Solutions

Marking: **K** knowledge, **App** use of the case or data, **An** analysis (a chain of reasons: cause, then effect), **Ev** evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer; **B1** is an independent mark.

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

2.1

(a) a movement along demand (and along supply)

(b) demand shifts right

(c) supply shifts left: a cost rises

(d) demand for loaves shifts left

2.2

$900 - 50P = -100 + 75P$

$1000 = 125P$: $P^* =$ £**8**

$Q^* = 900 - 400 =$ **500**

2.3

$Q_d = 900 - 300 = 600$; $Q_s = -100 + 450 = 350$

shortage $600 - 350 =$ **250**

2.4

price falls: both shifts push it down

quantity: cannot say without the sizes: one shift raises it, the other lowers it

3.1

(a) $2000 - 200P = -400 + 400P$: $P^* =$ £**4**, $Q^* =$ **1,200** cups

(b) $Q_d = 1700 - 200P$; $2100 = 600P$: $P^* =$ £**3.50**, $Q^* =$ **1,000**

(c) demand shifts left from D to D_1; new crossing at lower price and quantity, both points labelled

3.2

(a) $Q_d = 2000 - 600 = 1{,}400$; $Q_s = -400 + 1{,}200 = 800$; shortage **600** cups a day

(b) queues or "sold out": cups go to those who come first, not those who value them most(An); cafés cut quality or size, or sell less, since they supply only 800; some buyers pay more on side deals or turn to substitutes

3.3

(a) $Q_d = 1300 - 100P$, $Q_s = 200 + 100P$; $1100 = 200P$: $P^* =$ £**5.50**; $Q^* = 1300 - 550 =$ **750**

(b) quantity falls from 800 to 750: the supply shift (200) is larger than the demand shift (100), so the fall in supply wins

(c) yes, raise towards £5.50: the market price has risen for all bakers, so customers will meet higher prices everywhere (App); its costs rose too, and keeping £4 would cause a shortage at its shop (An); but watch rivals and loyal customers before a full rise (Ev)

exercises.lol exercises.com.cn