Past-paper walk-through

Price determination ▪ 2.4

eXercise

Questions in this set

- 0455/11 N25 Q9 ▪ 1 mark
- 0455/11 N25 Q10 ▪ 1 mark
- 0455/12 N25 Q6 ▪ 1 mark
- 0455/13 N25 Q7 ▪ 1 mark
- 0455/22 N25 Q2 ▪ 20 marks
- 0455/11 J25 Q6 ▪ 1 mark
- 0455/12 J25 Q5 ▪ 1 mark
- 0455/13 J25 Q5 ▪ 1 mark
- 0455/12 M25 Q6 ▪ 1 mark
- 0455/11 N24 Q6 ▪ 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 9

0455/11 N25 ▪ Q9 ▪ 1 mark

9 The table shows the weekly demand for, and supply of, good X at three prices.

price ($)	demand (tonnes)	supply (tonnes)
20	16	10
30	12	12
40	10	14

What will be the effect if the government imposes a minimum price of $40 per tonne?

A a fall in the price of X

Question 9

B a shortage of X

C a surplus of X

D no change in the market equilibrium

Solution 9

Answer: **C**

Why

- Equilibrium is the price at which quantity demanded equals quantity supplied.
- So scan the table for the row where the two columns match.
- Above it there is excess supply; below it, excess demand.

Question 10

0455/11 N25 ▪ Q10 ▪ 1 mark

10 What is the function of money when it is used to value goods and record transactions?

A a medium of exchange

B a standard of deferred payment

C a store of wealth

D a unit of account

Solution 10

Answer: **D**

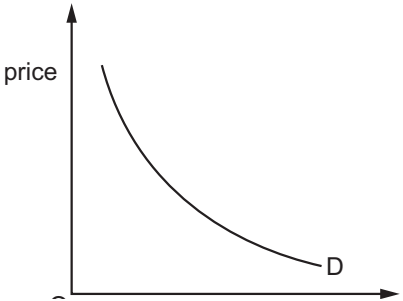
Why

- Valuing goods and recording transactions is the *unit of account* function.
- Medium of exchange is using money to buy things.
- Store of value is holding it over time, and standard of deferred payment is using it for debts.

Question 6

0455/12 N25 ▪ Q6 ▪ 1 mark

6 The diagram shows the demand curve for a good.



Question 6

What can be concluded about a single downward-sloping demand curve?

A consumers increase demand when their incomes rise

B consumers plan to buy less when prices rise

C firms produce less as prices rise

D firms sell more when prices rise

Solution 6

Answer: **B**

Why

- A downward-sloping demand curve shows the law of demand.
- As price falls, quantity demanded rises – and vice versa.
- It says nothing about income or tastes; those would *shift* the curve rather than shape it.

Question 7

0455/13 N25 ▪ Q7 ▪ 1 mark

7 The price of fish has increased from $3.00 to $4.80. The quantity supplied of fish has increased from 100 units to 130 units.

What is the price elasticity of supply (PES) of fish?

A 0.5 **B** 1.3 **C** 1.8 **D** 2

Solution 7

Answer: **A**

Why

- PES = percentage change in quantity supplied ÷ percentage change in price.
- Price rises from \$3.00 to \$4.80, which is $+60\%$; quantity rises from 100 to 130, which is $+30\%$.
- $30/60 = 0.5$, so supply is inelastic.

Question 2

0455/22 N25 ▪ Q2 ▪ 20 marks

2 Some markets in Belgium are in equilibrium. The country produces a wide range of goods and services with different degrees of price elasticity of demand. The Belgian Government wants the economy to move to a production possibility point beyond its current production possibility curve (PPC). Belgium's scientific industry is one industry which is doing well. Workers in this industry are highly specialised.

(a) Define market equilibrium. [2]

(b) Explain two ways an economy could reach a point outside its current PPC. [4]

(c) Analyse how price elasticity of demand can influence a firm's pricing decisions. [6]

(d) Discuss whether or not firms benefit from their workers undertaking training. [8]

(a) (a) Define market equilibrium. [2] **[2]**

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Question 2

(c) (c) Analyse how price elasticity of demand can influence a firm's pricing decisions. [6] **[6]**

(d) (d) Discuss whether or not firms benefit from their workers undertaking training. [8] **[8]**

Solution 2

(a)

Mark scheme

- Define market equilibrium.
- Demand equalling supply (2).
- No shortage (1) no surplus (1).
- Balance of demand and supply (2).
- 2

Solution 2

(b) Mark scheme

- Explain two ways an economy could reach a point
- outside its current PPC.
- Logical explanation which might include the following.
- ▪
- Increase investment (1) devoting more resources to
- capital goods (1).
- ▪
- Encourage immigration (1) increase size of the labour

Solution 2

- force (1).
- ▪
- Land reclamation (1) creating more land on which to
- e.g. grow crops (1).
- ▪
- Increase in education and training (1) raise quality /
- efficiency / productivity of labour (1).
- ▪
- Increase spending on research and development / new
- technology (1) increase quality / efficiency / productivity

Solution 2

- of capital (1).
- ▪
- Discovery of sources of resources (1) example/enables
- extra output to be produced (1).
- 4 One mark each for two ways identified and one mark each
- for two explanations.
- If more than two reasons are given, consider the first three.
- 0455/22
- October/November 2025
- Guidance

Solution 2

(c) Mark scheme

- Analyse how price elasticity of demand can influence a
- firm's pricing decisions.
- Coherent analysis which might include the following.
- Price elasticity of demand is a measure of the
- responsiveness of demand to a change in price (1).
- If demand is elastic, a rise in price will cause a greater
- percentage change in demand (1) may indicate the firm's
- product has close substitutes / is not a necessity / takes a

Solution 2

- significant proportion of consumers' incomes (1) may
- encourage firms to lower price (1) raise revenue (1).
- If demand is inelastic, a rise in price will cause a smaller
- percentage change in demand (1) may indicate the firm's
- product has few substitutes / is a necessity / takes a small
- proportion of consumers' incomes (1) may encourage firms
- to raise prices (1) revenue would increase (1).
- 6 Reward, but do not expect:
- Facilitate price discrimination (1) charging higher prices in
- markets with inelastic demand (1) valid example, e.g. higher

Solution 2

- rail fares at peak times (1).
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- October/November 2025
- Guidance

Solution 2

(d) Mark scheme

- Discuss whether or not firms benefit from their workers
- undertaking training.
- In assessing each answer, use the table opposite.
- Why they might:
- ▪
- may increase productivity
- ▪
- may enable workers to work with more advanced

Solution 2

- technology
- ▪
- may lower costs of production
- ▪
- may be able to fill promoted posts
- ▪
- reduce waste
- ▪
- raise quality of output
- ▪

Solution 2

- training may be provided by the government at no direct
- cost for firms.
- ▪
- increase workers motivation, reducing labour turnover
- ▪
- increase flexibility to cover absences.
- Why they might not:
- ▪
- if the firms provide the training, increase costs /
- opportunity cost

Solution 2

- ▪
- output may fall while workers are being trained
- ▪
- training may not be successful
- ▪
- trained workers may demand higher wages
- ▪
- trained workers may leave to work for other firms –
- other firms will gain the benefits of the training.
- 8

Solution 2

- Level
- Description
- 3
- A reasoned discussion which accurately
- examines both sides of the economic
- argument, making use of economic
- information and clear and logical
- analysis to evaluate economic issues
- and situations. One side of the
- argument may have more depth than

Solution 2

- 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 point out the
- possible uncertainties of alternative
- decisions and outcomes.
- 6–8

Solution 2

- 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
- economic concepts, terminology,
- information and data appropriate to the
- question.

Solution 2

- 3–5
- 0455/22
- October/November 2025
- Guidance
- Level
- Description
- 1
- There is a simple attempt at using
- economic definitions and terminology.
- Some reference may be made to

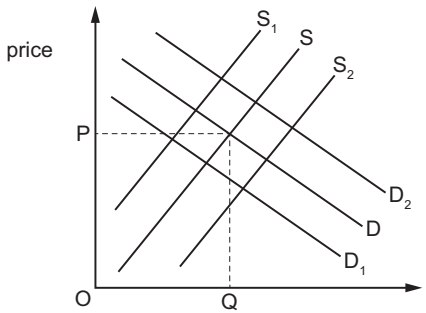
Solution 2

- economic theory, with occasional
- understanding.
- 1–2
- 0
- A mark of zero should be awarded for
- no creditable content.
- 0
- 0455/22
- October/November 2025
- Guidance

Question 6

0455/11 J25 ▪ Q6 ▪ 1 mark

6 The diagram shows demand and supply curves for a product at its equilibrium price P.



Question 6

quantity

How would the introduction of a subsidy be shown?

A Demand would shift to D_1.

B Demand would shift to D_2.

C Supply would shift to S_1.

D Supply would shift to S_2.

Solution 6

Answer: **D**

Why

- A maximum price only bites if it is set *below* equilibrium; a minimum price only if *above*.
- A binding maximum causes a shortage; a binding minimum causes a surplus.
- So identify which line is drawn, and on which side of P, before reading the effect.

Question 5

0455/12 J25 ▪ Q5 ▪ 1 mark

5 The table shows the quantity of coffee demanded per day and the quantity supplied per day.

price ($) per kilo	demand (kilos)	supply (kilos)
12	16	26
11	18	23
10	20	20
9	22	17
8	24	14
7	26	11

Question 5

At the equilibrium price, what will be the total expenditure on coffee?

A $10 **B** $20 **C** $200 **D** $400

Solution 5

Answer: **C**

Why

- Equilibrium is where quantity demanded equals quantity supplied.
- So scan the table for the price at which the two columns are equal.
- Above that price there is a surplus; below it, a shortage.

Question 5

0455/13 J25 ▪ Q5 ▪ 1 mark

5 The table shows the demand and supply schedules for rice. The current price is $2.00 per kilo.

price per kilo $	quantity demanded (million tonnes)	quantity supplied (million tonnes)
2.50	5	30
2.00	10	25
1.50	20	20
1.00	30	15
0.50	40	10

What will happen if the price is reduced to $1.00 per kilo?

Question 5

A The demand curve will shift to the left.

B The market will move from shortage to surplus.

C The market will move from surplus to shortage.

D The supply curve will shift to the right.

Solution 5

Answer: **C**

Why

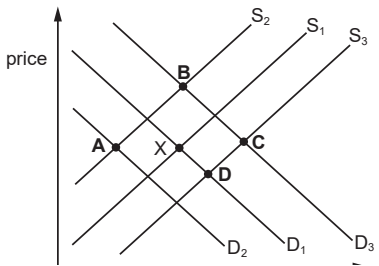
- At the current price, compare quantity demanded with quantity supplied.
- If demand exceeds supply there is a shortage and price will rise.
- If supply exceeds demand there is a surplus and price will fall.

Question 6

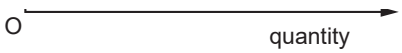
0455/12 M25 ▪ Q6 ▪ 1 mark

6 The diagram shows demand and supply curves for a good. The market is in equilibrium at point X.

What would be the new equilibrium position if there were a successful advertising campaign for the good and an increase in the cost of raw materials?



Question 6



Solution 6

Answer: **B**

Why

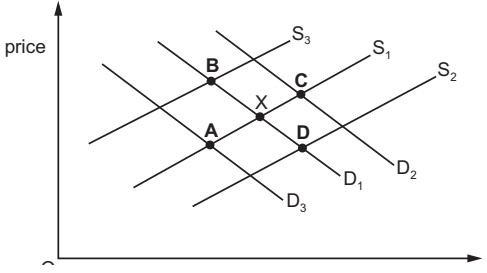
- Decide first which curve moves, and in which direction.
- A change in a determinant of demand shifts D; a change in costs or technology shifts S.
- Then read the new intersection to see what happens to price and to quantity.

Question 6

0455/11 N24 ▪ Q6 ▪ 1 mark

6 The diagram shows the demand for and supply of a product. The original equilibrium is at X.

Which point indicates the new equilibrium position if there is an increase in the price of a close substitute for the product while other things remain the same?



Question 6

Solution 6

Answer: **C**

Why

- Decide which curve shifts, and in which direction, before looking at the options.
- Then find the new intersection of demand and supply.
- Read both the new price and the new quantity from that point.