Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

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

2.1

- at \$1: $6 + 2 + 5 = \mathbf{13}$
- at \$2: $4 + 1 + 3 = \mathbf{8}$

2.2

- a **fall in the price** of the good itself (K)
- an **extension** of demand / a rise in quantity demanded (K)

2.3

- demand for petrol cars **decreases** / shifts **left**
- electric cars are a **substitute** (K)
- buyers switch to the cheaper electric cars (An)

3.1

A

3.2

(a)

- $220 - 150$
- a fall of **70** cups a day

(b) two reasons, each explained (K + App each):

- more **potential buyers** work nearby (population of the market rises)
- office workers want a drink before or during work (tastes / convenience)
- office workers may have higher **incomes** to spend

(c) a developed chain, for example:

- milk is a **complement** / an input for many coffees (K)
- if the shop raises prices to cover the cost, quantity demanded **contracts** (An)
- if customers buy milk drinks less, demand for milky coffee **decreases** (App)
- the effect is larger if there are close substitutes such as tea or another café (An)
- so cups sold and revenue may fall (An)

(d) advertising matters: (An)

- it can make the shop's coffee more popular, shifting demand right
- it can tell new office workers where the shop is

other influences may matter more: (An)

- the number of buyers nearby (the office block) and their incomes
- the price of substitutes such as other cafés; habits and convenience

judgement: (Ev) for example, location and the number of buyers matter most for a small coffee shop, because advertising cannot bring customers who are not nearby; advertising helps most when there is strong competition close by.

Level 3 (6–8): both sides analysed and a justified judgement. Level 2 (3–5): one side analysed or both explained. Level 1 (1–2): simple points.