

Worksheet 1: Spotting evaluation answers

	K/AN/EVAL
1 The four factors of production are land, labour, capital and enterprise.	K
2 An increase in demand will result in a higher equilibrium price because in the short term a shortage of the product would occur, which puts upward pressure on the price.	AN
3 A rightward shift of the supply curve may not decrease price if there is a greater simultaneous increase in demand.	EVAL
4 A worker may choose a lower-paid job because it gives them more free time, provided they value the non-wage benefits of the job more.	EVAL
5 PED is a numerical measure of the responsiveness of quantity demanded to changes in price.	K
6 External costs are a source of market failure because they may result in over-production, leading to too many scarce resources tied up in economically undesirable output.	AN
7 Direct provision of goods by the government may be funded by an increase in taxes and/or more government borrowing.	K
8 A decrease in interest rate by the Central Bank may have a limited effect if it does not result in more lending by commercial banks, as they do not think there are enough creditworthy borrowers.	EVAL
9 A trade union's bargaining power would be greater if labour costs form a small percent of the firm's total costs because an agreed increase in wages would not lead to a significant increase in the firm's total costs.	AN
10 Economic growth is an increase in real GDP per head over a period of time.	K
11 Regressive taxes fall more heavily on the poor.	K
12 Deregulation is more likely to increase incentives to enterprise than a cut in corporate taxes, because it is more likely to have more long-term effects and encourage investment.	EVAL
13 Structural unemployment is likely to be more harmful than frictional because it is more long-term and is caused by obsolescence of skills, especially if the redundant workers are less receptive to learning new skills.	EVAL
14 Tariff, unlike quotas, generate government tax revenue.	K
15 A fall in the exchange rate reduces the price of exports, which leads to an increased demand for exports. If the PED for them is elastic this can cause an increase in export revenue, which can potentially reduce a current account deficit.	AN