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

- **PED** measures how much quantity demanded responds to a change in price (K)
- PED $= \frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}}$

2.2

- quantity demanded falls 30% when price rises 10%

$$\text{PED} = \frac{30}{10} = \mathbf{3}$$

- greater than 1, so demand is **elastic** (K)

2.3

- any **one** of: many **substitutes** / a **luxury** / a **large share of income** (K)

3.1 B

- PED = 0.3 is **inelastic** (< 1) (K)
- raising the price **raises total revenue** (An)
- A would cut revenue; C and D do not raise it

3.2

- petrol is a **necessity** for drivers with few close substitutes (K)
- when its price rises, people still need to drive (An)
- quantity demanded falls only a little → demand is **price inelastic** (An)

3.3

- for an inelastic good, a tax **raises the price** but quantity bought falls only a little (K)
- people keep buying and paying the tax → the government collects **large, steady revenue** (An)
- it may also slightly reduce smoking (a **demerit good**) (An)