



Worksheet 1: Analysis and evaluation answers

- 1 'Market failure can always be overcome to increase economic efficiency.' How far do you agree with this statement?

For analysis, an explanation of different forms of market failure and methods of reducing them, such as indirect taxation or subsidies, direct provision, or legislation, should be provided.

For evaluation, limitations of the role of the government in overcoming market failure, such as problems of imperfect government, will be discussed, followed by a reasoned conclusion.

- 2 Evaluate whether the theory of wage determination can account for wage differentials (i) between a director and a general worker in the same company and (ii) between two workers doing the same job in different companies.

For analysis, an explanation of the theory of wages based on demand (MRP Theory) and supply (supply curve could be upward rising or backward bending, depending on income and substitution effects) should be provided. The analysis could be for both perfect and imperfect markets.

For evaluation, a real world exploration of the limits to perfect competition, such as imperfect information, lack of labour mobility, discrimination and monopsony, trade union intervention, minimum wage legislation, may be discussed, followed by a reasoned conclusion.

- 3 Discuss the extent to which the Human Development Index (HDI) and the Measure of Economic Welfare (MEW) provide better measures of living standards than Gross National Income (GNI).

For analysis, an explanation of per capita GNI, HDI and MEW as measures of the living standard should be provided.

For evaluation, the relevance, and limitations of GNI, HDI and MEW should be discussed. A reasoned conclusion must follow for full marks.

- 4 Discuss whether solving the problem of unemployment should be the main policy objective for the government of a developing country.

For analysis, learners should identify possible government policy objective and discuss the significance of unemployment as the only policy objective.

For evaluation, learners should discuss the significance of alternative policy objectives, such as inflation, economic growth, balance of payments and distribution of income.

The analysis and evaluation, followed by a reasoned conclusion, must be in the context of a developing economy.

- 5 Compare the likely effectiveness of a policy of imposing minimum prices on demerit goods with one other policy to improve public health and consider which policy is more likely to be successful.

For analysis, an explanation of the likely effectiveness of a minimum price and another policy (e.g. indirect taxes or awareness campaigns) should be provided, while discussing the benefits and drawbacks for both policies.

For evaluation, a clear comparison between the effectiveness of both policies should be provided, followed by a reasoned conclusion as to which policy is more likely to be successful.



- 6 An economy is experiencing a fall in average incomes during a severe recession. Discuss the extent to which the concepts of income elasticity of demand and price elasticity of demand might be useful to an entrepreneur in this economy and consider which would be more useful.

For analysis, an explanation of the usefulness of both types of elasticity of demand for an entrepreneur when incomes are falling should be given.

For evaluation, provide a clear comparison of the usefulness of both price elastic demand (PED) and income elastic demand (YED), followed by a reasoned conclusion as to which is more useful.

- 7 Discuss whether you would advise a government to use monetary policy or fiscal policy to solve the problem of deflation in an economy.

For analysis, an explanation of how monetary and fiscal policies can be used to stimulate Aggregate Demand should be provided, with due reference to the strengths and weaknesses of each approach.

For evaluation, provide a clear comparison of the use of each policy to solve the problem of deflation, followed by a reasoned conclusion as to which policy may be more appropriate.

- 8 If the cost of the subsidy is to be paid from tax revenues, discuss whether the revenue should be raised through direct taxes or indirect taxes.

For analysis, explain the advantages and disadvantages of raising the revenue through direct and indirect taxes.

For evaluation, provide a clear comparison between the two types of taxes, followed by a reasoned conclusion on which type of tax should be used.