



Worksheet 1: Cause and effect answers

Causes	Economic event	Consequences
Technological advancement	A rightward shift of the PPC	Increased productive potential for the economy
Increased provision of university degrees in Law	A rightward shift of the S curve for lawyers	Decrease in the wages of lawyers and a greater number of lawyers employed
Increase in the demand for potatoes caused by an increase in the price of a substitute, e.g. bread	Increase in the price of potatoes	Decrease in the demand for a complement, e.g. ketchup
New storage methods found to extend the product's shelf life	An increase in the PES of an agricultural product	Agricultural producers can now increase quantity supplied proportionately more when price increases
Information failure	Underconsumption of merit goods	Underallocation of resources towards economically desirable output that does not take place
Increase in average incomes	Increase in household spending	Increase in aggregate demand
A fall in the wages in an alternative occupation	Increase in the supply of engineers	A fall in the equilibrium wage of engineers resulting in a fall in wage costs to their employers
Decrease in unemployment	Increase in the bargaining power of trade unions	More likely to succeed in negotiating higher wages for their members
An increase in the firm's output	A firm experiences economies of scale	A decrease in long-run average costs
Greater provision of training	Increase in labour productivity	Increase in the piece rate wages earned by workers
Increase in production costs, ceteris paribus	Decrease in the firm's profits	Reduced incentive to enterprise
Increase in government spending, ceteris paribus	Decrease in government's budget surplus	Increase in aggregate demand
Central bank sells government bonds	Decrease in money supply	Increase in interest rates
Government attempts to reduce structural unemployment	Increased provision of training courses for computer literacy	Increase the supply of computer/IT specialists



Causes	Economic event	Consequences
<i>Discovery of a new natural resource</i>	Economic growth	<i>Increased average incomes</i>
<i>Decrease in the derived demand for labour</i>	Increase in unemployment	<i>Decreased national output</i>
<i>Increase in AD unmatched by increase in AS</i>	Increase in inflation	<i>Less price competitive exports</i>
<i>Decrease in AD caused by pessimistic expectations of households and investors</i>	Deflation	<i>A fall in the cost of living</i>
<i>Increased life expectancy due to improved healthcare</i>	An increase in a country's HDI	<i>Greater economic development</i>
<i>Decrease in birth rates</i>	Decrease in population growth	<i>Less overcrowding and pressure on resources</i>
<i>Imposition of tariffs and quotas</i>	Increased protectionism	<i>Better Balance of Trade position caused by reduced import expenditure</i>
<i>A fall in the demand for the currency</i>	Decrease in a country's exchange rate	<i>Increase in the price competitiveness of exports</i>
<i>A Balance of Trade deficit</i>	Increase in a country's current account deficit	<i>Greater supply of, than demand for, the currency on foreign exchange markets and a fall in the exchange rate</i>