



## Worksheet 5: Applying analysis answers

### Practice Paper 2 Question 1(c)

Explain how changes in any three demand factors might account for the greater rate of growth in numbers of visitors into Thailand from China than from other countries.

#### Sample Answer

*Higher income of Chinese tourists compared to other countries might have led to more tourists coming to Thailand from China, as tourism is a normal good.*

*Exchange rate of Chinese currency may be high, making it cheaper for Chinese tourists to visit Thailand.*

*Some Thailand tourism companies may have advertised heavily in China to attract Chinese tourists into Thailand.*

#### Examiner Comment

The focus of the question was on a greater rate of growth in Chinese tourists visiting Thailand and not on a high number of Chinese tourists. Therefore, a dynamic approach instead of static approach was required to tackle this question. The candidate could have mentioned a faster increase in Chinese income than other countries (instead of giving the static idea of high income), appreciation of currency (instead of high exchange rate) and increasing promotion expenditures in China (instead of high marketing expenses) as reasons for a higher growth in the number of Chinese tourists.

### Practice Paper 2 Question 3(b)

Discuss the ways in which businesses might attempt to increase the price elasticity of supply of their products. Assess whether these attempts are likely to be successful.

#### Sample Answer

*Businesses may invest in the latest technology and equipment, which reduces the cost of production, shifts the supply curve to the right and helps raise supply.*

*Governments can give subsidies to businesses to raise production. Subsidies help reduce the cost of production, shift the supply curve to the right and therefore help raise supply.*

*Businesses can also invest in training and education programmes of their workforce. More skilled labour would help produce more goods, helping firms to raise supply.*

*Businesses may maintain stocks, which may help fulfil demand, in case of an emergency.*

#### Examiner Comment

Instead of focusing on how businesses can help raise the price elasticity of supply (PES), the response focused on how supply could be raised, therefore failing to score good marks. A better response should focus not only on altering supply, but altering it instantly, which is the essence of PES. For example, the idea that a firm acquires technology that raises the speed of production (and not just the production) could have been discussed. The mention of government subsidies was also irrelevant as the question was not about the role of the government in influencing PES. The last sentence of the question (assess whether these attempts are likely to be successful) requires evaluation skills (AO3).



### Practice Paper 2 Question 3(a)

The annual rate of inflation in an economy increased sharply and unexpectedly. Explain the likely consequences of such an increase for consumers and firms.

#### Sample Answer

*Inflation is an increase in price level. Borrowers gain at the expense of those who save, as borrowers pay back less in real terms. Low income earners suffer more, as they are unable to shift the burden of higher cost of living to others by raising prices. Local goods become less price competitive both at home and abroad, leading to reduced net exports and rising trade deficit. Firms may also have to reprint menus to inform distributors and customers about the revised prices, leading to higher costs.*

#### Examiner Comment

The definition of inflation is incomplete, as it does not mention a time period and also mentions price level instead of the more acceptable 'general price level'.

It is unclear if the borrower is a producer or a consumer, so the argument of borrowers gaining at the expense of those who save may not be enough evidence to be rewarded marks.