Question 3(a)(i)

Candidate A

3.)

a):) Scarcity occurs because we have unlimited wants but limited resources. It is a Universal problem that effects all economies. It cannot be eliminated, only reduced. Scarcity is a relative concept, the resources themselves are not scarce, they are only ~~scare~~ scarce relative to the demands we place on them.

Candidate B

3) a):) Scarcity arises because humans have unlimited wants, but there are only limited resources to provide these wants. Therefore consumers must make a choice on what will bring them the greatest utility. This is known as opportunity cost ie the sacrifice of the next best alternative foregone.

Scarcity affects all economies

Scarcity can not be erradicated.

Candidate C

MARGIN

3)a)i). • Scarcity is the basic economic problem. It is when ~~den~~ wants exceed the availability of resources.
• Scarcity will never be solved due to humans greed. Humans wants will never be fulfilled.

Question 3(a)(ii)

Candidate A

ii) Increased awareness of simple living and appreciating what ~~people have~~ you have has decreased peoples wants as they are happy with what they have, reducing scarcity. ~~There~~ Discovering new resources, such as oil, ~~??~~ increases the resources available, so more wants can be satisfied, reducing scarcity. Increased research & development can lead to more efficient ways of using our resources so that more wants can be satisfied, reducing scarcity. Increasing awareness of environmental issues can lead to people not wanting certain things such as single use plastic, thus reducing peoples wants & reducing scarcity.

Candidate B

3a)ii) •A method of reducing the impact of Scarcity is to set a Minimum Price on a scarce product so that the product can't be bought for lower. This will send a Signal to consumers to leave the market as they are less likely to afford the product.

•Another method is to set a maximum Price for the product. This will decrease ~~yo~~ the profitability for the product sending Producers a Signal to leave the market to ~~[illegible]~~ slow down the production of this scarce product.

-The government can set a tax

Candidate C

ii) • The impact of scarcity can be reduced by achieving technical efficiency. This is when ~~pro~~ goods/ services are produced at the minimum factor usage meaning wastes are kept to the minimum.

• Scarcities impact may also be reduced by achieving allocative efficiency. This is when ~~goods~~ the production of goods and services is allocated in the best way possible in order to meet needs or demands. For example, there wouldn't be much point in producing many bridges across the same river, instead one bridge should be formed and the rest of the steel may be allocated to ~~the~~ meet the demands of the production of cars.

• Full employment reduces the effect of scarcity. All resources should be in use. This means all those willing and able to work should be and no resource should be left idle.

Question 3(b)

Candidate A

3b. Giffen goods. This is ~~because~~ ~~in develop~~ when a rise in price causes a rise in ~~supply~~ demand making the curve slope upwards. For example if a family in a developing country have £5 a week to spend on food they could spend £2 a week on rice and £3 a week on meat

3b. If the price of rice were to rise to £3 they could no longer afford the meat therefore they will spend £5 on rice hence making the curve slope upwards.

Veblen goods. This is when consumers buy goods with the intention of flaunting their wealth for example a rolls rose or a rolex. This makes the curve slope upwards because the higher the price the richer they seem.

Quality. Some consumers believe that a higher price means the quality is higher. This makes the curve slope upwards because they ~~w~~ think they will be getting a better quality good.

Candidate B

b) ·Austentacious goods, these are high value luxury items often bought for the exclusivity of having such a prestige item. they are also ways to demonstrate wealth. Therefore the higher price allows a greater demonstration of wealth, so demand is increased.

·Inferior goods. If the price of an inferior good rises, people may demand less of a luxury superior good therefore they will demand more of the inferior good as it is still relatively cheaper. e.g. if the price of rice rises, people may no longer afford to buy as much meat and so buy less to ensure they are eating enough they will demand more ~~for~~ of the ~~potatoes~~. rice.

·Speculative goods. If the price of the good is considered to rise in the future, consumers may buy ~~it now to save from~~ in bulk now to save from paying a higher price later. e.g. if the price of petrol is expected to rise in the budget e.g. increased fuel tax, people may demand more fuel prior to the price spiking.

Candidate C

b) Giffen goods are demanded more when their price is high because they are inferior goods, & so when their price rises people demand more of them & less of more expensive goods. e.g. when the price of potatoes increases, people demand more potatoes ~~[illegible]~~ as it is inferior, & people demand less of another good e.g meat.

Veblen goods are superior & expensive goods, so when their price rises people demand them more because they have increased prestige value.

Speculative goods are goods that when their price increases, demand for them increases because people expect their price to continue to rise, so they can sell them in the future for a profit e.g. horses

Question 3(c)

Candidate A

c) · If the price of the product rises, more profit per unit is to be made, therefore firms will increase supply to capitalise on this.

· If the conditions e.g. Weather are promoting growth then more crops will be produced, therefore increasing supply.

· If the firm ~~[illegible]~~ recieves a subsidy from the government they may be able to ~~[illegible]~~ hire more workers, therefore increasing the firms output.

· If advancements in technology are made, then the ~~[illegible]~~ machines may be more efficient than they were, therefore increasing productivity and availability to increase supply.

Candidate B

c) Decrease in manufacturing cost.

Decreas in price of raw materials

Increas in labour, skill and efficiency

Increase in ~~the~~ demand of a product.

Advancement of ~~the~~ technology or machinery can mean that production is more efficient or ~~a~~ quicker.

Candidate C

c) One factor would be an increased demand for a product ~~[illegible]~~ as suppliers are willing to supply more if they think they can sell it at a higher price ~~[illegible]~~ via price mechanism.

Good weather could ~~[illegible]~~ also increase supply ~~[illegible]~~ for example strawberries meaning more can grow and be bought

Supply may increase if raw materials decrease in price meaning more can be bought for the same amount of money.

~~the [illegible]~~ Supply may increase if the price of the product increases as suppliers are willing to sell more at a higher price.

A strong pound may increase supply as it can buy more in other ~~[illegible]~~ currencies meaning suppliers they can charge higher prices and will be ~~[illegible]~~ willing to supply more.

Question 3(d)

Candidate A

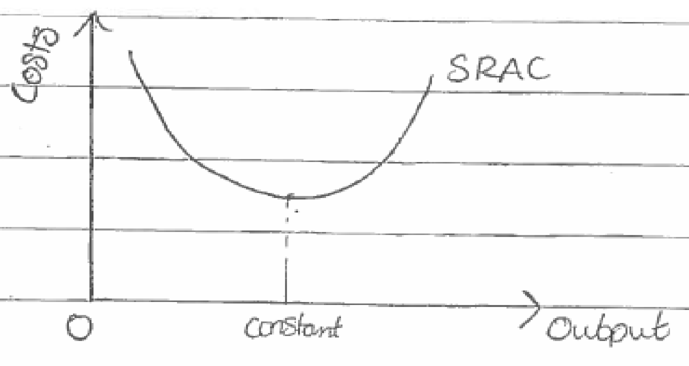
d) • The law of diminishing marginal returns states that the addition of one additional unit of resource e.g. 1 more worker the marginal output will ~~[illegible]~~ fall.

• As an extra worker is added the ~~[illegible]~~ percentage change in output is greater than percentage change in input and so there are increasing marginal returns, however not all resources are worked

• However, the additional unit of 1 more worker may not result in a net benefit of output, as the workers may have no tools to do his job, therefore there are ~~[illegible]~~ decreasing returns.

Candidate B

d). The law of diminishing marginal returns ~~is the idea that~~ as occurs in the short run as more of a variable factor is applied to a fixed factor. Inefficiencies occur as more of the variable factor is added to the fixed. This means that costs will begin to increase and returns to the factors of production will fall.
This can be shown in the short run average cost curve (SRAC)



As output increases, ~~output~~ costs fall until constant returns are met. This is where the minimum efficient cost is. After this, the fixed factor becomes overused and diminishing marginal returns occurs.

Candidate C

d) It states that as additional resources are provided to the production process, eventually, after the point of optimum production, the increased input leads to a less than proportional increase in output & eventually each additional unit of input leads to ~~[illegible]~~ a smaller & smaller increase in output. e.g. if a firm highers more labour, then initially they might lead to a more than proportionate increase in output because they can use the other factors of production more effectively. However, after a certain point, each additional worker provided leads to a smaller increase in output because the other factors of production become overused & crowded & there is too many workers.

The law of diminishing marginal returns ~~[illegible]~~ requires firms to be operating in the short run, when at least one factor of production is fixed in ~~capacity~~ quantity.

Question 3(e)

Candidate A

e) Internal economies of scale are the cost benefits for a firm of the firm increasing its scale of production. They include financial economies of scale which is when the firm receives more favourable interest rates on loans etc. as it is seen to be more reliable. It also benefits from marketing economies of scale which is when there is already marketing infrastructure available for it to use & it can afford the vast costs involved. It also benefits from economies of scope which is when if the firm decides to supply a new product, it already has many of the facilities necessary to supply it & promote it e.g. marketing departments.

External economies of scale are the ~~the~~ cost benefits for a firm of the whole industry increasing in size. It can mean that new infrastructure is built to reduce costs by the government or that new production methods are developed that are more efficient & can reduce costs.

Candidate B

e) ~~Managerial salaries may~~ Managerial positions may be awarded in larger firms. This may improve their efficiency in the long-run.
The larger firms may spread larger marketing fixed costs over a greater number of units, keeping their average costs down.
The larger firm may exploit economies of scope and enter new markets.
The larger firms may be able to lower costs by buying a larger stock and capitalise on trade discounts.
External: Improved infrastructure may allow firms to expand and distribute their product more easily.

Candidate C

c) Internal economies of scale occur in the long run. They include:
- Managerial economies of scale. This is when large companies can afford to hire skilled managers. They incur high wage costs but in the long run will lead to increased profits.
- Technical economies can also be achieved. Larger organisations can investigate & invest in new technology to improve efficiency and increase output.
- Internal economies allow risks to be spread through operating in many markets.

External economies of scale are a result of external influences such as improvements in the market or the actions of competitors:
- The ~~firm~~ organisation may benefit from local colleges or training centres as this means potential employees will be well trained which will reduce the firms costs of training
- The supplier of an organisation may be located near the firm. This will reduce the firms transport costs.