

Worksheet 1: Cause and effect answers

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



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>