

## Worksheet 7: Language of evaluation answers

- 1 The PPC of a country may **stay unchanged** despite a rightward shift caused by rapid technological advance if there is a simultaneous depletion of a key resource, causing a leftward shift **of the same degree**.
- 2 The price of housing may rise despite an increase in supply if there is a **greater proportionate** rise in demand caused by, e.g. an increase in incomes.
- 3 Greater storage capacity is **unlikely to lead to a large increase** in the price elasticity of supply for a farmer growing perishable fruit because the produce cannot be stored for long. **A more successful method** to increase price elasticity of supply would be to build greenhouses to protect the produce from adverse weather conditions.
- 4 Although providing information to solve the underconsumption of merit goods **treats the root cause of the problem**, it is too **dependent** on the receptivity of consumers and therefore **a more effective short-term measure** could be mandating the consumption of the goods.
- 5 Regulations to address market failure would be effective if their benefits **outweigh** the enforcement costs.
- 6 A culture of saving would **increase the importance** of store of value as a function of money.
- 7 An increase in the wages of nurses reduces the **relative wage differential** with doctors and is **more likely to be used as a strong argument** in favour of doctors' demands for higher wages.
- 8 A horizontal merger is **likely to be of overall benefit** to consumers if the government exercises **effective measures** to prevent the abuse of monopoly power.
- 9 If fixed costs take a **large proportion** of total costs, the firm is likely to be of a size to take advantage of economies of scale.
- 10 The firms' objectives are **dynamic** and profit maximisation may be **abandoned in the short run** in favour of protecting market share from competitors.
- 11 Governments in less economically developed countries with persistent poverty are **more likely to prioritise** redistribution of income and reducing unemployment over sustainable economic growth.
- 12 An increase in the occupational mobility of labour would be **more likely** to reduce structural unemployment, while its **effectiveness** on reducing cyclical unemployment may be **more limited**.
- 13 **Low, stable and anticipated** demand-pull inflation is **less harmful** to an economy than **double-digit** deflation caused by a fall in aggregate demand.
- 14 Contractionary monetary policy aimed at reducing total demand by decreasing consumption is **likely to be more successful** in curbing demand-pull inflation in countries with **large** a domestic market where consumption forms a **significant proportion** of aggregate demand.
- 15 The **significant time lag** of some supply-side policies like education and training means it is sometimes **difficult to accurately predict** the timing and effectiveness of their results.
- 16 An increase in real GDP per head may **not necessarily** improve standards of living if it is accompanied by high pollution levels, worsening the population's health.



- 17 Old age is **less likely to be a significant cause** of poverty in high-income countries where good healthcare enables senior citizens to work past retirement age and earn income.
- 18 The benefits of trade protection are **likely to outweigh** the potential costs if the country doesn't face trade retaliation and if local firms don't become over-reliant on the protection measures.
- 19 A rise in the exchange rate **does not necessarily** reduce export competitiveness if there is a **greater simultaneous** increase in domestic productivity, which translates into lower unit cost of exports.
- 20 A current account deficit may be a **more serious concern** for the government than a high inflation rate if the deficit is caused by a loss of international competitiveness, while the inflation rate has a decreasing trend.