

Worksheet 5: Making justified judgements answers

	Evaluation points
An outward shift of the PPC caused by discovery of a new oil field may not lead to more output produced if the economy doesn't have the resources to exploit the newly discovered oil deposit.
Equilibrium price of laptops may still decrease despite an increase in incomes if there's a simultaneous decrease in manufacturers' costs of production that would lead to a greater increase in supply.
It is better for a product to be price inelastic for producers who increase prices to increase total revenue. ... for the government to collect more tax revenue.
A maximum price is likely to be successful if it is effective, e.g. set below equilibrium price. ... if it is used as a short-term measure to counter momentary fluctuations in price. ... if it is set low enough (below equilibrium) to improve affordability. ... if effective government measures are applied to solve the problem of shortages, e.g. rationing. ... if black markets are prevented. ... if the administration and enforcement costs are lower than the economic benefits it causes.
A national minimum wage may not be of overall benefit to everyone if it is set below the equilibrium wage. ... because it does not directly affect the wages of high-paid workers. ... because it increases firms' labour costs. ... because it creates unemployment. ... if it triggers a wage-price spiral. ... if wages of the high-paid workers do not increase and therefore wage differentials decrease.
A monopoly is likely to be of overall benefit to consumers if it passes on the benefits of economies of scale to consumers as lower prices. ... if it reinvests abnormal profits to improve the quality of products. ... if it is more cost-efficient for a single firm to provide the whole market.



	Evaluation points
The benefits of economic growth outweigh the costs ...	<ul style="list-style-type: none">... if economic growth is sustainable./If the rate of economic growth is not excessively high./If it doesn't lead to depletion of resources.... if the economic benefits are evenly distributed, e.g. income distribution becomes more even.... if the external costs of, e.g. pollution, are minimised.... if economic growth is non-inflationary/there is enough spare capacity.... if the goods/services produced are not harmful/demerit/military.
Higher employment is desirable ...	<ul style="list-style-type: none">... if it's high-quality employment/in high-paid jobs/with good working conditions.... if it's long-term rather than seasonal.... if there is enough spare capacity in the economy, so inflation can be avoided.... if it creates equal opportunities for employment/avoids discrimination.
Inflation is more harmful ...	<ul style="list-style-type: none">... if the rate of inflation is very high (there's hyperinflation).... if other countries have lower rates of inflation because their exports will be more price competitive.... if the government doesn't adopt successful contractionary policies to reduce it.... if it's unexpected, so individuals and firms have no time for response.... if it's cost-push because it is accompanied by a fall in national output.... for individuals on fixed incomes, e.g. pensioners.... for lenders because they'll receive back less in real terms.... if the trend of inflation is rising.... if the rate of inflation is higher than interest rates because real interest will be negative and savers would lose.



	Evaluation points
A current account deficit is more concerning ...	<ul style="list-style-type: none">... if it is not covered by surpluses on the Capital/Financial account.... if it is growing/a rising trend.... if it is structural/due to a loss of export competitiveness.... if the exchange rate is fixed.... if it persists in the long run.... if it is caused by imports of finished consumer goods (for which there are domestic substitutes available).
Population growth is desirable ...	<ul style="list-style-type: none">... if the country is underpopulated./ If optimum population size is reached./ If there are enough resources available.... if the dependency ratio isn't increased.... if more babies are born because the labour force will increase in the long run.... if it is due to immigration of economically active individuals who complement (and not substitute) local labour.