



Worksheet 2: Distinguishing evaluation from analysis

- 1 a) Enterprise is the most important factor of production in a modern economy, because without entrepreneurs the other three factors would not be successfully organised in the production process, especially in countries where private initiative is encouraged. _____
b) Enterprise is responsible for decision-making and organising the other factors of production, which could lead to efficient allocation of resources driven by the profit motive. _____
- 2 a) Good transport links between urban and rural areas can increase geographical mobility of workers, since commuting will be cheaper and faster, which can encourage workers from rural areas to find jobs in the cities. _____
b) Increased geographical mobility of workers may enable them to find employment in cities, but only if the transport links between rural and urban areas are effective enough to allow fast and convenient commuting and if the workers possess the necessary skills to fill vacancies in the city. _____
- 3 a) One factor influencing the PES of agricultural goods is the time period, as some crops may take months to grow, which reduces farmers' responsiveness to short-term increases in crop prices, therefore a longer time period reduces PES. _____
b) The time period to grow and harvest the crops is the most significant influence on the PES of farmers because it is due to the nature of the product and is usually beyond their control, especially for crops that are grown outdoors, as they become subject to weather conditions. _____
- 4 a) The government could address the market failure caused by merit goods by making their consumption obligatory, e.g. mandatory school leaving age for education, which would lead to an increase in the demand for education and therefore reduce the extent of underconsumption. _____
b) Policies that make the consumption of merit goods obligatory are likely to have limited effectiveness because they do not address the root cause of the problem, so a more successful policy could be awareness campaigns aiming to reduce the extent of information failure. _____
- 5 a) A small firm is more likely to survive in a market where customers value personalised services because the individuality of the product is essential for them and the firm is more flexible to respond to different consumer patterns, which may be more difficult for a large firm. _____
b) A benefit of small firms is their ability to offer personalised services, which can be highly valued by customers who appreciate the personal touch, therefore making the small firm more competitive and creating a loyal customer base and a stable source of revenue. _____
- 6 a) A government may adopt an expansionary fiscal policy by running a budget deficit if it aims to increase aggregate demand, hoping to stimulate output and employment in pursuit of economic growth. _____
b) A government may be more prone to adopt an expansionary fiscal policy if tax revenue exceeds government spending by a larger degree and national debt is rather low, since it is less likely to experience a budget deficit and resort to borrowing, which may increase indebtedness. _____



- 7 a) Expansionary monetary policy aiming to overcome a recession may be ineffective in stimulating economic growth by raising domestic consumption and investment if the reason for the low economic growth is a fall in the demand for the country's exports because a fall in interest rates and/or increase in money supply would have little effect on foreign demand. _____
- b) Expansionary monetary policy aiming to overcome a recession by interest rate cuts and/or increase in money supply, which would reduce the cost of borrowing and/or increase commercial banks' ability to lend, leading to higher consumption and investment, which would in turn increase aggregate demand and stimulate national output. _____
- 8 a) Real GDP per head is a convenient measure of material living standards because it could determine citizens' ability to afford goods and services. _____
- b) Real GDP per head is not an ideal measure of living standards because it focuses on one aspect mostly – average incomes, while HDI is a better indicator because it is multi-dimensional and covers both material and non-material standards of living. _____
- 9 a) Trade protection is more likely to benefit an economy if there are domestic substitutes available, so the fall in variety of choice caused by the decrease in imports does not significantly reduce local consumers' standard of living. _____
- b) Trade protection, e.g. quotas, benefits an economy by reducing the amount of imports and increasing their price, which makes them less price competitive to locally produced substitutes, leading to domestic consumption switching away from imports and towards domestic output. _____
- 10 a) Inflation could harm a country's economy because exports may lose price competitiveness, which would reduce the demand for exports, resulting in a fall in export revenue and possibly a current account deficit. _____
- b) The harms of inflation are likely to be more severe if the inflation rate of the country is greater than other countries' inflation because its exports would lose price competitiveness and for countries reliant on export-led growth this may lead to a significant reduction in economic growth. _____