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 **fixed cost** does not change with output (rent); a **variable cost** changes with output (materials) (K)

2.2

- total revenue = price × quantity

$$500 \times \$8 = \$\mathbf{4000}$$

  (K)

2.3

- **profit** = total revenue − total cost (K)

3.1 A

- profit = \$10,000 − \$7,000 = \$**3000** (K)
- B is total cost; C is total revenue; D added the two

3.2

- a new firm is still building customers and may make **losses** at first (K)
- it has little cash and many rivals, so its first aim is to **stay open** (An)
- once established, it can aim for profit and growth (An)

3.3

- profit = revenue − cost, so raise **revenue** (sell more, or raise the price if demand is inelastic) **or** cut **costs** (K)
- raising the price too far may lose sales if demand is elastic; cutting costs too far may harm quality (An)
- the best route **depends on the market** (An)