

Worksheet 3: Common evaluation ideas answers

- 1 A decrease in the demand for ice cream may not necessarily reduce its price if there is a simultaneous decrease in its supply of a much greater degree.

Evaluation idea: *Judge the extent/degree of something.*

- 2 An increase in government spending on education and training may increase aggregate demand and cause demand-pull inflation in the short run. However, if this succeeds in raising labour productivity and therefore increases the economy's productive capacity in the long run, inflationary pressure may be reduced.

Evaluation idea: *Distinguish between the short- and long-run effects.*

- 3 Inflation reduces real incomes, but some workers with more bargaining power may succeed in negotiating a pay rise proportionately greater than current inflation rate and therefore maintain or even increase their real incomes.

Evaluation idea: *Exceptions to the case.*

- 4 A government may not be concerned about a deficit on the current account if this deficit has been continuously decreasing over the past decade.

Evaluation idea: *Recognise the importance of trends.*

- 5 Expansionary monetary policies in the form of lowering the interest rate further may be ineffective in increasing aggregate demand if interest rates are already very low and if commercial banks are unwilling to lend more.

Evaluation idea: *Justify the effectiveness of something.*

- 6 An increase in population may not necessarily increase the demand for air travel if there is a significant simultaneous decrease in average incomes in the country.

Evaluation idea: *Recognise the work and relative power of multiple factors.*

- 7 Using education to address the market failure caused by merit goods may be a better policy than making consumption obligatory because it is treating the root cause of the problem – information failure.

Evaluation idea: *Make justified recommendations.*

- 8 'Good' deflation caused by supply-side reasons may be preferred to 'bad' deflation caused by demand-side reasons because in the first case total output is expected to increase.

Evaluation idea: *Recognise that the cause can determine the overall benefit/harm of a change.*

- 9 Reducing a large current account deficit may be more important than reducing the general price level if inflation is currently within target.

Evaluation idea: *Prioritise.*

- 10 The default objective of private sector firms is profit maximisation but a firm may be forced to pursue survival instead if it is threatened by cut-throat competition.

Evaluation idea: *Circumstances could force economic agents to behave in a way different from what economic theory predicts.*



- 11 It is difficult to measure and compare the differences and changes in living standards because some factors, e.g. the value of leisure time, may be difficult to estimate quantitatively.

Evaluation idea: *Recognise that some effects may be difficult to quantify.*

- 12 The negative third-party effects of a new airport may be concentrated on the geographical area around it, while the positive externalities may extend to a much larger region and therefore be experienced by more economic agents.

Evaluation idea: *Concentration of effects.*