



## Worksheet 4: Economic evaluation or value judgements answers

- 1 Capital differs from the other three factors of production as being the only man-made one, which would not exist if it was not for the three other resources.  
*Justified evaluation*
- 2 A fall in the price of bread will lead to a reduction in the profits of all bakeries.  
*Unjustified value judgement: A fall in the price of bread may lead to a reduction in the profits of a bakery which only/mostly sells bread if it is unable to reduce its costs and/or if the demand for its bread is price inelastic.*
- 3 An increase in regulations on diesel vehicles will improve living standards of all citizens.  
*Unjustified value judgement: An increase in regulations on diesel vehicles may improve living standards of the citizens who live in city centres where congestion and air pollution are serious problems, but the living standards of drivers who now must switch to public transport may fall, since their commute to work will take longer.*
- 4 Effective maximum prices on electricity may create shortages, especially during peak hours where consumption is highest, but making electricity more affordable may be a government priority in a low-income country.  
*Justified evaluation*
- 5 To a retailer engaged in international trade, medium of exchange may be a more important function of money than, e.g. store of value, because the firm needs to make transactions when paying for imports.  
*Justified evaluation*
- 6 Teachers should receive higher wages than cashiers because their work is more important.  
*Unjustified value judgement: Teachers should receive higher wages than cashiers because their supply is lower, since they require more qualifications and longer years of studying for a more highly skilled job.*
- 7 Horizontal mergers are always good for consumers because the selling price of the product decreases.  
*Unjustified value judgement: Horizontal mergers may benefit consumers if the newly merged firm benefits from economies of scale and passes on the cost savings as a lower price to customers.*
- 8 Price stability is a more important government objective than full employment.  
*Unjustified value judgement: Price stability could be a more important government objective than full employment if the economy is approaching full capacity because this will build significant inflationary pressure, while current employment will be close to full employment.*
- 9 Reducing the overconsumption of demerit goods is a more important reason for levying taxes on them than collecting tax revenue because they can be a significant source of market failure due to information failure.  
*Justified evaluation*
- 10 Demand-side policies are more successful in controlling inflation.  
*Unjustified value judgement: Demand-side policies are likely to be more successful in controlling inflation if it is caused by excessive total demand, rather than by a fall in total supply.*



- 11 All workers in the tertiary sector are better-paid than primary sector workers.  
*Unjustified value judgement: Some workers in the tertiary sector, who have higher skills and produce output of greater value, may be better paid than primary sector workers, whose demand is lower and supply is higher.*
- 12 A country with a higher real GDP per head is more likely to experience net immigration because immigrants will be attracted by the higher average incomes and better standard of living, especially if these are relatively lower than in their home country.  
*Justified evaluation*
- 13 A fall in unemployment should always decrease poverty.  
*Unjustified value judgement: A fall in unemployment may not decrease poverty for everyone, as there might be more workers temporarily employed at very low wages, who still cannot afford basic necessities.*
- 14 Developed economies are more likely to benefit from free trade because they export products with higher added value, which are subject to weather conditions less often than the exports of developing countries, which are mainly focused on primary goods.  
*Justified evaluation*
- 15 A fall in the exchange rate is successful in reducing a current account deficit.  
*Unjustified value judgement: A fall in the exchange rate is more likely to be successful in reducing a current account deficit if exports are price elastic, so the reduction in their price will lead to a greater proportionate increase in demand, therefore increasing export revenue.*