

*Edexcel A-level Economics exam practice answers*

2: How markets work

- 1 (a) Correct answer B: They will maximise satisfaction. [1]
(b) Disadvantages include include:
 - Income inequality
 - External costs
 - Lack of provision of public goods [4]
- 2 (a) Correct answer D: marginal utility will decrease. [1]
(b) Since the marginal utility declines as more is consumed, a producer must reduce price to encourage more consumption. Consequently, there will be an inverse relationship between price and quantity demanded. [4]
- 3 (a) £480 [2]
(b) Correct answer D: an increase in real incomes of consumers. [1]
(c) Cheaper than employing cleaners [2]
- 4 (a) The supply curve usually slopes upwards from left to right.
This implies that the quantity supplied increases as price increases.
Firms are more likely to produce more as the price rises because the prospects for making a profit are greater than when prices are low. [2]
(b) Correct answer A: the cost of fertiliser increases. [1]
(c) PES = 0.1 [2]
- 5 (a) Original total revenue: \$500 ($100 \times \$5$).
New total revenue: \$560 ($140 \times \$4$).
Therefore, change in total revenue = +\$60. [2]
(b) Demand is price elastic because price and total revenue have moved in different directions. [2]
(c) Correct answer B: A rival baker opens up a shop near the Tom Baker shop [1]
- 6 (a) Correct answer B: 70 000 [1]



(b) Factors include:

- Availability of substitutes, e.g. raspberries.
- Non-durability: fresh strawberries cannot be stored easily so demand is more likely to be price elastic.
- Proportion of income spent on strawberries: it could be argued that they are a relatively expensive fruit, and therefore demand is likely to be price elastic. [3]

7 (a) Correct answer D: She is aiming to maximise her total utility [1]

(b) Habit; poor at computation; better service with more expensive supplier

8 Outline answers: Olive oil

(a) $-0.45 = \frac{x}{20} = -9\%$ Demand is price inelastic.

[5]

(b) **KN:** 2 marks; **AP:** 2 marks; **AN:** 2 marks; **EV** 2 marks

Definition or formula of price elasticity of supply e.g. the responsiveness of quantity supplied to a change in price. Supply is likely to be price inelastic because full fruit production does not start until after 7 or 8 years after planting. Also with the deadly bacterium it may not be possible to raise supply for many years. However, olive oil may be stored so this may not be the case.

[8]

(c) **KAA:** 6 marks;; **EV** 4 marks

Definition or formula of cross elasticity of demand e.g. the responsiveness of quantity demanded of olive oil to a change in the price of vegetable oil. It is likely that olive oil and vegetable oil are substitutes so that when the price of olive oil increases the demand for vegetable oil will increase because they are substitutes. Consequently the cross elasticity of demand will be positive. However, for some purposes e.g. high class cooking vegetable oil may be regarded as a very poor substitute in which case the cross elasticity of demand would be close to zero.

[10]

(d) **KAA:** 8 marks;; **EV** 4 marks

Decrease in supply because of the bacterium that is killing trees in Italy, Spain and Portugal. Increase in demand because of the popularity of Mediterranean diets. Diagram to show rightward shift in demand curve and leftward shift in supply curve with increase in price. Evaluation in terms of elasticities of supply and demand; extent of decrease in supply and increase in demand. [12]

(e) **KAA:** 9 marks;; **EV** 6 marks

Definition of income elasticity of demand; use of extract to note that income elasticity of demand for Italian extra virgin olive oil is over +1 i.e. income elastic.

This implies that a change in real income will lead to a more than proportionate change in demand. However, the value of YED for other types of olive oil may be more inelastic. [15]



(f) **KAA:** 16 marks;; **EV** 9 marks

Analysis **and evaluation** of effects on consumers e.g. higher prices, loss of consumer surplus; loss of utility if olive oil is regarded as essential part of their diet. However, consumers may be happy to use substitutes.

Analysis **and evaluation** of effects on workers e.g. loss of employment; lower standard of living; need to retrain. However, this may be short-term if land is used to produce other crops

Analysis **and evaluation** of effects on producers e.g. loss of revenue; fall in profit but those whose trees are unaffected will make more money because their produce will sell at a higher price. [25]