



Worksheet 3: Identifying valid conclusions answers

	Statement 1	Statement 2
(a)	<input type="checkbox"/> The intervention of the government helps overcome market failure and bring the output closer to the socially desirable level. However, imperfections, such as lack of accurate information, may make government intervention less effective, and market failure may continue to exist.	<input type="checkbox"/> The government should play its role in overcoming market failure through imposing indirect taxes, subsidies, direct provision and regulations. It can impose indirect taxes on demerit goods and firms generating negative externalities, give subsidies or directly provide merit goods.
	<i>The second statement provides a summary of the tools the government has in overcoming market failure; therefore, it is not a valid conclusion.</i>	
(b)	<input type="checkbox"/> MRP (marginal revenue product) theory is a good explanation for different wages a worker might earn, since firms are often profit maximising and willing to pay more to workers contributing more in the form of higher MRP. However, factors such as labour mobility, trade unions, monopsonies, etc. may lead to wages not fully justified by the classic theory of wage determination.	<input type="checkbox"/> As per MRP (marginal revenue product) theory, a firm should hire workers as long as their MRP is at least equal to the market wage. Workers with higher MRP should be paid higher wages and those with lower MRP should be paid lower wages.
	<i>The second statement is not a valid conclusion as it only describes MRP theory.</i>	
(c)	<input type="checkbox"/> The Human Development Index and Measure of Economic Welfare provides more comprehensive measures of living standards and are therefore more reliable than simple per capital Gross National Income.	<input type="checkbox"/> Per capita GNI is a more accurate indicator of living standards, as assigning an exact monetary value to components of alternative measures, such as negative externalities, is difficult.
	<i>Both statements could be considered valid conclusions.</i>	
(d)	<input type="checkbox"/> It is the duty of every government to achieve low unemployment, high economic growth, stable price level, balanced balance of payment and more equitable income distribution.	<input type="checkbox"/> Controlling unemployment is an important macroeconomic objective; however, the focus of government policy must shift to other macroeconomic problems, such as stable price level in case inflation is rising and unemployment is showing a decreasing trend.
	<i>The first statement provides a good summary of macroeconomic objectives, but it cannot be accepted as a reasoned conclusion.</i>	
(e)	<input type="checkbox"/> Minimum price provides a financial incentive to decrease the consumption of demerit goods, therefore they could be more effective than awareness campaigns to curb the consumption of demerit goods.	<input type="checkbox"/> Most demerit goods are addictive in nature, and therefore, minimum prices, which make demerit goods expensive, will not be effective in reducing their consumption. Therefore, awareness campaigns are more useful than introducing minimum prices.
	<i>Both statements are valid conclusions and may be accepted by the examiners.</i>	



Statement 1		Statement 2	
(f)	<input type="checkbox"/> PED (price economic demand) is more useful than YED (income elastic demand) for an entrepreneur in the short run, as price can be changed more quickly than altering the type of the product the firm produces.	<input type="checkbox"/> The data used to calculate PED (price elastic demand) and YED (income elastic demand) may not be accurate, so strategies made by entrepreneurs may not bring desired results, therefore, they should use other information as well for devising an effective marketing strategy.	
	<i>Though the second statement provides limitations of PED and YED, it does not compare both types, therefore it cannot be accepted as a valid conclusion.</i>		
(g)	<input type="checkbox"/> The government should use a combination of fiscal and monetary policies to overcome deflation.	<input type="checkbox"/> Fiscal policy is more effective than monetary policy, as lowering interest rates may not be able to reverse deflation if there is general pessimism among consumers and producers.	
	<i>The first statement does not provide any reasoning, so it cannot be accepted as a valid conclusion. However, it may be accepted if the candidate has explicitly evaluated the limitations of both policies before writing this conclusion.</i>		
(h)	<input type="checkbox"/> The government should generate tax revenues through imposition of direct taxes, as they would be fairer and would ensure greater equality in income distribution.	<input type="checkbox"/> The government should use a combination of direct and indirect taxes to generate revenues.	
	<i>The second statement does not provide any reasoning, so it cannot be accepted as a valid conclusion.</i>		