Past-paper walk-through

Price changes ▪ 2.5

eXercise

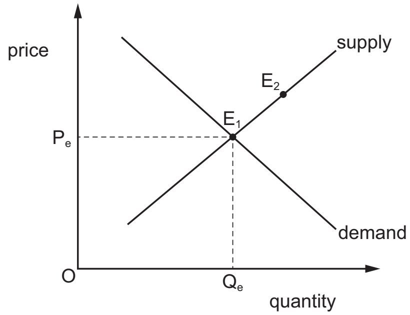
Questions in this set

- 0455/12 N25 Q5 ▪ 1 mark
- 0455/11 J25 Q5 ▪ 1 mark
- 0455/12 J25 Q7 ▪ 1 mark
- 0455/13 J25 Q6 ▪ 1 mark
- 0455/12 N24 Q4 ▪ 1 mark
- 0455/11 J24 Q6 ▪ 1 mark

Question 5

0455/12 N25 ▪ Q5 ▪ 1 mark

5 The diagram shows the supply and demand curves for a good. The initial market equilibrium is given at point E_1. There is a change in the market that leads to a new equilibrium at E_2.



Question 5

What is the cause of the change in the market equilibrium?

A a decrease in the price of a substitute good

B a decrease in raw material prices

C an increase in the price of a substitute good

D an increase in raw material prices

Solution 5

Answer: **C**

Why

- Identify which curve moved, and in which direction, from the new equilibrium point.
- A higher price with a lower quantity means supply shifted left.
- A higher price with a higher quantity means demand shifted right.

Question 5

0455/11 J25 ▪ Q5 ▪ 1 mark

5 Good weather results in an increase in the demand for and supply of peaches.

How will this affect the price and quantity traded in the market for peaches?

	price of peaches	quantity of peaches traded
A	fall	fall
B	rise	rise
C	rise	uncertain
D	uncertain	rise

Question 5

Solution 5

Answer: **D**

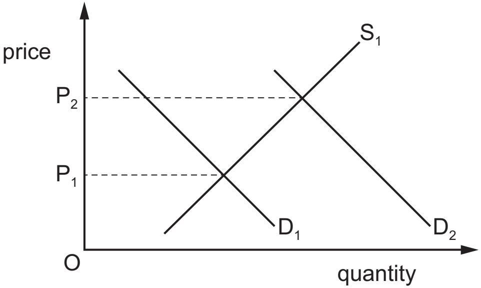
Why

- Demand rising pushes both price and quantity up.
- Supply rising pushes price down but quantity up.
- So quantity definitely rises, while the two effects on price pull against each other – price is indeterminate.

Question 7

0455/12 J25 ▪ Q7 ▪ 1 mark

7 The diagram shows the market for ice cream and the effects of very hot weather.



Question 7

If prices had remained at P_1 even during the hot weather, what was likely to have happened in the market for ice cream?

A equilibrium

B excess supply

C rising profits

D shortage

Solution 7

Answer: **D**

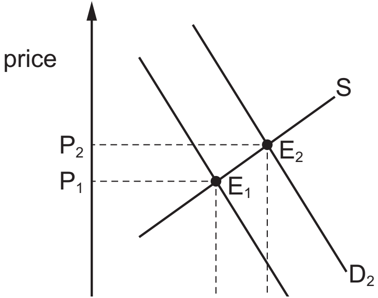
Why

- Hot weather raises demand, so the equilibrium price would rise to P_2.
- If the price is held at P_1, quantity demanded exceeds quantity supplied.
- The result is a shortage, and the ice cream has to be rationed some other way.

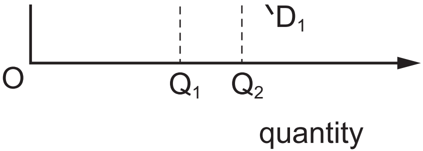
Question 6

0455/13 J25 ▪ Q6 ▪ 1 mark

6 The diagram shows the market for cherries in Chile.



Question 6



What would cause a change in the market equilibrium from E_1 to E_2?

A a newspaper article stating cherries are good for your health

B a poor harvest for cherries due to bad weather

C an increase in the imports of cherries from Israel

Question 6

D the government reducing the sales tax on cherries

Solution 6

Answer: **A**

Why

- A shift of the demand curve is caused by something other than the good's own price.
- Income, tastes, population or the price of a related good will do it.
- A change in the cherries' own price would move you along the curve instead.

Question 4

0455/12 N24 ▪ Q4 ▪ 1 mark

4 A period of bad weather leads to a failure of the rice crop.

What is the effect on the market for rice?

A a shortage of rice and a fall in its price

B a shortage of rice and a rise in its price

C a surplus of rice and a fall in its price

Question 4

D a surplus of rice and a rise in its price

Solution 4

Answer: **B**

Why

- A crop failure shifts the supply curve to the left.
- With demand unchanged, less is available at every price.
- So there is a shortage at the old price, and the price rises until the market clears.

Question 6

0455/11 J24 ▪ Q6 ▪ 1 mark

6 What could cause the price of tea to increase?

A decrease in the demand for tea

B decrease in the price of a substitute good

C increase in the price of a substitute good

Question 6

D increase in the supply of tea

Solution 6

Answer: **C**

Why

- Price rises when demand increases or supply decreases.
- A rise in the price of a *substitute* makes buyers switch to tea, so demand for tea rises.
- A fall in the price of a substitute, or a fall in demand, would push the price down instead.