## Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

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

**2.1**

- a **market** is any place or system where **buyers and sellers** meet to trade (K)

**2.2**

- the three functions of the price mechanism
- **signalling**, **incentive**, **rationing** (K each)

**2.3**

- **microeconomics** studies one market or firm (K)
- **macroeconomics** studies the **whole economy** (jobs, prices, growth) (K)

**3.1 B**

- an **incentive** gives firms a **reason to produce more** (K)
- A is signalling; C is rationing; D is a demand effect, not an incentive

**3.2**

- a price change **signals** what buyers want (K)
- it gives firms an **incentive** to supply more of wanted goods (An)
- it **rations** scarce goods to those willing to pay — resources move to where they are most valued (An)

**3.3**

- a rise in demand means buyers want more at the current price (K)
- this creates a **shortage** (excess demand) (An)
- buyers bid the price up; firms supply more → a **new, higher equilibrium** price and quantity (An)