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

- **inflation** is a **sustained rise** in the average level of prices over time (K)

2.2

- **demand-pull** inflation comes from total demand growing faster than supply (K)
- **cost-push** inflation comes from rising costs that firms pass on (K)

2.3

- the **real value** of savings **falls** (their money buys less) (K)

3.1 B

- higher wage and material costs cause **cost-push inflation** (K)
- A is excess demand; C is falling prices; D is a falling inflation *rate*

3.2

- a **basket** of goods a typical family buys is chosen (K)
- each good is given a **weight** for how much people spend on it (An)
- the percentage change in the basket's cost is the **inflation rate** (An)

3.3

- **bad**: inflation cuts purchasing power, reduces the value of savings, makes exports dearer, and creates uncertainty (K + An)
- **not always**: low, steady inflation can show healthy demand; **deflation** can be worse (people delay buying) (An)
- **judgement (Ev)**: high inflation is harmful, but **low, stable** inflation is acceptable and better than deflation