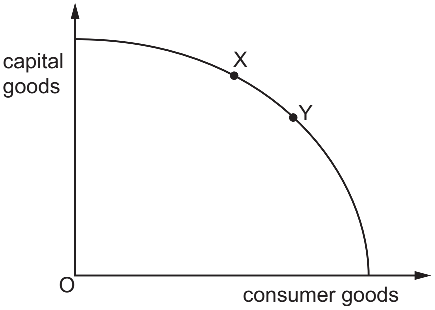
Why

- An external cost falls on a *third party* – someone who is neither buyer nor seller.
- The building cost is a private cost, paid by the government.
- The loss suffered by people who valued the forest is external, since nobody compensates them.

Question 3

0455/11 N24 ▪ Q3 ▪ 1 mark

3 The diagram shows the production possibility curve (PPC) for an economy.



Question 3

Which cost can be determined as the economy moves along its PPC from point X to point Y?

A the opportunity cost of producing more capital goods

B the opportunity cost of producing more consumer goods

C the social cost of producing more capital goods

D the social cost of producing more consumer goods

Solution 3

Answer: **B**

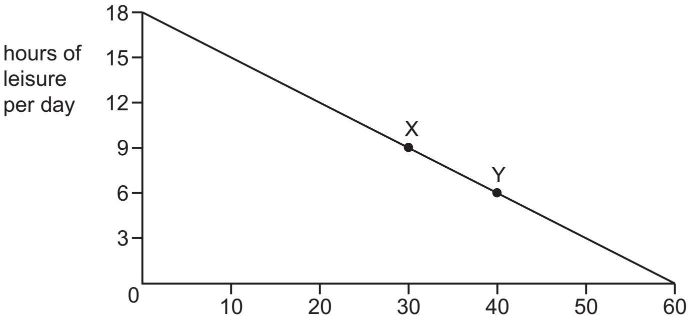
Why

- Moving between two points on the PPC means giving up one good to get more of the other.
- So read off how much of one axis is lost and how much of the other is gained.
- That sacrifice is the opportunity cost of the move.

Question 3

0455/13 N24 ▪ Q3 ▪ 1 mark

3 The diagram shows the choices for an individual between leisure and earnings.



Question 3

earnings $

What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

A $10

B $40

C 3 hours of leisure per day

D 6 hours of leisure per day

Solution 3

Answer: **C**

Why

- The line shows the trade-off between leisure and earnings.
- Every extra hour of leisure means an hour not worked, so earnings fall.
- The slope therefore measures the opportunity cost of leisure – the wage given up.