



1. What is meant by price elasticity of demand?

[2marks]

Price elasticity of demand is a responsiveness of quantity demanded due to change in price of a commodity.

2. What is meant by price elasticity of demand?

[5marks]

Price elasticity of demand is a responsiveness of quantity demanded due to change in price of a commodity. It can be calculated using a formula.

$$\text{PED} = \frac{\% \text{ CHANGE IN QUANTITY DEMANDED}}{\% \text{ CHANGE IN PRICE}}$$

There are five types of elasticity where the value ranges from 0 to infinity. They are;

- ❖ Perfectly inelastic (elasticity value is equal to 0)
- ❖ Perfectly elastic (elasticity value is equal to infinity)
- ❖ Elastic (elasticity value is greater than 1)
- ❖ Inelastic (elasticity value is less than 1)
- ❖ Unitary elastic (elasticity value is equal to 1)

Note: - Candidates can include simple diagrams of different types of elasticity.

3. Discuss why the price elasticity of demand for the items mentioned in the article might differ.

[5marks]

Note: - Here, no need of definition since in part –c definition of elasticity has been given)

The items mentioned in the article are **clothing and footwear, together with certain perfumes, hair-styles, cell-phones and household appliances.**

First of all clothing and foot wear can be classified as a basic human need where people find very difficult to live without that. This means any person is ready to buy these products at any price since they did not have a choice. So, these products are inelastic product where a change in price will have a very small or sometime no effect on quantity demanded.

On the other hand, perfumes, hair-styles, cell-phones and household appliances are products which have lots of substitutes available in the market. This means at any time consumers can choose between these substitutes which are known as elastic product where a change in price will have a significant impact on price.



In my opinion, the price elasticity of demand for items mentioned in the article differs because some are necessities and some have lots of substitutes.

4. Define price elasticity of demand and suggest why different goods have different price elasticity? [5marks]

Price elasticity of demand can be defined as a responsiveness of quantity demand due to change in price of the product. There are various reasons why different goods have different price elasticity of demand.

Firstly, some goods are necessities like gas, food, clothing etc where people do not have any choice for consumption. This means change in price will not have much effect on quantity demand. These goods are inelastic goods.

Secondly, some goods are luxuries such as cars where there is availability of many substitutes in the market. This means change in price will have a significant effect on quantity demand. These goods are elastic goods.

5. Discuss whether knowledge of price elasticity of demand is of use to a company selling holiday tours. [5marks]

Note: - Here, no need of definition since in part –c definition was given.

This concept is used for producers to expect the sales and revenues of their companies.

First of all, elastic products are those which have variety of substitutes where consumers have variety of choice in the market. So, decrease in the price will increase the revenue for these products.

On the other hand inelastic products are those which do not have variety of substitutes and those goods which is known as necessities. So consumers have to consume these goods at any price. The revenue for these products can be increased by increase in the price of these products.

Eventually, holiday tours would have an elastic demand since there are many people doing the same business which means there are lots of substitutes. So, producer has to decrease the price in order to increase their revenue in this business.



- 6. Explain what is meant by price elasticity of demand and use this concept to discuss what might happen in the market for oil if the price of oil was raised.**

[6marks]

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Eventually oil is classified as a necessity or an inelastic product where people have to consume at any market price. So, increase in price would increase the total revenue of oil producers.

- 7. Discuss what motives consumers have for deciding whether to spend or save.**

[6marks]

There are various motive consumers have for deciding whether to spend or save. Firstly the amount of disposable income. The more income consumers have, the more he or she will be willing to spend. The same thing happens to saving also.

Secondly consumers do spent for the education of their own children and relatives and on the other hand they save income for the unforeseen expenses such as accidents, sickness etc.

Thirdly consumers spend more of their income if they anticipate inflation in near future in order to avoid loss in their purchasing power. On the other hand the amount of saving is very much influenced by the bank interest rates. The more the saving interest rates, the more the savings will be.

- 8. Explain the difference between a fixed cost and a variable cost. [4marks]**

Fixed cost is the cost of fixed factors which do not vary with the changes in output.

Variable cost is the cost of variable factors which vary with the changes in output.

Example of fixed cost is rent

Example of variable cost is Electricity

Note: - rent and electricity is not only the examples. Candidates should be able to identify from the text given in the question.



9. Define Gross Domestic Product. . [3marks]

Gross Domestic product can be defined as the total money value of goods and services produced in a country for a given period of time. This indicator is widely used to measure the standard of living of countries.

10. How would an increase in its exports affect the balance of payments of a developing country? [4marks]

Balance of payment is a financial statement which shows a country's imports and exports transactions with the rest of the world. Increase in exports of goods and services improve the current account of balance of payment. It makes a favorable current account balance. Secondly increase in exports increases the inflow of foreign currency into the country which means the total balance of payment will be in a surplus position. In other words the country's' economic position will be improved.

11. Why might an increase in Gross Domestic Product improve the standards of living in the country? [6marks]

It is true that increase in GDP improves the standard of living of the country. This is due to various reasons. Firstly, increase in GDP means increase in the total output of the country. Increase in production means increase in the employment level of the country. Secondly, when more people are employed the national income and the income of the people also increase and most of the people will be self sufficient in managing their own life. Thirdly this increase in output might be in the form of improvement in different sectors like education , healthcare , infrastructures etc which intern bring further development in the long run.

12. Explain what is meant by the market economy. [4marks]

Market economy is an economic system in which all the economic activities are owned and controlled by the private individual. In this system, prices are determined by the forces of market; demand and supply; and people have self interest in this system. There is a very limited role of the government in market economy.



The mining and export of minerals and precious stones is a very important part of the Namibian economy. It was reported that despite a sharp decrease in the quantity of these exports between 1995 and 1999 the export value of the items rose in that period.

13. Where the minerals and precious stones would be recorded in the Namibian balance of payments? [2]

The minerals and precious stones will be recorded in the current account visible export.

14. Discuss what measures a government might take to influence its country's balance of payments. [6]

Balance of payment deals with a country's exports and imports. Firstly to influence the export government can give subsidies to the domestic firms. These subsidies encourage the domestic firms and they increase their output. As a result, the country's export also tends to rise. Secondly tax incentives for domestic producers also will influence their production of goods and services. However, government can influence the balance of payment by influencing imports also. This may be in the form of tax on imports and limiting the number of physical imports into the country. Physical limitation on imports is known as quotas.

In my opinion government always should try to boost the export of the country.

Demand for UK exports dropped considerably in November 2002, which pushed the UK further into a visible trade deficit – the largest since records began.

15. Explain what is meant by a visible trade deficit and identify in which part of the balance of payments the deficit would be recorded. [3]

Excess of imports of goods over exports is known as visible trade deficit. Visible trade deficit will be recorded under current account visible exports.

16. Discuss whether it matters if a country has a visible trade deficit. [7]

A visible trade deficit would be a concern for any country because it decreases the total earnings of the country by limiting the inflow of foreign currency. On the other hand this might not be a concern if the country has a surplus in the invisible balance. This is a balance where the imports and exports of services are recorded. Additionally if there is an improvement in earnings in the



capital account will also reduce the concern for the visible trade deficit. Moreover deficit might be for a short term.

However it is said that this is a largest records since the record began. So this much deficit in the visible trade might be a great concern for any country.

17. Describe what policies a government might use if it wished to bring a visible trade deficit into surplus. [4]

Balance of payment deals with a country's exports and imports. Firstly to influence the export government can give subsidies to the domestic firms. These subsidies encourage the domestic firms and they increases their output. As a result, the country's export also tends to rise. Secondly government can influence the balance of payment by influencing imports also. This may be in the form of tax on imports and limiting the number of physical imports into the country.

18. Discuss the other consequences of pursuing two of the policies you have mentioned. [6]

Government take tax on imports, limit the number of imports and sometimes there might be a complete ban of imports from particular countries. There are dangerous consequences of these policies. Firstly those countries can use their retaliation power to limit our exports and take very high tax on our exports sold into those countries. Secondly protectionism limits the great benefits of free trade such as lower price and better quality goods and services.

In my opinion, sometimes government has to limit the imports also but the action or the policies adopted should be balanced which gives the same benefits to exports and imports too.

It was reported that in a country the poorest households spent 30% of their income on food while the richest households spent 13% of food.

19. Do these figures mean that the actual amount that the richest households spent on food is lower than that spent by the poorest households? Explain your answer. [4]

Not at all. The poorest household spends a higher percentage of their income on food and richest household spends lower percentage of their income on food. If we convert this percentage into actual money, the richest household will spend more amount of money on food compared with poorest household.

Eg . Ali gets \$ 10000 as his income and spends 10% on food which means he spends \$1000 for food



Ibrahim gets \$3000 as his income and spends 30% on food which means he spends \$900 only.

20. Analyze the motives that might cause a person to save rather than to spend. [6]

There are various factors which results people to save rather than spend. First and the most important motive are the bank interest rates on saving. If bank gives very high rates of interest on savings, then more people will be willing to save because the return on savings will be higher than the return on spending. Secondly, if a person has planned to buy expensive luxuries in a near future, he might not spend his income, rather he will also be saving his income for this luxury item. Thirdly, increase in income and wealth is also an important influence on saving. It is true that increase in income increases spending but the same rule happens for savings also especially when the rate of inflation is high.

As Eastern European economies continue to grow, companies are recording an increase in profits. Public and private sector investment are expected to rise as trade barriers are reduced.

21. What is meant by economic growth? [3]

Economic growth can be defined as an increase in the total output of the country. This may be in the form of increase in Gross domestic product of the country. Economic growth brings various benefits such as employment opportunities, increase in income, and improvement in the living standard. etc...

22. Discuss whether economic growth is always advantageous. [7]

Economic growth has various advantages and at the same time it has some disadvantages also. One of the advantages of economic growth could be increase in employment. When there is an increase in output, it means the employment also increases. There will be more people employed. Secondly this increase in employment increases the income of the people as well as the income of the country. Thirdly increase in employment and income of the people will bring an improvement in the living standard for the country.

However, Economic growth can result high inflation due to increase in the demand for goods and services in the country which is a cost to the economy. Moreover it might results more



exploitation of economic resources which might be a problem for the future generations. Economic growth also creates lots of externalities such as pollution. In my opinion, there are more advantages than disadvantages which mean economic growth is beneficial.

23. Explain why a reduction in trade barriers might increase a company's profits.

[4]

Trade barriers are the restrictions faced by the firms importing goods and services. This also increases the firms' cost of production. When there is reduction in trade barriers, there is an increase in trade which means the number of buying and selling increases. This brings a positive effect on a company's profits as the cost faced by the company due to trade barriers decreases. The profits also increase because the cost of raw materials also decreases when there is a decrease in trade barriers. Moreover, imported raw materials may be cheaper than domestic materials. Reduction in trade barriers increases competition and firms could buy inputs at cheaper rate.

24. Explain why investment is important in an economy.

[6]

Investment means an increase in the real stock of capital goods. Investment is important for an economy because it generates lots of positive effects for the economy. Firstly, an investment create lot of job opportunities where people of the country gets a chance to work and at the same time this opportunities increase their income as well as the national income. Secondly, increase in investment brings an increased international competitiveness where people enjoy wide variety of superior quality goods and services at cheaper price. Finally, it increases the economic growth of the country by increasing the total production of the country.

Since its establishment the Lesotho National Development Corporation (LNDC) has been the Lesotho Government's main means of promoting industrial development. The LNDC is now expanding its job creation programme by promoting exports and encouraging firms to grow in size. It also encourages and supports local entrepreneurs. Two of the projects it has supported are local chicken farms and the building of a private hospital. The slogan of the LNDC is 'We build industry'.



25. Describe the main role of an entrepreneur.

[2]

Entrepreneur is the second human resource needed in the production where they are in charge of all the other factors of productions. They also take risks of the firm at the same time work for profits.

26. Identify from the passage one project in the primary sector and one project in the secondary sector.

[2]

Farming is in primary sector and building of private hospital is in secondary sector

27. Explain what is meant by industrial development?

[4]

Industrial development means development of the businesses in an industry. This may be in the form of new building and infrastructure, invention and use of new and advanced machines and increase in the real stock of capital in the business.

28. Explain the policies that a government might use to encourage private businesses.

[6]

Government might use various policies to encourage the private businesses. One of the most important policy is that granting subsidies which encourage the business by reduction in their cost of production and increase in the output. Secondly, government can bring changes in the taxation. Reduction in the tax rate also is an incentive to business to increase their production. Moreover, some government gives grants such as new machines free labours to some businesses which are again an incentive for the businesses.

29. Why might a government wish to create jobs?

[6]

Government wishes to create jobs due to various reasons. Firstly, Job creation increases the production, income and the employment of the country. This gives a greater benefit for the people of the country and the country as well. Secondly this increase in production and income results an increase in economic growth which gives a lot of benefits such as improvement in living standard. Moreover, this helps to achieve government aims of full employment, economic growth and positive results to the balance of payment. And also increase demand for goods and services.



In the UK four large supermarket companies dominate the sale of food but there are also many small food shops.

30. Define a fixed cost and a variable cost, and identify one fixed cost and one variable cost that the supermarket might have. [4]

Fixed cost can be defined as the cost of fixed factors which do not change with the level of output. Variable cost can be defined as the cost of variable factors which changes or vary with the changes in output. Example of fixed cost of the supermarket may be interest on loan and variable cost may be wages.

31. Discuss why a small food shop might survive when there are very large supermarkets. [6]

Small food shop might survive when there are very large supermarkets due to various reasons. Firstly, small food shops are able to give personal services where large supermarkets do not usually practice this. This can be in the form of door to door delivery services. Secondly, large supermarkets usually have programmed opening hours where as small food shops can be open at any time so that services can be given late at night also. Moreover, convenience and flexibility will be there in small food shops where as there will not be flexibility in large super markets. When there is lack of demand, it is very difficult to change the structure of the large supermarkets.

32. How do some firms become large? [4]

Some firms become large by various ways. One of the important methods is by merger or integration of two or more firms. This can be in the form of horizontal merger where two similar firms join together or lateral merger where two different firms merge. This can also be possible in different stages of production. Secondly Advertising is also one possible way to grow since it generates higher demand and sales which result a need of higher capacity. Moreover issuing shares also increases the company's capital and size.

33. Discuss how a supermarket might benefit from economies of scale. [6]

Economies of scale can be defined as an increase in the large scale production as a result of decrease in long run average cost. The possible economies of scale might be internally where



the supermarket can use various techniques such as the technique of division of labour. Secondly hiring qualified managers can also be possible for the supermarket which will bring new ideas and invention known as managerial economies of scale. Moreover the supermarket can also enjoy financial economies of scale by borrowing loans at cheaper interest rates. They could also enjoy external economies of scale in the form of availability of skilled labour force in the industry. They could also have a good reputation due to an external economies of scale.

34. Using examples, contrast a direct tax with an indirect tax. [4]

Direct tax is a tax taken from income and wealth of the people and profits of the businesses where as indirect taxes are tax taken from the spending of goods and services. The burden of indirect tax can be transferred to another person but the burden of direct tax cannot be transferred to another. Income tax is a direct tax; Sales tax is an indirect tax.

35. Discuss how a government might use taxation to affect the distribution of income. [6]

Redistribution of income is a very important aim of the government. They use taxation to reduce inequalities in the distribution of income between people. Firstly, the possible system is that government can use the progressive tax system where the higher income groups have to pay more percentage of their income as tax compared with the lower income groups. This method is very fair to distribute the income equally between all the people. Secondly indirect taxes are imposed for spending on goods and services. Some of the goods and services are very popular among the people especially rich people. So, taking higher tax from them could be a reasonable way to redistribute the income.

36. Explain the concept of price elasticity of demand. Choose two goods and explain why they might have different price elasticity of demand. [6]

A change in quantity in response to change in price is known as price elasticity of demand. It can be calculated using a formula where % change in quantity demanded is divided by % change in price. Different goods have different price elasticity of demand. It is really true because some goods have variety of substitutes where we have lot of choice and some goods are basic needs where we don't have any choice. Electrical products which have lots of substitutes will have very high price elasticity because a change in price of one will have an enormous effect on the



quantity of another. On the other hand medicine which is a necessity will have a very low price elasticity of demand because people have to buy at any price.

37. Use the concept of elasticity to discuss how indirect taxes may be used by a government to;

increase its revenue,

To increase the revenue, government has to tax on those goods which have a low price elasticity of demand or those goods which is inelastic. Because these goods may be a necessity or habit forming goods where people will be ready to buy at any cost such as tobacco.

Decrease imports.

To decrease the imports, government has to tax on those goods which have a high price elasticity of demand or those goods which is elastic. Because these goods may have lots of substitutes so that people might switch to a domestic goods.

The rate of inflation in some developed countries has remained low for several years.

38. What is meant by inflation? [3]

Inflation is defined as a persistent rise in the general price level

39. Explain how a retail price index (index of consumer prices) is calculated. [7]

Inflation is measured using retail price index or consumer price index. Using this instrument, a family expenditure survey is carried out where they choose a basket of sample goods and services where the household consumes most. These goods are given different weights depending upon the percentage of consumption and income spends on these goods. Then a year is chosen as a base year and index of the base year is given as 100. Eventually the change of index between the base year and current year is calculated.



40. Explain two possible causes of inflation.

[4]

One of the most important causes of inflation is demand pull inflation where prices are pulled up due to increase in aggregate demand of the country. Aggregate demand increase due to increase in consumption, investment, government spending or net export or sometimes combination of all these factors. Inflation can also cause due to increase in the cost of production such as cost of raw materials, labours, oil etc. This increase in cost reduces the supply as a result prices are pulled up.

41. An aim of government policy is usually not to let the rate of inflation become high. Why is this? [6]

Because inflation has lots of costs to the economy. Firstly inflation affects the value of saving in the economy. If people use the money saved at the time of high inflation, they will be able to buy fewer goods and services. It also affects the distribution of income where lower income groups real income falls tremendously compared to higher income groups real income. Moreover inflation lowers the international competitiveness of domestic goods and services which will decrease the export of the country. This will have a diverse effect on balance of payment. For these reasons the government usually not let the rate of inflation become high.

42. Explain why specialization in international trade might benefit a country. [6]

Specialization can be defined as a concentration on one particular task or product. This has a various benefits in international trade. Specialization creates efficient methods of production because there is only one particular task where the workers have to bear. Secondly an efficient use of economic resource is also possible in specialization such as in division of labour, the workers are perfect in their job. Additionally product specialization gives a comparative advantage where countries can specialize for those goods which have a lower opportunity costs. Moreover specialization creates more employment opportunities also which is a greater advantage to any economy.



43. Some countries use protective measures in international trade. Describe two types of protection a government can use in international trade. [4]

There are various protective measures government can use in international trade. One of the important measures is tariff where government imposes tax on imported goods and services. This limits the import and increase the efficiency of domestic firms. Secondly quota is also an important measure where government physically limits the number of imports in to the country. This reduces the volume of imports. Hence domestic consumers will have to demand the output of domestic firms.

44. Explain with the use of one example what is meant by a natural resource of a country? [3]

Natural resources are the resources gifted by nature. Land is an example of natural resource. Land includes seas and rivers, forests and deserts etc. We use land to build the premises and without this factor production it is impossible to carryout production according to economic theory.

45. For many countries international trade involves using their natural resources by selling them to other countries. Discuss whether it is wise for a country to exploit its natural resources rather than to conserve them. [7]

Exploitation and conservation both has costs and benefits too. Using the economic resources is exploiting and not using can be regarded as conserving. There are lots of benefits of exploiting the resources such as employment, income and improvement in the standard of living. But if a country goes on exploiting the economic resources abundantly the future generation may face problems. They may not have enough economic resource for production. On the other hand we have to keep in mind that resources can be renewed and some can be used again and again. For example instead of oil, there is an invention of solar energy. So exploiting the oil may not cause any power shortage for future generation.



46. What determines the rate of growth of a population?

[3]

The factors which determine the rate of population growth of a country are birth rate, death rate and net migration.

47. Contrast the expected age structure of the population of a developing country with that of a Developed country.

[7]

The three main age structure of a country are namely children of school leaving age, working population and retired people. The proportion of children in developing countries will be more compared with a developed country. Because in developing countries, may not have better awareness in population education and family planning. Hence the birthrate of these countries may be high. Secondly, the proportion of old people will be more in developed countries compared with developing countries because in developed countries, there is an existence of better health facilities compared with a developing country. Eventually people in the working age also will be relatively high in developed countries because of low birth and death rate and also due to migration of workforce from developing countries.

48. In some developing countries life expectancy has been declining in recent years. This has been largely due to the spread of HIV/AIDS. Governments have allocated large amounts of Expenditure to developing new hospitals and to providing health education programmes. Discuss in what ways this policy might affect other major government economic policies.

[10]

The major macroeconomic policies are full employment, price stability, and favorable balance of payment, economic growth and redistribution of income. Government has to spend its expenditure in order to achieve the maximum economic policies. There will be opportunity cost of spending on healthcare and education, because this will reduce the government expenditure elsewhere. If this happens there might be an unfavorable change in the state of the economy.

This policy may improve availability of and skills of workforce, increase production and long-term growth and employment. But, however if the resources are brought from overseas, there will be a diverse effect on balance of payment. If the expenditure on health and education comes from increased taxation, it will effect on the distribution of income. Moreover increase in government expenditure is directly linked to increase in the price level.



In my opinion, it is very difficult to achieve an economic aim without losing another. So the government has to give importance to those aims which gives maximum benefit for the people.

Employers are concerned to make the best use of the factors of production. Workers are concerned to make the best choice in selecting an occupation.

49. Explain three things, other than wages, that might influence a person in their choice of occupation. [6]

There are various non wage factors influencing a person's choice of occupation. Firstly better working condition plays a very important role in attracting the labours. These include friendly and encouraging working environment which gives workers satisfaction at a very high level. Secondly, a better deal such as free meals, accommodation and other benefits also plays a vital role. If the workers are getting free food and accommodation by the company at the same time if they receive various fringe benefits, more workers will be ready to work. Eventually location, working hours and the holidays also influence a workers occupation very much. Because workers will be willing to work if they have to work less hours, getting long holidays.

50. Discuss which factor of production might be most significant in the operation of a luxury hotel. [4]

The resources used in the production of goods and services are known as factors of production. These include land, labour, capital and entrepreneur. Since it is a luxury hotel, it is really necessary to have a reasonable capital to start the business and usually hotels are labour intensive. Land and an entrepreneur are also needed in the operation of a luxury hotel. In my opinion capital is most significant in operating of a luxury hotel.

51. A hotel will offer a variety of job opportunities. Workers in some of them will be paid more than workers in others. Discuss why this might be so. [10]

There are various reasons why some workers are paid more than others. One of the most important reason is that the level of training and education. Luxury hotels need qualified and trained waiters and managers who spend days of training and education where as a watcher in a luxury hotel may not need to have such an educational qualification. So, there will be difference in the wages. Secondly, workers may be involved in trade unions while others may not which will make some difference in the wages. Thirdly, if there is a role of the government in minimum

wage legislation while other occupations might not, then there might be an existence of wage difference between workers. Moreover luxury hotels may have a music band where they are in need of particular skills and talents which results a difference in wages between workers.

Decline in world supply of cotton

The largest producers of cotton are China, the US, India and Pakistan. By 2001 there had been five years of declining international cotton prices, so in that year it was expected that cotton production would fall as farmers were discouraged from growing the crop by the low prices. This reduction in supply was then expected to cause prices to rise in the following year, 2002, when the cotton was put onto the market.

The fall in production was expected to occur in countries that were the most efficient, but there would be a fall in production in other countries also. Although India produces cotton, its average yield per hectare is half of the world average. This is because of low seed quality, insufficient pest control and poor irrigation due to irregular rainfall.

52. Explain why low prices might discourage farmers from growing cotton. [3]

Low prices means there will be lower revenue in the business. This lower revenue will results more lower profits. Therefore producer will be unwilling to produce as much as before.

53. Using a demand and supply diagram, explain the changes in price that were expected to occur between 2001 and 2002. [5]

Diagram showing a decrease in supply

The prices of cotton decrease because in these years, it was expected that the production of cotton would fall. This fall in supply is shown in the diagram where the original supply curve SS shift to the left to S_1S_1 . This reduction in supply results a rise in price from P to P1.

54. Identify what measures India might take to increase its production of cotton. [3]

Better seeds, better pest control and better irrigation.



55. Explain how two of the measures chosen in c(i) might have effects on

- **The fixed costs,**
- **The variable costs**
- **The revenue of the producers. [6]**

Seeds are unlikely to affect fixed costs unless research is involved; pest

Control may be a combination of fixed and variable costs; irrigation improvements are more likely to affect fixed costs. The effect on revenue depends on changes in sales, which depend on possible changes in prices.

**56. How would the earnings from cotton be shown in India's balance of payments?
[3]**

Trade in goods, exports and current account.

In 2002 in the UK and in Germany trade unions supported strikes in some public sector occupations.

57. Explain what is meant by the public sector and give one example of a public sector occupation. [3]

Public sector is a part of the economy where all the economic activities are owned and controlled by the government. Secretary at government office.

58. Describe the functions of trade unions and explain which function you consider to be the most important. [7]

Trade union is an association of workers working to safeguard the interest of its members. One of the most important functions of trade union is collective bargaining where workers representing as a union bargain with the employer for the better deals. Secondly increase in wages is also a very demanding function of trade union where the union helps to increase the wages of its members through various methods. Thirdly working for better social condition and welfare is also an important function of trade union. Moreover it has various other functions such



as better deals when made redundant; avoid unfair practice by the employer etc. in my opinion improving the wage and the working condition is the most important function of trade union.

59. State three factors that might determine an individual's choice of occupation.

[3]

Fringe benefits

Working condition and promotion

60. Discuss why some occupations receive higher wages than other occupations.

[7]

There are various reasons why some workers are paid more than others. One of the most important reasons is that the level of training and education. Some occupations need qualified and trained workers and managers who spend days of training and education where as other occupation may not need to have such educational qualification. So, there will be difference in the wages. Secondly, workers may be involved in trade unions while others may not which will make some difference in the wages. Thirdly, if there is a role of the government in minimum wage legislation while other occupations might not, then there might be an existence of wage difference between workers. Moreover the demand for the final product is also an important factor. The higher the demand for the product the higher the wage rate will be.

It was reported in 2002 that people in Germany were expecting tax rises and an increase in unemployment.

61. Distinguish between a direct tax and an indirect tax. Give an example of each.

[4]

Direct tax is a tax taken from income and wealth of the people and profits of the businesses where as indirect taxes are tax levied on spending of goods and services. The burden of indirect tax can be transferred to another person but the burden of direct tax cannot be transferred to another. Income tax is a direct tax; Sales tax is an indirect tax.

62. Identify three types of unemployment and explain how they are caused. [6]

The three types of unemployment are Frictional unemployment, Structural unemployment and general unemployment. Frictional unemployment is not a very serious type of unemployment because it usually does not last for a very long period of time. As we know that millions of people will be changing their job and the time between two jobs is considered as frictional unemployment. Secondly structural unemployment is caused due to change in the structure of the industry. This may be in the form of decreasing demand for particular product. Eventually the



most serious type known as the general or cyclical unemployment is caused due to fall in the aggregate demand of the country.

63. Describe four main aims of government macro-economic policy. [4]

One of the aims is price stability where government tries to keep the inflation rate at stable position. Secondly full employment where government tries to increase the level of employment. Thirdly economic growth where government tries to increase the GDP of the country and eventually achieve favorable balance of payment where they try to increase the export of the country.

64. Discuss whether a rise in taxes can help to achieve any of these aims. [6]

Rise in tax is an essential way to achieve the government aim of price stability. Because rise in tax rate reduces the demand of the people which reduce the price level. Secondly, rise in tax on rich people will affect distribution of income. In other words there will be an equal distribution of income and wealth. Not only distribution of income, but also rising tax on imports has a positive affects on balance of payment by decreasing the imports. However reduction in tax decreases the income of the people which will reduce the spending of the country. This reduction in spending decreases the economic growth of the country. In my opinion, rise in tax can help to achieve some of the aims but not all the aims.

65. What are the main differences between a planned economy and a market economy? [4]

Market economy is an economic system in which all the economic activities are owned and controlled by private individuals. On the other hand, in planned economy, all the economic activities are owned and controlled by central government.

In market economy, prices are determined by the forces of demand and supply where as in planned economy, prices are fixed by central government.

66. Discuss how some aims of government policy might conflict with each other. [6]



The most important government policy aims are namely full employment, price stability, sustained economic growth, favorable balance of payment and equal distribution of income and wealth. Firstly, to achieve the full employment government increase its spending in order to increase the job opportunities for the people. Finally this increase in spending results a higher price of goods and services known as inflation. Secondly, to achieve equal distribution of income, government might increase the rate of taxation which discourages people to spend more. As a result, the total spending of the economy reduces which reduce the economic growth

67. Many economies are mixed economies. Discuss why most countries have decided to have a mixed economy. [10]

Mixed economies are economic system in which both private and public sector operate side by side and work for the welfare of the people. Many economies are mixed economies due to various advantages of mixed economy. Firstly, mixed economy allows choice and competition for consumers and producers. Choice allows consumers to choose the better quality goods which give them a maximum satisfaction and competition increases the efficiency of the producers as well. Secondly, mixed economy deals with externalities also. This means that the external cost to the society is considered and the market is being regulated by the central government.

On the other hand in market economy, there is an existence of market failure which results pollution being over valued and the resources are not allocated in an uneven way. Moreover in command economy, welfare motive discourage the production process and producers producing goods and services. Finally mixed economy is better because people have self interest and at the same time government is there to regulate the market.

68. Define exchange rate [2]

The rate at which one currency is expressed in terms of another is known as exchange rate.

71. Explain what is meant by specialization. [4]

Concentration on one particular task or product is known as specialization. This may be in the form of specializing in one industry which the country gets the maximum benefits. Specialization increases the production and employment opportunities.



72. Discuss whether there are any benefits from specialization rather than diversification. [6]

Specialization means concentration on particular task while diversification is concentration on wide variety of task. Specialization gives various benefits such as increase production and efficiency. Workers will be carefully concentration on one particular task which results a boost in output. Secondly it increases employment rate in a country especially those people who trained to do the works in the specialized area. However, this creates problem such as those people who don't have a particular skills are thrown out of the market. In other words they became unemployed. Diversification gives much security and flexibility to any economy where fall in demand for one sector can be backup by the resources used in the other sector. In my opinion, both principles are important. But countries should make the right decision at the right time.

73. Distinguish, with examples, between the primary, secondary and tertiary sectors of the economy [3]

The first stage of production where raw materials are being extracted from the ground is known as primary sectors. Example, agriculture

The second stage of production where raw materials are changed into finish products is known as secondary sectors. Example, construction

The third stage of production where finish goods are sold and distributed are known as tertiary sectors, Example banking.

74. Describe the functions of trade unions and explain which function you consider to be the most important. [7]

Trade union is a group of worker joined together to improve the working condition and to increase the wage rates of its members. Trade union has various functions. The main functions of Trade Unions are to ensure adequate wages, secure better conditions of work employment, reduce hours of work. Get better treatment from employers and to secure some share in the profit and also control of industry. In order to achieve these things, trade Unions adopt the methods of collective bargaining negotiations, strikes etc.: Trade Unions help the worker in the form of sickness and accident benefits. They support them during unemployment or during strikes and lockouts. They run schools for the children of the workers they provide library facilities to their members. They provide indoor and out door games. In this way Trade



Unions try to increase the welfare of their members. In my opinion increasing wages is the most important function.

75. State three factors that might determine an individual's choice of occupation. [3]

Wage rate, working conditions and other benefits

76. Identify three types of unemployment and explain how they are caused. [6]

Unemployment is a situation where people actively seeking for work are unable to find a work. Firstly Frictional unemployment is unemployment that comes from people moving between jobs, careers, and locations. Secondly, Structural unemployment is an unemployment that comes from there being an absence of demand for the workers that are available. Or in other words changes in the structure of the firms due to fall in demand for the product. Thirdly, cyclical unemployment occurs when the unemployment rate moves in the opposite direction as the GDP growth rate. So when GDP growth is small (or negative) unemployment is high.

77. The rate of population growth in developed countries is often different from the rate of population growth in developing countries. Explain why this might be so. [5]

There are various reasons why there are difference in the population growth between developed and developing countries. Firstly, birth rate and death rate will be very high in developing countries compared with developed country. This is because in developing countries, there will be lack of awareness about family planning and then poor health facilities.

78. Sometimes a government might try to limit the growth in the population of its country. Explain why it might want to do this. [4]

One of the most important reasons why government might try to limit the population growth may be due to fall in the living standard of the country. This may be in the form of high unemployment and social costs which will worsen the economic condition of the country if population increases.



Secondly government might wish to conserve resources for the future generation so as to sustain the development of the country such as the one child policy of the government of china.

79. As countries become more economically developed, there is a change in the relative importance of the different sectors of production. Describe what this change might be. [5]

The use of the scarce resources of a developing country will be different from that of a developed country. Hence this change will be reflected to the adaptation of the economic sector in the country. There are major three types of sectors namely primary (extracting raw materials), secondary (manufacturing) and tertiary (service). In developing countries, most of the people will be working in primary sectors such as fishing, agriculture. This is because resources are not used at their maximum potential. When countries developed, there will be changes in the importance of these sectors from primary, secondary to tertiary sectors. In other words, most of the people in developed countries will be working in tertiary sectors such as banking, insurance etc.

77. Describe what differences might be found in the standard of living of the average person in a Developed country compared with an average person in a developing country. [6]

Developing countries are those countries which have lower income, lower employment and lower standard of living compared with a developed country. So this difference between countries will also affect the people living in the country also. Firstly average person living in developing country will have lower income compared with an average person living in developed country. This is because in developing country more people work in primary sectors which normally gets lower wage compared with banking, insurance, warehousing in developed country. Secondly, the level of education and access to better healthcare also will be poor of a person in developing country compared with an average person living in a developed country.

78. What determines the rate of growth of a population? [3]

The rate of population is determined by the rate of birth and death and the net migration.

79. Discuss what might happen to fixed and variable costs if a firm replaces labour with machines. [6]

Labours are normally considered as a variable cost but sometimes it can also be a fixed cost. Machine will be a fixed cost. When the companies replace the labour with machines, the total fixed cost will increase because installation of machinery will cost a lot of fixed cost. If labour is considered as a variable cost in this company, the total variable cost will decrease. Therefore, it is unknown to what will happen to total cost but the average total cost will decrease due to



efficiency. In my opinion, normally in this situation fixed cost will increase and variable cost will decrease.

80. Some firms integrate with others. Explain the different forms of integration, and suggest why integration happens. [10]

Integration means joining together of two or more firms. There are normally three types of integration. Firstly horizontal integration where two firms join which produces similar products such as joining of two supermarkets. The other extreme is lateral where two firms join which produces entirely different products such as joining of a supermarket and an agricultural firm. The most important type is vertical integration where firms join in different stages of production. Vertical integration is divided into two namely vertical forward and vertical backward integration. Vertical backward integration means joining of firms to its supply of raw materials such as oil manufacturing company joins an oil extracting company. Vertical forward integration means joining of a firm to its market outlets such as an oil extracting company joins petrol selling shops.

Integration happens due to various reasons. Firstly firms want to achieve economies of scale which means firms will be able to reduce cost by producing more. Secondly it helps firms to increase their output and profits and finally there will be greater security in the market when to firms join and become one.

A multi-national was described as a large company that employs people from different countries and is controlled by a government.

81. Explain whether this is a correct description. [4]

The above statement about multinational is not correct. Multinational companies are those companies which produce in more than one country and which has its headquarters in one country. Employing people from different countries is not a feature of multinational company and moreover, these companies are not controlled by government.

Partnerships are owned by only two people while public companies are owned by the government.

82. Explain whether the above definitions are correct. [4]

Incorrect. Partnerships are not necessarily two people; they may consist of all the people working in the organization. Public companies are not owned by the government. Public companies issue shares and are owned by the private sector. (Individual /shareholders)

Expenditure in an economy may be either private expenditure or public expenditure.



83. Explain the difference between these types of expenditure, giving one example of each. [3]

Public expenditure refers to the spending of the government to provide public goods and services like defense services, roads, streets, and lamps, public parks etc which do not have market price. The government provides these to improve the welfare of the people.

Private expenditure refers to the spending by individuals and firms to provide the goods and services demanded by the people at a market price. Private spending is motivated by profit such as private people spend to build a hospital.

84. Explain what is meant by an opportunity cost and a social benefit. [4]

Opportunity cost can be defined as a cost of next best alternative forgone in order to achieve the best choice. Social cost can be defined as a cost to the society due to consumption or production of a good or service. Or it is the sum of private cost and external cost. Pollution is an example of a social cost due to wastage of toxic wastes from the factories.

Example of opportunity cost:- a person has MRF 5 to buy either a coke or pepsi. He bought coke. Therefore the opportunity cost of buying coke is the pepsi that he left.

85. Discuss whether government spending on police and armed forces could be a result of market failure [6]

Market failure occurs when free market economy fails to achieve proper allocation of resources. So government has to spend more for considering social benefit by enforcing people. Police and armed forces are necessary to reduce social cost and increase the social benefit. So, in my opinion government spending on police and armed forces could be the result of market failure but some government do spends a lot on these before market failure arises. Prevention is always better than correction.

86. Explain what is meant by factors of production. [4]

Factors of production are the resources used for production of goods and services. They are land, labour, capital and entrepreneur.

87. List any two measures of development. [2]

Real GDP per head and human development index



88. What is meant by profit maximization? [3]

Method used by companies to increase the profits by increase in the difference between total revenue and total cost

89. Contrast the characteristics of two types of business organization.[6]

Private limited companies much display pvt ltd after its name whereas public limited companies must display plc ltd after its name. Secondly private limited companies can't issues shares to general public but they can issue shares to their friends and families whereas public limited companies can sell shares to general public. Thirdly shares of the private limited company cannot be quoted in the stock exchange but shares of public limited companies are quoted in the stock exchange.

90. What is meant by when an industry is said to become more capital intensive rather than labour intensive.[3]

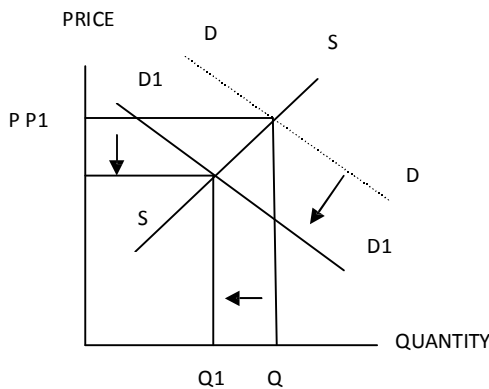
Labour intensive means using more labours in the production process whereas capital intensive means using more machines in the production process. To become more capital intensive rather than labour intensive means using more machines than labours in the production.

91. Identify three causes of a change in the demand for a good. [3]

Price of the product, income of the people and successful advertising.



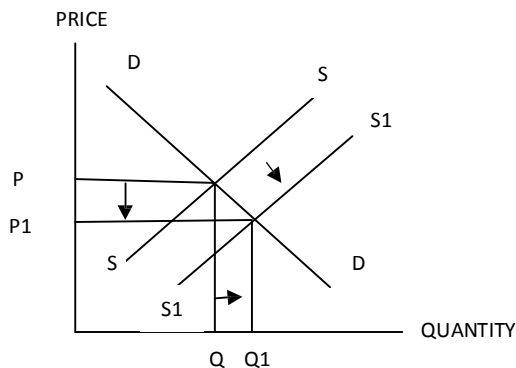
92. In Japan persistent worries about job security, high unemployment and a steady fall in income have meant that consumers are buying less. This has caused the prices of some products to fall. Use demand and supply analysis and diagrams to explain how the reasons given in the above extract could cause a fall in the price of a product. [6]



The diagram shows that demand decreased from D to $D1$. As a result, price and quantity also falls from P to $P1$ and Q to $Q1$ respectively.

Worries about job security, high unemployment and fall in income will lead to a decreasing demand for goods. So when demand decreases, naturally prices also decrease according to the diagram.

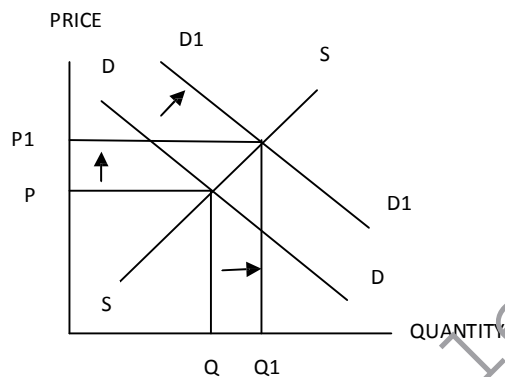
93. Explain, using a demand and supply diagram, what effect would be likely to occur in a market if the government introduced a subsidy on the production of a good. [5]



Subsidy is a financial assistance given by the government to domestic firms. If government introduced a subsidy on the production of a good, domestic firms cost will reduce and they will be encouraged to increase the production. Naturally supply increases and price falls as shown in the diagram. Due to subsidy supply increase from S to $S1$. And price decrease from P to $P1$. Market quantity also increases from Q to $Q1$.



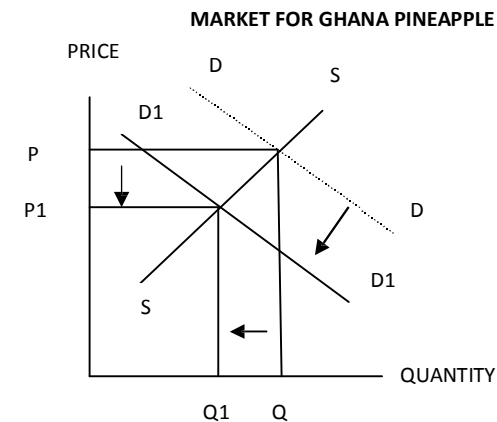
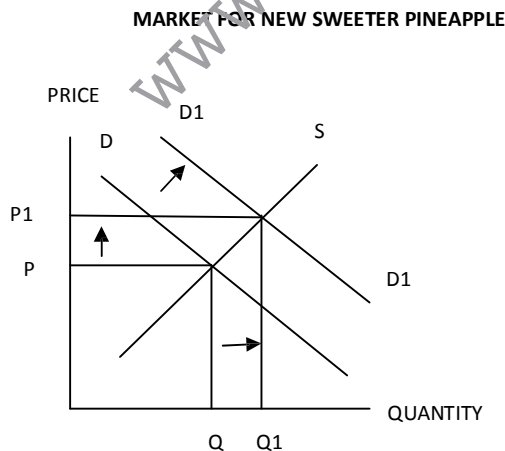
94. India is the world's seventh-largest consumer of oil. Demand for oil could more than double in the next 15 years because of strong industrial growth and increasing numbers of Indians who will be able to afford to buy cars and motorcycles. As demand grows so will India's dependence on imports. India imports around 70% of its oil. Explain using a demand and supply diagram what the article says will be the likely change in the market for oil in India in the next 15 years. [5]



The diagram shows that demand increases from D to D1. As a result of this increase, the market quantity and price increases from Q to Q1 and P to P1 respectively.

Demand increases because there is a strong industrial growth and increasing the number of Indians who will be able to afford to buy cars and motorcycles.

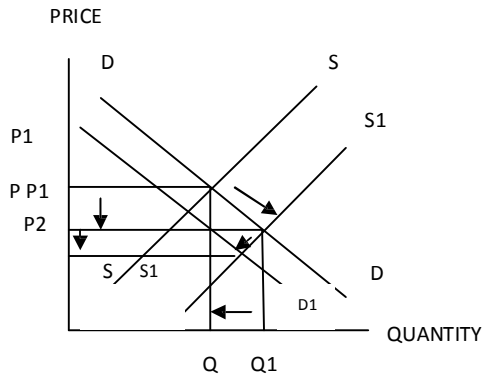
95. In 2005, European supermarkets changed their demand to a new, sweeter pineapple not grown in Ghana. Use demand and supply diagrams to explain what happened in the market for both types of pineapple. [6]



Above shows two diagrams showing an increase and decrease of demand. First diagram shows that demand increases from D to D1. As a result price and quantity also increase from P to P1 and Q to Q1 respectively. This is because European supermarkets changed their demand from Ghana pineapple to this one. As a result diagram shows an increase in demand for this type of pineapple.

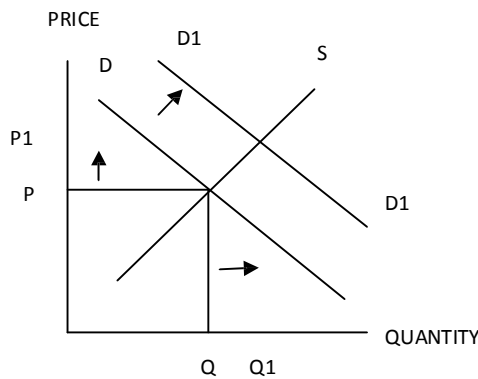


96. A combination of excess supply, weak consumer demand and competition from new channels such as the internet has pushed prices down in shops for goods from clothing to electrical products. Using demand and supply analysis, explain whether the reasons given in the above extract would lead to the stated effect on prices. [7]



The diagram shows prices decreases from P to P1 to P2. This is because there is excess supply in the market which means there is more supply than demand which pull down the prices from P to P1. Secondly, demand of the consumers also decreases. Due to this decrease, again the price decrease from P1 to P2. Thirdly, competition in the market also will force the producers to reduce the price of the goods they sell.

97. Many more people travel by aeroplane today than ten years ago. With the help of a demand and supply diagram, explain what might have happened in the market for air travel to cause this increase. [6]



The demand for air travel increases. This increase in demand is shown in the diagram. Demand curve shifts right from D to D1. As a result of this increase price and quantity also increases from P to P1 and Q to Q1 respectively. Demand increases due to increases in income of the people. When people have more income, they will be willing to travel by aeroplane rather than road since air transport will be more comfortable.



98. Why do some firms remain small in size? [6]

Some firms remain small in size due to various reasons. Firstly for some product the demand is very much limited such as contact lenses. There are few people who use the contact lenses. If a large firm produces these types of goods, then they might be in loss. Secondly, some products require little amount of capital for the production. Generally large firms will have larger capitals. Therefore existences of small firms only produce those goods which have required limited capital which gives limited profit as well. Some firms remain small because Small firms usually receive grants and subsidies from the government.

99. Explain the terms scarcity and opportunity cost. [4]

Availability of limited resources is not enough to satisfy the unlimited wants. This is known as scarcity. Opportunity cost means the next best alternative forgone in order to achieve the better choice. A hospital cannot treat the need of all patient is an example of scarcity. Building an airport instead of hospital is an example of an opportunity cost.

100. What is meant by a retail price index? [3]

Retail price index is an instrument used to measure the rate of changes in prices of goods and services in a particular time period.

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