Past-paper walk-through

Supply ▪ 2.3

eXercise

Questions in this set

- 0455/11 N25 Q2 ▪ 1 mark
- 0455/11 N25 Q6 ▪ 1 mark
- 0455/13 J25 Q14 ▪ 1 mark
- 0455/12 M25 Q4 ▪ 1 mark
- 0455/12 N24 Q6 ▪ 1 mark
- 0455/12 N24 Q9 ▪ 1 mark
- 0455/11 J24 Q5 ▪ 1 mark

Question 2

0455/11 N25 ▪ Q2 ▪ 1 mark

2 A worker decides to leave their job as a bus driver and take a job as a lorry driver.

What will increase the opportunity cost of this decision?

A an increase in the holidays for lorry drivers

B an increase in the income tax paid by bus drivers

C an increase in the wages of bus drivers

D an increase in the wages of lorry drivers

Solution 2

Answer: **C**

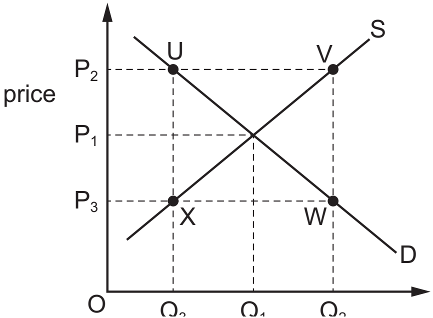
Why

- Opportunity cost is what is given up – here, the bus driving job.
- So the cost rises if the bus job becomes more attractive.
- A pay rise for bus drivers would make the sacrifice larger.

Question 6

0455/11 N25 ▪ Q6 ▪ 1 mark

6 The diagram shows the market for a product.



Question 6

Q_3 Q_1 Q_2

quantity

Which distance shows a market disequilibrium caused by excess supply?

A U to V **B** U to X **C** V to W **D** X to W

Solution 6

Answer: **A**

Why

- Excess supply occurs at a price *above* the equilibrium.
- At that price quantity supplied exceeds quantity demanded.
- The disequilibrium is the horizontal gap between the two curves at that price.

Question 14

0455/13 J25 ▪ Q14 ▪ 1 mark

14 What is most likely to increase the demand for labour in an industry?

A a decrease in the price of capital used by the industry

B a decrease in the productivity of labour in the industry

C an increase in the demand for the industry's product

D an increase in the wage paid to labour in the industry

Solution 14

Answer: **C**

Why

- Labour demand is derived from demand for the product the labour makes.
- So anything raising the demand for the product, or raising labour productivity, raises demand for labour.
- Cheaper capital would encourage firms to substitute machines *for* workers.

Question 4

0455/12 M25 ▪ Q4 ▪ 1 mark

4 What is an example of microeconomics?

A a fall in the cost of growing wheat

B a fall in the unemployment rate

C an increase in the rate of inflation

Question 4

D an increase in government spending

Solution 4

Answer: **A**

Why

- Microeconomics studies individual markets, firms and consumers.
- Macroeconomics studies the economy as a whole – inflation, unemployment, growth.
- So a change in the cost of growing one crop is micro; the unemployment or inflation rate is macro.

Question 6

0455/12 N24 ▪ Q6 ▪ 1 mark

6 The table shows the supply for a product at different prices.

price ($)	supply (units)
10	120
12	160
14	200
16	240
18	280

If the price changes from $12 to $14, what will be the change in supply?

Question 6

A Supply will contract by 40 units and there will be a movement down along the supply curve.

B Supply will contract by 200 units and there will be an inward shift of the supply curve.

C Supply will extend by 40 units and there will be a movement up along the supply curve.

D Supply will extend by 200 units and there will be an outward shift of the supply curve.

Solution 6

Answer: **C**

Why

- PES $=$ percentage change in quantity supplied $\div$ percentage change in price.
- Read both quantities and both prices from the table before dividing.
- Work in percentages of the *original* values, not in absolute units.

Question 9

0455/12 N24 ▪ Q9 ▪ 1 mark

9 A government intends to build a new international airport in an area of outstanding natural beauty.

What would be an external cost of this decision?

A the cost of importing construction materials

B the enjoyment lost by those unable to use the countryside

C the increase in profits for local businesses

D the wages paid to the construction workers

Solution 9

Answer: **B**

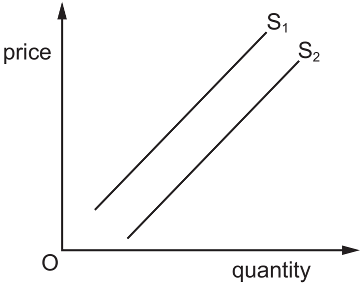
Why

- An external cost falls on a third party who is neither buyer nor seller.
- Building the airport is a private cost, paid by whoever builds it.
- The loss of natural beauty is borne by everyone else, so that is the external cost.

Question 5

0455/11 J24 ▪ Q5 ▪ 1 mark

5 The diagram shows a shift in the supply curve for New Zealand's airlines from S_1 to S_2.



Question 5

What is the most likely cause of this shift?

A a decrease in the costs of New Zealand's airlines

B a decrease in the number of people wanting to fly to New Zealand

C an increase in the price of train and bus travel in New Zealand

D an increase in the tax on air travel in New Zealand

Solution 5

Answer: **A**

Why

- A rightward shift of supply means more supplied at every price.
- That comes from lower costs, better technology, a subsidy or more firms entering.
- A leftward shift would come from higher costs or firms leaving the industry.