

## Worksheet 2: Stating examples answers

- 1 State the two branches of economics and the decision makers involved in each.  
*Microeconomics studies the behaviour of households, firms and governments in individual markets and macroeconomics studies the behaviour and decisions of governments and the outcomes of these in the national economy.*
- 2 State the three basic economic questions.  
*What to produce, how to produce, for whom to produce.*
- 3 State two of the functions of the price mechanism.  
*Allocative and rationing function.*
- 4 State the two types of movement along the demand curve.  
*Upward movement/up along the demand curve/contraction of demand/decrease in quantity demanded and downward movement/down along the demand curve/extension of demand/increase in quantity demanded.*
- 5 State the three levels at which demand is studied.  
*Individual demand, market demand and aggregate/total demand.*
- 6 State two factors that would cause the demand for a product to increase.  
*An increase in (disposable) incomes (for normal goods), decrease in interest rates, decrease in the availability of credit facilities, decrease in income taxes, increase in population, increase in the price of a substitute, decrease in the price of a complement, trends/peer pressure in favour of the product, expectations of an increase in the price of the product in the future, etc. Do NOT accept decrease in the price of the product, as this causes an increase in quantity demanded, e.g. an extension of demand/movement down along the demand curve.*
- 7 State two factors that would cause the demand for a product to decrease. The factors must be different from those stated in 6.  
*Accept the reverse of any two factors different from those suggested in 6.*
- 8 State the three levels at which supply is studied.  
*The firm's supply, market/industry supply, aggregate/total supply.*
- 9 State two factors that would cause the supply for a product to increase.  
*Decrease in production costs, payment of subsidies, entry of more firms on the market, decrease in interest rates, decrease in profitability of products in alternative supply, increase in profitability of products in joint supply, decrease in corporate taxes, decrease in indirect taxes, etc. Do NOT accept increase in the price of the product, as this causes an increase in quantity supplied, e.g. an extension of supply/movement up along the supply curve.*
- 10 State two factors that would cause the supply for a product to decrease. The factors must be different from those stated in 9.  
*Accept the reverse of any two factors different from those suggested in 9.*
- 11 State two reasons (one demand-side and one supply-side) for an increase in the quantity of cars traded.  
*An increase in demand for cars, e.g. caused by an increase in disposable incomes, and/or an increase in supply of cars, e.g. caused by a fall in the price of steel causing a decrease in car manufacturers' production costs.*
- 12 State the two types of market disequilibrium.  
*Shortage/excess demand and surplus/excess supply.*



- 13 State five types of PED.  
*Price-elastic, price-inelastic, unitary, perfectly elastic and perfectly inelastic demand.*
- 14 State four determinants of PED.  
*Availability of substitutes, narrow or wide definition of the market, proportion of income spent on the product, nature of the product – whether consumers regard it as a necessity or luxury, whether the product is addictive, time period.*
- 15 State five types of PES.  
*Price-elastic, price-inelastic, unitary, perfectly elastic and perfectly inelastic supply.*
- 16 State four determinants of PES.  
*Availability of stocks and/or nature of the product – perishable or durable, extent of spare capacity available, time period.*
- 17 State seven causes of market failure.  
*Public goods, merit goods, demerit goods, external costs, external benefits, abuse of monopoly power, factor immobility.*
- 18 State two forms of price controls the government can use.  
*Minimum price/price floor and maximum price/price ceiling.*
- 19 State seven government microeconomic policy measures.  
*Any seven out of: maximum prices; minimum prices; indirect taxation; subsidies; regulation; privatisation; nationalisation; direct provision of goods.*