Question 3(a)

Candidate A

3a) An economic good is a good which has a price whereas a free good does not have a price (is free).

An economic good is limited in supply whereas free goods are not scarce in supply.

An economic good ~~does~~ has an opportunity cost whereas a free good does not.

~~An economic good~~ there is not enough economic goods to satisfy everyones wants however, there is enough free goods for everyones needs.

An example of an economic good is a tv whereas an example of a free good is air, water etc.

Candidate B

3.a) Free good

A good that doesn't come with a cost, there is enough to satisfy everyone's wants. (Eg. air, sea water)

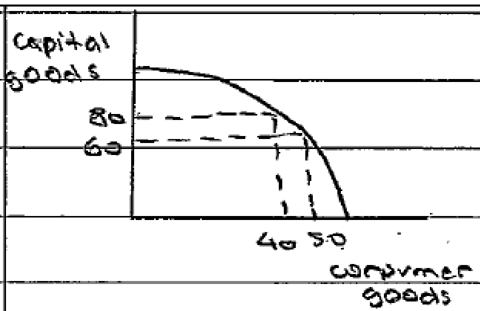
Economic good

A good that requires a sacrifice (price), is limited in supply, and uses up scarce resources. (Eg. a car, tv)

Question 3(b)

Candidate A

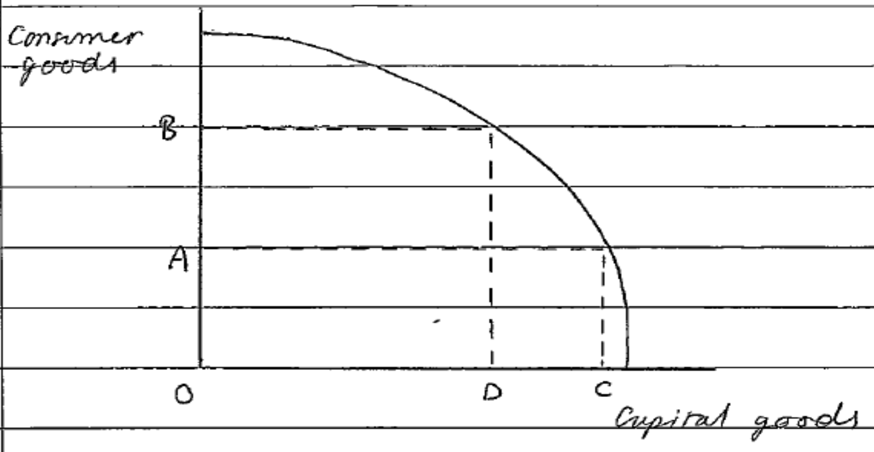
3b



Opportunity cost is the next best alternative given up when a choice is made. As the production of one good rises, quantity of alternative goods are sacrificed. In this case as capital goods rises from 60 to 80, the opportunity cost is 10 consumer goods

Candidate B

b)

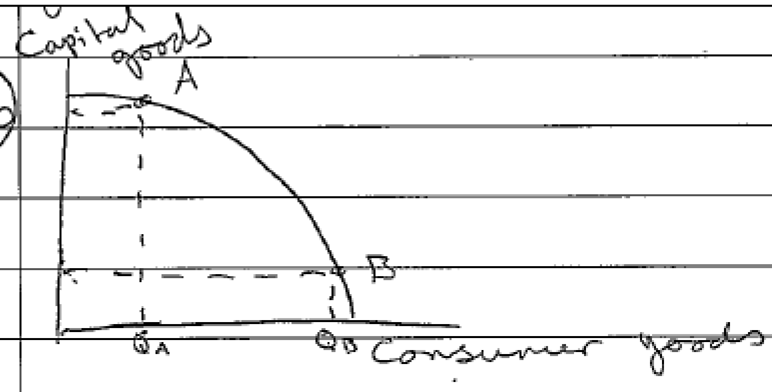


- Opportunity cost is the sacrafice of one good for another, the opportunity cost of B is the area between D and C.
- The opportunity cost of C is the area between A and B.

Question 3(b) cont.

Candidate C

b)



Opportunity cost is where one good is sacrifaiced for the best alternative. At point A consumers goods are being sacrified for more capital godds. At point B capital goods are being sacrified for consumer goods.

Question 3(c)(i)

Candidate A

c)		
i)	Joint demand is when two products are typically demanded and consumed together, consumers gain maximum consumer satisfaction when both are consumed together, for example mobile phones and apps, or cereal and milk.	

Question 3(c)(ii)

Candidate A

QUESTION		MARGIN
ii)	Joint supply is when two products are automatically supplied when the other is produced, they are by-products, for example when a cow is killed for its meat, its hyde will automatically be available to be turned into leather.	

Candidate B

c ii) Joint supply is when ~~a~~ 2 or more goods are produced with the same resources. One good cannot be produced without the other. For example, beef and leather.

Candidate C

c ii) Joint supply is where the supply for one ~~thing~~ product increases the ~~s~~ supply for a by product. eg. Increased supply for car engines leads to increased supply for car wheels

Question 3(d)

Candidate A

d) Veblin goods - these are luxury goods and are typically bought by someone who wants to show of their wealth, for example expensive perfumes or expensive watches.
- Giffin goods - these goods are staple goods, such as potato and rice when it comes to food. If there is an increase in the price of these low earners may choose to pay the extra for these staple foods as they are very filling, they instead will sacrifice other goods such as meat and vegetables.

- Speculation - consumers may purchase goods in ~~the~~ ~~prices~~ anticipation their price will rise and they will be able to sell them on at a higher price, for example shares and gold. Consumers may also buy expensive things now whilst they can afford them, ~~and~~ before the price goes up e.g. houses and cars.

Question 3(d) cont.

Candidate B

d) One reason for demand curves not being downward sloping is veblen goods. These are high quality, luxury goods that are bought by high income earners who place a premium price on the utility of the good. ~~Also~~ For example, yachts or luxury cars. As price rises, high income earners buy more in order to demonstrate their wealth.

Another is giffen goods. These are non luxury, essential goods. For example, potatos/rice. They are bought more as price rises because consumers cancel consumption of other goods so that they can afford these essential goods.

Another is speculative demand. This is when consumers buy more of a product as they think it will be worth more in the future. For example, antiques.

Question 3(d) cont.

Candidate B cont.

Another is assumption of the link between price and quality. High price indicate better quality, so consumer will buy more of that good.

A final is anticipation of a price rise. Consumers will buy more of a good due to fear of price increasing further in the future.

Candidate C

d) Giffen goods, eg. Potatoes, are goods that are seen as essentiats. Even if there is a rise in price consumers will still demand them.

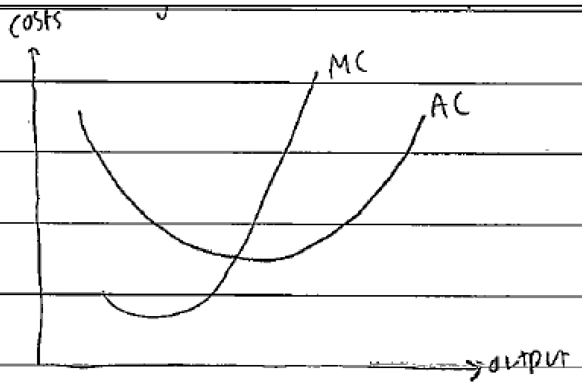
Speculation goods, eg. Houses, are products that people expect to rise in price. As the price starts to rise demand increases as there's anticipation of profit.

Veblen goods, eg. Rolex, is seen a ~~x~~ luxury product. As the price rises the consumer sees the product to be more valuable.

Question 3(e)

Candidate A

e)

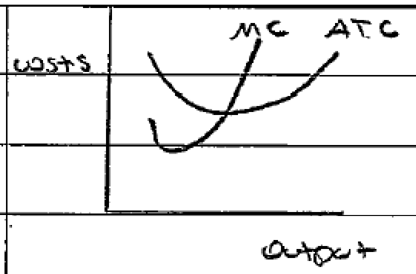


Marginal costs cut average costs at the lowest point of the curve
The lowest point of the curve is the point of optimum efficiency. which is when a firm is being the most technically efficient, using the least amount of resources to create the most output.

Average costs curve falls when marginal costs are less than average costs. It rises when MC and greater than AC

Candidate B

3e

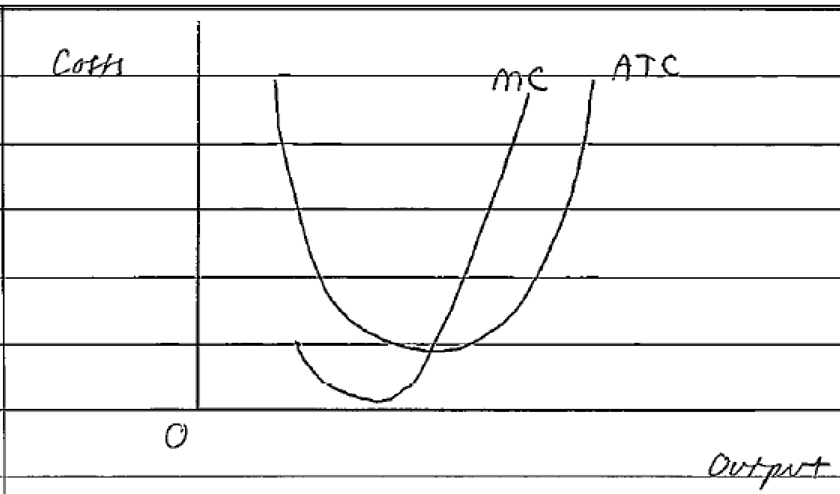


Marginal cost is how much extra it costs to produce one more unit of a good.

Marginal costs cut average costs at optimum output. If marginal costs are above average costs, average cost is rising. If marginal cost is below average cost, average cost is falling. Average total costs initially falls due to fixed costs being spread over a larger number of units, rises due to decreasing returns to the variable factor.

Candidate C

e)



- ATC is a U shape as it is both AFC and AVC combined, it cannot start to increase until it has been cut by MC, this point of intersection also

Question 3(e) cont.

Candidate C cont.

represents a firms maximum output.
- MC is a tick shape as it decreases at first, but then starts to increase as the variable factors of production are replaced by the fixed factors of production.