

Worksheet 3: Chains of analysis answers

(Change in) Economic concept	... (may) lead(s) to	... which may/result(s) in ...	Therefore, ...
Net immigration	<i>Increase in population</i>	<i>More of the resource labour available</i>	The economy's PPC shifts to the right
Cut in interest rates	<i>Lower cost of borrowing</i>	<i>Increased access to finance for firms</i>	Investment in capital goods increases
Increase in demand	<i>A short-term state of shortage</i>	<i>Creating upward pressure on the price to clear the shortage</i>	Equilibrium price increases
A surplus	<i>Quantity supplied exceeding quantity demanded</i>	<i>Downward pressure on the price to clear the surplus</i>	Price decreases
Increase in price	<i>An increase in revenue per unit sold but decreases quantity demanded</i>	<i>A greater proportionate rise in total revenue from the rise in price if $PED < 1$</i>	Total revenue increases
Information failure	<i>Consumers underestimating the private benefits of merit goods</i>	<i>Underconsumption of merit goods</i>	The market has failed
Deregulation	<i>Reduced barriers to entry in a market</i>	<i>Increase in competition</i>	The likelihood of abuse of monopoly power decreases
Division of labour	<i>Increase in productivity of workers</i>	<i>Higher wages earned, giving them access to more goods and services</i>	Living standards increase
Increase in unemployment	<i>Weaker power of trade unions</i>	<i>Decreasing their bargaining power</i>	Average wages decrease
Increase in the size of the firm	<i>Greater ability to take advantage of economies of scale</i>	<i>Lower average cost</i>	Selling price decreases
A change towards more capital-intensive production	<i>The firm investing in more capital equipment</i>	<i>Higher investment/ fixed costs</i>	Total costs increase
Existence of monopoly	<i>Decrease in/absence of competition</i>	<i>The monopoly becoming a price maker/gaining control over prices</i>	Consumers pay higher prices
Expansionary fiscal policy	<i>Increase in aggregate demand</i>	<i>Firms producing higher output if there is spare capacity</i>	Economic growth

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Contractionary monetary policy	<i>Decrease in aggregate demand</i>	<i>Decrease in the derived demand for labour</i>	Greater unemployment
Supply-side policy	<i>Provision of more training and education</i>	<i>Workers becoming more employable/ increase in workers' earning potential</i>	Reduced poverty
Decrease in incomes abroad	<i>Decrease in the demand for the domestic economy's exports</i>	<i>A decrease in net exports and domestic output</i>	Causing a recession in the domestic economy
Frictional unemployment	<i>Workers staying in between jobs</i>	<i>Workers finding a better-paid job</i>	Increasing an individual's standard of living
Increase in cost of imported raw materials	<i>An increase in import-reliant industries' costs of production</i>	<i>Imported cost-push inflation</i>	Decreasing export competitiveness
Greater indebtedness of developing countries	<i>Outflows from the BoP to repay the loans</i>	<i>Future generations experiencing a decrease in national income</i>	Lowering living standards in developing countries
Lack of access to healthcare	<i>Learners being absent from school more often due to sickness</i>	<i>Decrease in knowledge/ qualifications and earning potential for future generations</i>	Creating a poverty trap
Low living standards	<i>Net emigration in search of employment abroad</i>	<i>A decrease in working population</i>	Increasing a country's dependency ratio
Reduction in quotas	<i>Decrease in quantity of imports and increase in their price</i>	<i>Decrease in competition for local industries</i>	Growth of infant industries
Decrease in the exchange rate	<i>Decrease in export prices and increase in import prices</i>	<i>Decrease in export revenue (if $PED < 1$) and increase in import expenditure (if $PED < 1$)</i>	Worsening the Balance of Trade deficit