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Student's Book Chapters 5–14**5 The role of markets in allocating resources**

- 1** Which of the following is **not** a key economic question addressed by all economies? [1 mark]
- A** For whom should production take place?
 - B** How should production take place?
 - C** What production should take place?
 - D** Why should production take place?
- 2** What does **market equilibrium** refer to? [1 mark]
- A** the point where both demand and supply decrease
 - B** the point where demand equals supply
 - C** the point where demand exceeds supply
 - D** the point where supply exceeds demand
- 3** What tends to happen in a market when the price of a product is below the market equilibrium price? [1 mark]
- A** The market will clear immediately.
 - B** The product will be seen as too cheap.
 - C** The product will be seen as too expensive.
 - D** The supply of the product will exceed demand.
- 4** Which of the following is **not** a feature of the price mechanism? [1 mark]
- A** Competition creates choice and opportunities for consumers.
 - B** Goods and services are allocated on the basis of price.
 - C** Government interference helps to correct market failures.
 - D** Resources are owned by private economic agents.

2 THE ALLOCATION OF RESOURCES

5 What role do buyers play in a market system? [1 mark]

A They create demand for goods and services.

C They regulate market prices.

B They create supply for goods and services.

D They set the prices for goods and services.

6 Define 'market'. [2 marks]

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7 Explain **one** factor that can cause market disequilibrium to occur. [2 marks]

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8 Explain the role of buyers and sellers in a market. [4 marks]

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9 Explain, using examples, any **two** of the key questions about resource allocation in a market system. [4 marks]

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10 Explain **two** reasons for a possible decline in the market supply of avocados. [4 marks]

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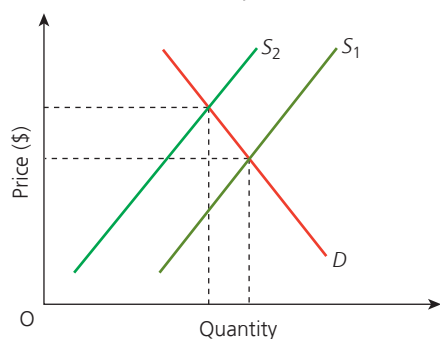
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9 Price changes

- 1 Which of the following is the **most** probable outcome if a government raises the tax on the sale of tobacco products, as shown in the diagram below?

[1 mark]



- A** higher price and higher quantity traded **C** lower price and higher quantity traded
B higher price and lower quantity traded **D** lower price and lower quantity traded

- 2 Which factor would **not** cause a rightward shift of the supply curve for the agricultural sector?

[1 mark]

- A** favourable weather conditions
B government subsidies for farmers
C higher costs of fertilisers (nutrients for plants)
D technological progress in the agricultural sector

- 3 Which of the following factors would **not** cause a rightward shift of the demand curve for petrol cars?

[1 mark]

- A** effective persuasive advertising
B higher disposable household income
C significantly higher prices of electric cars
D the imposition of a new vehicle registration tax

- 4 What is the general outcome if there is excess demand in a market?

[1 mark]

- A** The market price falls. **C** The market price rises.
B The market price falls but demand rises. **D** The quantity traded rises.

- 5 What is **most** likely to occur in the market for Nike sports shoes following a fall in price of Adidas sports shoes?

[1 mark]

- A** The price falls and quantity demanded rises.
B The price rises and quantity demanded falls.
C The quantity demanded falls.
D The quantity demanded rises.

- 6 State **two** consequences of an increase in the number of wheat suppliers in the market. [2 marks]

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- 7 Give **one** reason why technological progress might increase prices, and **one** reason why it might cause prices to fall. [2 marks]

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- 8 Explain **two** consequences of government subsidies for manufacturers of electric vehicles. [4 marks]

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- 9 Explain the impact of the imposition of higher fuel taxes on the market for motor vehicles. [4 marks]

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- 10 Starbucks opened its first store in China in 1999 in Beijing. In 2017, the coffee retailer opened its largest outlet: a store of almost 2,800 square metres in Shanghai, China, capable of serving up to 550 customers at one time. By 2023, Starbucks had over 6,000 stores across China, making it one of the largest markets for the company outside the United States. The company aims to have 9,000 stores in China by 2025. Explain **two** factors that may have increased the demand for Starbucks coffee in China. [4 marks]

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10 Price elasticity of demand

1 What is the value of price elasticity of demand (PED) for a product for which a 10% price rise reduces the quantity demanded by 8%?

[1 mark]

- A** -1.25 **C** +0.8
B -0.8 **D** +1.25

2 Based on the following information, what is the value of PED for potatoes?

[1 mark]

| Change in price | Change in demand |
|-----------------|------------------|
| +5% | -1% |

- A** -5.0 **C** +0.2
B -0.2 **D** +5.0

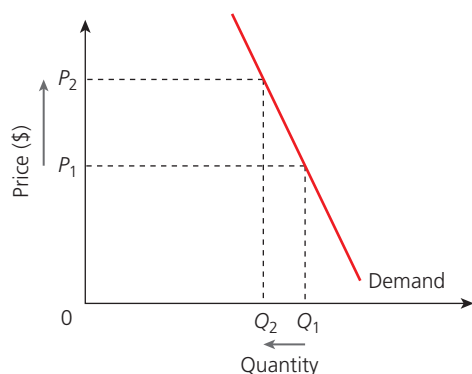
3 What do economists calculate using PED?

[1 mark]

- A** changes in the average price level in the economy
- B** changes in the production costs of firms due to price changes
- C** how sensitive consumers are to price changes
- D** the market price that generates the largest amount of profit for firms

4 With reference to the diagram below, what will happen to the firm's total revenue?

[1 mark]



- A** Total revenue will decrease.
- B** Total revenue will fall from $P_1 \times Q_1$ to $P_2 \times Q_2$.
- C** Total revenue will increase.
- D** Total revenue will remain unchanged.

- 5 A price increase from \$10 to \$11.50 causes the demand for plant pots to fall from 1,000 units to 850 units per time period. What is the value of PED for the plant pots? [1 mark]

A -1.76

C -1.0

B -1.3

D -0.74

- 6 Suppose Casio sells 5,000 watches each month at a price of \$100. Due to competition in the market, Casio reduces the price to \$95. Subsequently, demand for its watches increases to 5,500 units per month.

- a Calculate the PED for Casio watches.

[2 marks]

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- b Explain whether it was a good decision for Casio to reduce its price.

[4 marks]

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- 7 The PED for rice in a particular country is known to be -0.4.

- a Describe what would happen to the demand for rice if the market price increases by 5%. [2 marks]

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- b Explain **one** factor which affects the value of PED for rice.

[2 marks]

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- 8 Analyse, using an appropriate diagram, how an amusement park (theme park), such as Legoland, can use the concept of PED to decide whether or not to reduce its entrance ticket prices. [6 marks]

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2 THE ALLOCATION OF RESOURCES

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- 9** Teburu Desks sells 200 of its best-selling office desks per month at a price of \$200 each. Following an increase in price to \$230, the quantity demanded falls to 180 desks per month.

a Calculate the PED for Teburu Desks' best-selling desks. *[2 marks]*

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b Explain, using your answer from Question 9a, how knowledge of PED can be of use to Teburu Desks. *[4 marks]*

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10 Analyse the factors that determine the value of PED for educational textbooks. *[6 marks]*

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