2019 specification
first assessment 2021 (2020 for AS)

Starters and Plenaries

for OCR AS and A Level Year 1 Microeconomics

Second Edition, February 2022

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Contents

Teacher's Introduction

This resource is essentially an activities-only resource that has been designed to support the learning and teaching of AS and A Level OCR Microeconomics. These useful activities will help to either switch pupils into learning mood at the beginning of the session or wind down and take learning right up to the end of the lesson. Students will build on their understanding of key terms while developing new knowledge that is integral to the specification.

There are 18 activities in this resource, which closely follow the specification order, and can be conducted as individual, group or full-class activities. Teacher's notes, plus an activity-by-activity plan, are provided at the beginning of the resource to give guidance on how to teach the content. Some of this guidance includes additional activities. Here is an example:

Spec. Area	Topic	Activity Description	Notes	👤	👥	👨‍👩‍👦	Extra Resources	Assessment Objectives				Suggested Use
								AO1	AO2	AO3	AO4	
1.1 Nature of Economics	What is economics?	Activity 1 – Fill in the missing words followed by a cut out and paste activity.	Individual tasks (but can be done in pairs as well, where students can compare their answers).	✓	✓		Scissors and glue.	X	X			Plenary

The starters and plenaries included are designed to help teachers prevent any breaks in students' learning by encouraging them to recap previously studied topics or begin to learn new ones. Each activity sheet should take between 10 and 20 minutes to complete. The end of the resource includes an answer sheet for students and/or teachers to use in marking.

It is hoped that this resource, as well as offering support for teaching the essential elements of the OCR examination, will help students build on any knowledge they already have.

Happy teaching!

December 2017

Update: Second Edition, February 2022
Minor updates to match 2019 specification: removed non-spec questions on supply and demand, and removed questions on public/private goods and marginal utility that are no longer AS/Year 1.

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resulting from minor specification changes, suggestions from teachers and peer reviews, or occasional errors reported by customers

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Activity-by-activity Plan

Spec. Area	Topic	Activity Description	Notes	(individual)	(pairs)	(group)	Resources	AO1	AO2	AO3	AO4	Suggested Use
							Assessment Objectives					
Introduction to Microeconomics	The basic economic problem	Activity 1 – searching pictures followed by some questions.	Task 1 can be done in pairs. Other tasks can be done individually.	✓	✓		Students will need computers and internet for task 1.	X	X			Plenary
	The market economy	Activity 2 – research task followed by the country/person tasks.	Full-class activity. Only do this task after students have been taught about Adam Smith, Karl Marx and Friedrich Hayek.	✓	✓	✓	Students will need access to the Internet to research economic thinkers.		X	X		Starter
	Productive and allocative efficiency	Activity 3 – quick definition question followed by diagrammatic analysis.	Individual work.	✓								Plenary
	Allocation of resources and objectives of economic agents	Activity 4 – quick question followed by match up task and a discussion question.	Tasks 1 and 2a can be done individually. Task 2b should be done in pairs.	✓	✓			X	X	X		Starter
	Allocation of	Activity 5 — short question										Starter or

Activity 1 – The economic problem

1. a) Search for photos of three examples each for the following categori[es]. paste them in the table below.

Needs	Wants	Economic goods

b) [Discu]ss, [in] pairs, the economic problem represented by these pictur[es].

2. State whether each statement below indicates a positive (P) or a normat[ive]

- The Bank of England has set the interest rate at a record low of 0.25[%]
- The government is considering imposing a sugar tax.
- The Bank of England should not have set the interest at 0.25%, as it [...]
- The Bank of England aims to keep the inflation rate at about 2%.
- A 2% inflation rate is the perfect level of inflation.

3. a) Unjumble the following words:

- Grnvmnteeo ....

- Smrif ....

- Dlsshhooue ....

b) What are your identified words in part (a) examples of?

....

....

c) Briefly state the r[ole] for [eac]h identified in part (a).

....

....

....

4. Define the basic economic problem.

....
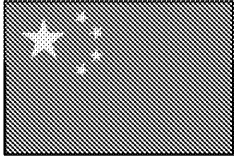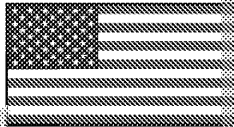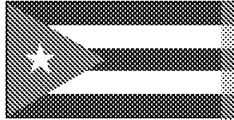
1. Split the class into three groups and give them roughly 10 minutes to find personalities:
    * Adam Smith
    * Karl Marx
    * Friedrich Hayek

    Now the groups may appoint a presenter who will very briefly explain to [ ] personality was and what were their main theories.

2. Read out the following quotes [ ] ss to see if they are able to iden[ ] said them.

A	[ ] the benevolence of the butcher, the brewer, or the [ ], that we expect our dinner, but from their regard to their ow[ ] interest.'
B	'Each tries to establish over the other an alien power, so as thereby to find satisfaction of his own selfish need.'
C	'Some provision for those threatened by the extremes of indigence or starvation, be it only in the interest of those who require protection against acts of desperation on the part of the needy.'
D	'Communism is the riddle of history solved, and it knows itself to be this solution.'
E	'The natural effort of every individual to better his own condition...[ ] so powerful, that it is alone, and without any assistance, ...capable [ ] carrying on the society to wealth and prosperity.'
F	'There is no reason why ...the state should not help to organize a comprehensive system of social insurance.'

3. Here are a few flags of certain countries. Guess what country it is and wha[ ]

	Country **Type of economy**	
	Country **Type of economy**	
	Country Type of economy	

Activity 3 – Productive and allocative efficiency

1. a) Define the term allocative efficiency.

   ....

   ....

   b) Do you know the other term for allocative efficiency?

   ....

   ....

   c) Write down the formula for allocative efficiency.

   ....

2. a) Define the term productive efficiency.

   ....

   ....

   b) Write down the formula for productive efficiency.

   ....

   ....

   c) Show a productively efficient point on the PPF below:
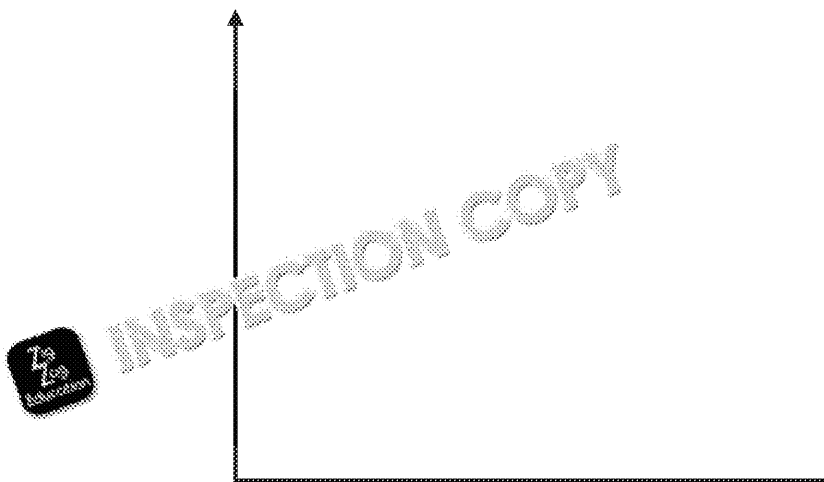
3. What is meant by economic efficiency?

   ....

Activity 4 – Allocation of resour[ce]
objectives of economic age[n]

1. What are the three main questions that a producer needs to ask him/he[r] resources?

   • ....

   ....

   • ....

   ....

   • ....

   ....

2. a) Below is a list of objectives of various economic agents. Correctly a[s] economic agents listed below.

Objectives	
Sales	Utility
Profit	Wages

   Economic agents:

   • Government ....

   • Households ....

   • Firms ....

   b) In pairs, discuss how these economic agents can go about achieving [it]

1. Briefly explain how the following types of economies allocate resources.

   • Planned economies   ....

   • Market economies   ....

   • Mixed economies   ....

2. In the table below, write down the a[dvantages] and disadvantages of eac[h]

Free market economy	**Advantages**	
	Disadvantages	
Planned economy	**Advantages**	
	Disadvantages	

1. a) Explain to your partner what the term opportunity cost means with[
        the term.

    b) A businessman has already reinvested in his business and expects to[
        He is now looking to buy some shares on the stock market, whose r[
        similar investment in government bonds might yield 12%.

        What will be the opportunity cost of investing in government bonds[

        ....

        ....

2. One[   ]nt will be picked from your class to draw one of the following [
    ● [
    ● Label the axes
    ● The maximum productive potential of an economy
    ● Efficient allocation of resources
    ● Inefficient allocation of resources
    ● Unattainable level of production
    ● Opportunity cost
    ● Increase in economic growth
    ● Recession

    (Note: you may need to draw a separate pair of axes for drawing the shif[

3. Complete the following table with potential opportunity costs to the bus[

Business Decision	Possible C
Clothes shop purchases a new line of shirts	
IT firm repays its loan	
School employs more lunchtime staff	
Record shop pays a [ ]icia[ ] to visit and play	
[ ]nal publisher writes a new business book	
Football team buys foreign player	
Bank opens a new location	

Activity-by-activity Plan

Topic	Activity Description	Notes				Extra Resources	AO1	AO2	AO3	AO4	Suggested Use
							Assessment Objectives				
Specialisation and trade	Activity 7 – fun task followed by unjumbling words, filling in the table and a question.	The first part of this activity should be conducted as a full-class activity. The second part works as pair work.		✓	✓	...the first ... you will need two buckets and a number of balls	X	X			Starter or plenary
		Now get two students to stand next to each other and provide them with two buckets. One will be filled with balls and the other will be empty. Place these buckets at either ends of the classroom.									
Supply and demand	Activity 8 – two made-up tasks followed by fun physical activity.	Tasks 1a can be done individually.	✓		✓	Access to white board and some board pens.	X	X			Starter or plenary
		Task 1b is a whole class activity.									
		For task 1b, split the class into two groups. Now one by one call upon students at random from each team and ask them to draw an example of any one of the following types of demand and supply (see question 2a) on the board. Other team members need to correctly guess in order to score a point. Students drawing on the board cannot talk to their teammates.									
	Activity 9 – quick Q/A	Divide the class into two groups and pass this									

The role of markets

Spec. Area	Topic	Activity Description	Notes	👤	👥	👥👥	Extra Resources	AO1	AO2	AO3	AO4	Suggested Use
	Price elasticity of demand	Activity 11 – quick ...ns.	Work individually (or in pairs).	✓	✓	✓		X				
	Income elasticity of demand	...12 – match up activity follo... by two more questions.	Work individually (or in pairs).	✓	✓			X		X	X	Plenary
	Elasticities	Activity – diagram...ed QS questions	Task is to be completed individually but students must then compare their answers in small groups.	✓		✓	...sors	X	X			Plenary
	Elasticities	Activity 14 – a game of noughts and crosses played by correctly answering questions.	For both tasks split the class into two groups. Only one person can answer from the group at a time. For task 1, split the class into two groups to play a game of noughts and crosses on the white board. One by one choose an individual from each group to answer a question. The groups will only get to put a ...ught or a cross if the chosen person from their g...up has answered correctly. Note the answers are ...m the tables (see bold terms) but have been converted into questions so they can readily be asked of students. For task 2, split the class into two groups. Now cut out the terms provided, fold them up and place them in a box. Ask a student from one group to take out a piece	✓		✓	You will need scissors for task 2.					Plenary

How Competitive Markets Work (cont.)

Activity 7 – Specialisation and
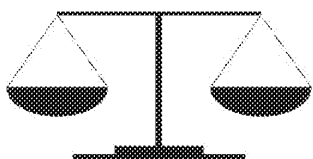
1. The first student should pick the ball up and pass it to the next person –
    the ball into the empty bucket. After each round, one more student sho
    more people make any difference?

2. Now get them to unjumble the following words to get to the bottom of t
    identified in the above activity.

V	N	I	I	O	I	D	S		F	O	

L	I	O	E			N	I	S	S	T	

3. Wo   the person next to you or in a group.

    Divide the task within pairs where one person thinks of examples of busi
    division of labour are essential and the other thinks of examples of busin
    division of labour may not work very well. The person who wins will be t
    examples and 'tip the scales'. Choose which side of the scales you want
    of labour' or 'specialisation and division of labour' (you may decide at th

Specialisation and division of labour		N

4. Give **two** examples of how specialisation and the division of labour can a

    ....

    ....

    ....

    ....

1. a) Match the following keywords to their correct definitions:

Keywords	Defin
Individual supply	Demand for similar goods.
Joint demand	Quantity supplied by a single pr
Composite demand	Aggregate quantity demanded
np ... e demand	Supply of similar goods.
Joint supply	When two or more goods are p
Market demand	When demand for one good is for another good.
Competitive supply	When a good is demanded for
Individual demand	Aggregate quantity supplied by
Market supply	Quantity demanded by a single

b) Your teacher will call upon students at random from each team and any one of the following types of demand and supply (see Question to correctly guess in order to score a point. Students drawing on th teammates.

1. Write down three reasons each for shifts in demand and supply.

   • Shifts in demand

      a) ....

      b) ....

      c) ....

   • Shifts in supply

      a) ....

      ....

      c) ....

   Divide the class into two groups and pass this sheet around so that each
   question. Compare the answers of the two groups.

   Normalitea Ltd is a producer of teas, coffees and cakes. A new company
   produces teas, has moved in. Normalitea Ltd is experiencing a visible dr

2. a) How will this move affect consumers?

      ....

      ....

   b) Show this on a diagram.
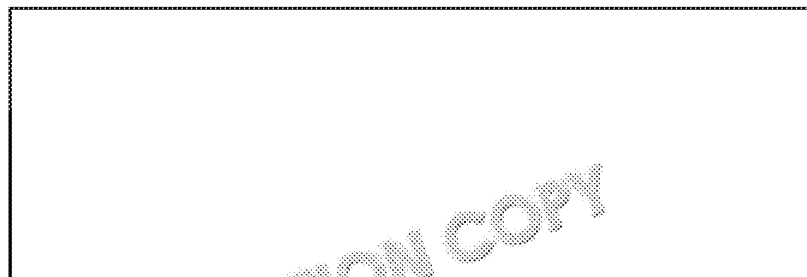
   c) Unjumble the following word:

      enu upsslur   ....

   d) What do you think the formula for the above term will be?

      ....

      ....

Seeing this fall in sales, Normalitea Ltd has decided to introduce a buy-one-ge
products.

3.   a)   How will this move affect Normalitea Ltd?

....

....

....

....

b)   this on a diagram.

c)   Unjumble the following words:

drocrepu ps' ....

d)   do you think the formula for the above term will be?

....

....

1. Explain the assumptions of the model of supply and demand.

    ....

    ....

    ....

    ....

    ....

2. Circle the mis~~ta~~ t. ~~diagram~~ below and get your friend to redraw t nex
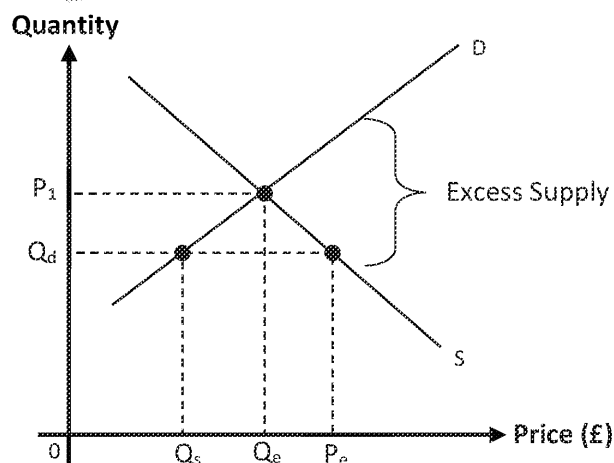
Now swap roles and do the same with the following diagram.
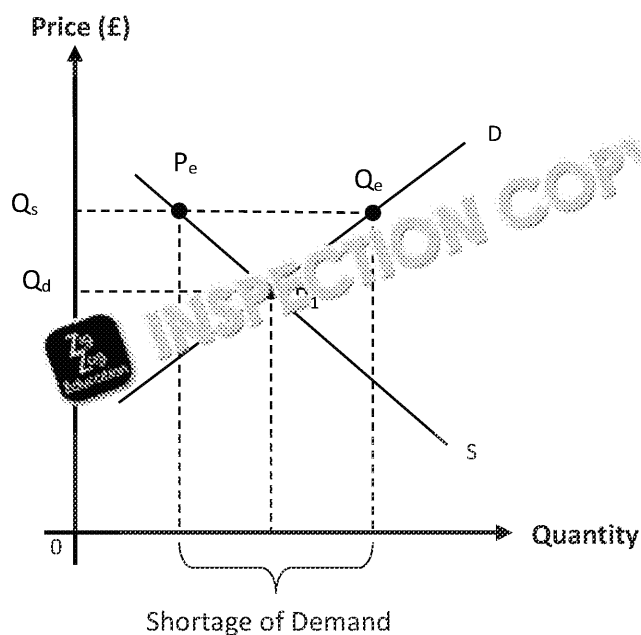
1. Explain what is meant by price elasticity of demand (PED).

   ....

   ....

2. What is the formula for PED?

   ....

3. a) Identify the problem with the following formula and write out the c

   $$\text{revenue} = \frac{\text{Price}}{\text{Quantity}} \times 100$$

   ....

   b) On the axes below, show how a fall in price will lead to an increase i
      proportion.
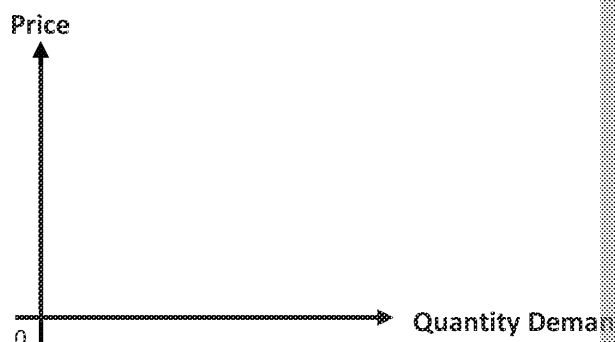
   c) On a separate diagram, show how an increase in price will lead to ar
      by a smaller proportion.
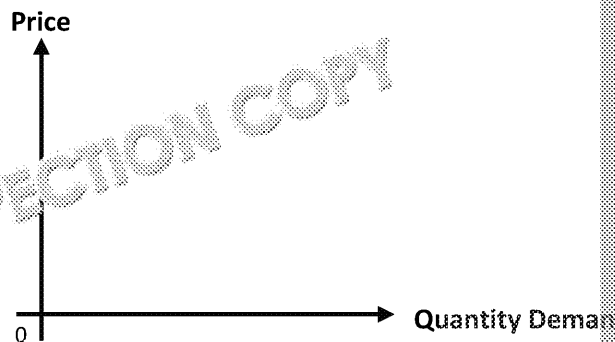
   d) When is total revenue maximised?

   ....

   ....

1. Match up the following by colour coding them:

Positively elastic demand	0 < YED < 1	Normal/luxury good
Po~~sitively~~ ~~demand~~	YED < 0	Inferior good
Negatively elastic/inelastic demand	YED > 0	Normal good/necessity

2. Draw the demand curves for luxury and inferior goods on the same axes

Income

Quantity Der
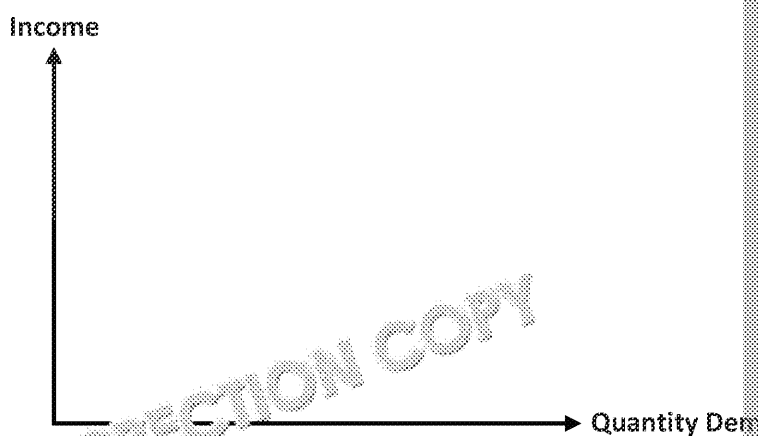
3. Pep~~si and~~ Coca-Cola are close substitutes. Explain how it will help the br
XED ~~bet~~ween these two drinks is +1.5.

....

....

....

Activity 13 – Elasticities (1)

1. Cut out the graphs below and in groups of 4–5 students, individually work out the answers for the following. Then compare your answers with each other.

A

Calculate the price elasticit[...] nd of a box of chocolates. Is the demand p[...]stic or inelastic?

Price of chocolates, (£)

D

10
5

O   500   100[...] Quantity demanded o: chocolates, ('000s [...]oxes)

B

Calculate the price elasticit[...] of supply of a can of soup. Is the supply price elastic or inelastic?

Price of cans of soup, (£)

S

3
2

O   300   500   Quantity supplied of '000s cans of soup

C

[...]l income increases from £30,000 to £35,000 a [...]year. Calculate the income elasticity of demand of a [...]quet of flowers. What type of good is this?
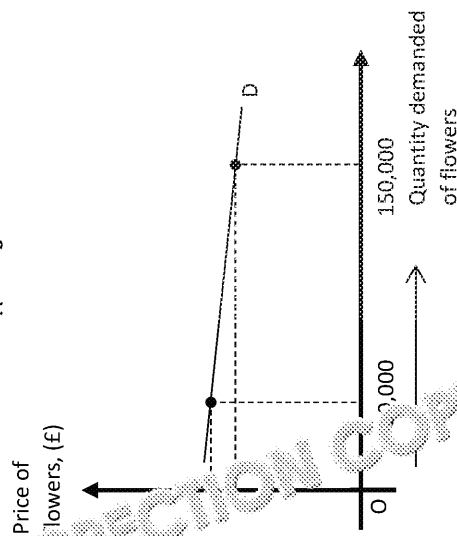
Price of [...]lowers, (£)

D

O   [...],000   150,000 Quantity demanded of flowers

D

Real income increases from £1,000 to £1,500 a month. Calculate the income elasticity of demand of tinned meat. What type of good is this?

Price of tinned meat, (£)

E

Calculate the cross elasticity of demand of a box of tea. What type of good is this?

Price of bottle of milk, (£)

Price of tea, (£)

Teacher Sheet

1. Split the class into two groups to play a game of noughts and crosses on th[...] choose an individual from each group to ask a question. The groups will o[...] if the chosen person from their group has answered correctly. Note the a[...] bold terms) but have been converted into questions so they can readily be[...]

Question: Interpret the numerical values of PED, XED, YED and PES.

PED value	Level of elast[...]
What does **PED > 1** tell us about th[...] demand?	[...]nat is the numerical value [...] **relatively elastic**?
What does **PED < [...]** [...]out the dem[...]	What is the numerical value [...] **relatively inelastic**?
Wh[...] **PED = 1** tell us about the dem[...]	What is the numerical value [...] **elastic**?
What does **PED = 0** tell us about the demand?	What is the numerical value [...] **perfectly inelastic**?
What does **PED = infinity** tell us about the demand?	What is the numerical value [...] **perfectly elastic**?

YED value	Level of elasticity of [...]
What does **YED > 0** tell us about the demand?	What is the numerical value [...] **positively elastic/inelastic**?
What type of good does YED > 0 depict?	What is the numerical value [...] **normal**?
Give an example of a good with YED > 0	What is clothing an example [...]
What does **0 < YED < 1** tell us about the demand?	What is the numerical value [...] **relatively inelastic**?
What type of good does 0 < YED < 1 depict?	What is the numerical value [...] **necessity**?
Give an example of a good where YED is between 0 and 1	What is milk an example of?
What does **YED > 1** tell us about the demand?	What is the numerical value [...] **relatively elastic**?
What type of good does YED > 1 depict?	W[...] t[...]e numerical value [...] l[...]y **good**?
Give an example of a goo[...] [...] [...]F[...] > 1	What is television an exampl[...]
What does **YED** [...] [...] [...] about the dem[...]	What is the numerical value [...] **elastic**?
What type of good does YED = 1 depict?	What is the numerical value [...] **normal**?
What does **YED < 0** tell us about the demand?	What is the numerical value [...] **negatively elastic/inelastic**?
What type of good does YED < 0 depict?	What is the numerical value [...] **inferior**?
Give an example of a good with YED < 0	What is tinned meat an exan[...]

XED value	Level of elasticity of deman
What does **XED > 0** tell us about the demand?	What is the numerical value positively elastic/inelastic?
What type of good does XED > 0 depict?	What is the numerical value substitute good?
Give an example.	What are tea and coffee exa
What does **XED < 0** tell us about the demand?	What is the numerical value negatively elastic/inelastic?
What type of good does XED < 0 depict?	What is the numerical value complementary good?
Give an example.	What are cars and fuel exam
What does **XED = 0** tell us about the demand?	What is the numerical value relationship between the de
What type of good does XED = 0 depict?	What is the numerical value unrelated?
Give an example.	What are phones and jackets

PES value	Level of elasticity of supply
What does **PES > 1** tell us about the supply?	What is the numerical value relatively elastic?
What does **PES < 1** tell us about the supply?	What is the numerical value relatively inelastic?
What does **PES = 1** tell us about the supply?	What is the numerical value elastic?
What does **PES = 0** tell us about the supply?	What is the numerical value perfectly inelastic?
What does **PES = infinity** tell us about the supply?	What is the numerical value perfectly elastic?

Activity-by-activity Plan

Spec. Area	Topic	Activity Description	Notes	Individual	Pair	Group	Extra Resources	AO1	AO2	AO3	AO4	Suggested Use
Market Failure and Government Intervention	Market failure	Activity ... – writing down definition...	Pair work where students work individually and then mark each other's papers.		✓			X				Starter or plenary
	Market failure	Activity ... illustrating information in a diagram (story board)	Class activity. The teacher should pick students at random for this activity.			✓	✓		X	X		Plenary
	Government intervention	Activity 17 – ...presentation task.	Make groups of four. PowerPoint is not essential. Diagrams and analysis is strongly encouraged.			✓	✓	X	X	X	X	Plenary
	Government failure	Activity 18 – understanding concepts and matching up task.	Individual work.	✓				X				Starter or plenary

Activity 15 – Market failure

1. You have five minutes to write down the definitions to six of the following the person next to you and mark each other's answers.

Market failure	
Misallocation of resources	
Externality	
Private cost	
External cost	
Social cost	
Private benefit	
External benefit	
Social benefit	
Marginal private cost	
Marginal private benefit	
Marginal social cost	
Marginal social benefit	
Market equilibrium	
Social optimal equilibrium	
Welfare loss	
Welfare gain	
Economic agents	
Government intervention	

1. Imagine that you are a producer of cigarettes. Illustrate on the diagram board) the personal cost to you for producing cigarettes.
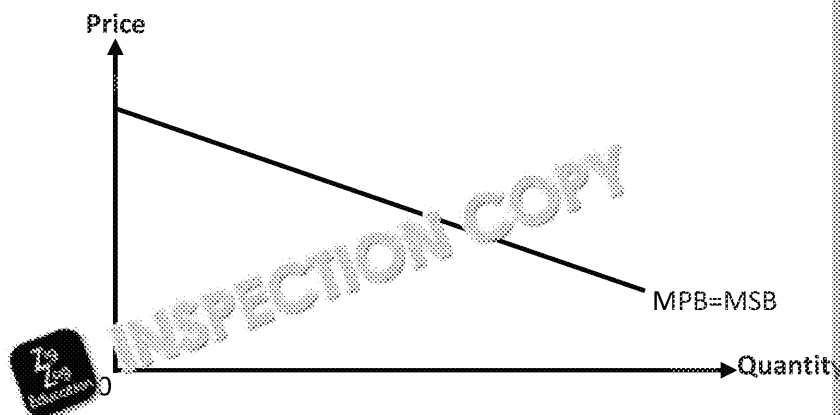
Your teacher will pick students at random, who will represent a group/in the following tasks:

- Student 1 – You are a member of the general public. Illustrate on th the board) the cost to you, as a member of society, of someone else

- Student 2 – You are a member of the regulatory committee. Illustra one on the board) the welfare loss of the production of cigarettes.

- Student 3 – You represent the government. Briefly explain what me to eliminate or at least reduce this loss of welfare.

    ....

    ....

- Student 4 – You also represent the government. Illustrate on the di board) the level of taxation on the production of cigarettes that is re

1. In groups of four to five, make a brief presentation for your class summa[rising]
may intervene in markets. Your presentation does not need to be on a P[owerPoint]
of the following methods used by the government.
   (a) Subsidising goods
   (b) Taxing goods
   (c) Maximum prices
   (d) Minimum prices
   (e) Legislation and regulation
   (f) Buffer stock schemes

   Remember to think about the [spe]*c[ifi]* [mar]*ket failure that is occurring, and* [the]
   alternative ways the [gove]*rn[me]*[n]*t could intervene.*

1. Explain the difference between government failure and market failure.

   ....

   ....

   ....

   ....

   ....

2. Bel[...] li[...] [s]ome of the reasons why governments may cause the m[...] wit[...] correct explanation.

Reasons	Explanation
Asymmetric information	Intervention generally has high administra[...] costs to the government for monitoring co[...] collecting of fines, taxes, etc. These costs [...] benefits intervention may provide.
Administrative costs	Government intervention may have some [...] effects.
Distortion of price mechanism	Government may have conflicting prioritie[...] incorrect or compromised measures taking[...] market failure.
Conflicting priorities	Government decisions may not be fully inf[...] available information.
Unintended consequences	There is a misallocation of resources when[...] allowed to function freely.

Answers

Activity 1 – The basic economic problem

1. a) Needs: e.g. food, water, shelter, companionship, identity.
   Wants: Xbox, BMW, caviar, foreign holidays and jewellery.
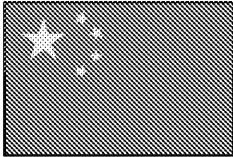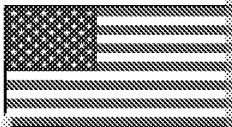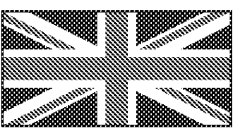
   Free goods: air, water, ideas (if not patented).
   Economic goods: any good that is scarce (its consumption has an opportunity co

2. • The Bank of England has set the interest rate at a record low of 0.25%.
   • The government is considering imposing a sugar tax.
   • The Bank of England should not have set the interes   25%, as it is very low
   • The Bank of England aims to keep the inflati   te   about 2%.
   • A 2% inflation rate is the perfect l   fl   n.

3. a) • Governmer
      •   ns
      •   eholds

   b) Economic agents.

   c) • Governments aim to increase overall welfare in the economy.
      • Firms tend to maximise profits.
      • Households seek to maximise their welfare/utility/satisfaction.

4. Our wants are unlimited while resources are limited. Thus, there is scarcity of reso

Activity 2 – The market economy

2. a) Adam Smith
   b) Karl Marx
   c) Friedrich Hayek
   d) Karl Marx
   e) Adam Smith
   f) Friedrich Hayek

3.

	Country China **Type of economy** Command	
	Country France **Type of economy** Mixed	
	Country UK **Type of economy** Mixed	

Activity 3 – Productive and allocative efficiency

1. a) Allocating resources fully and efficiently, which represent consumer preferenc

   b) Welfare maximisation.

   c) P = MC

2. a) Producing output at the lowest unit cost.

   b) MC = AC

   c)

Any point on the PPF is considered productively efficien
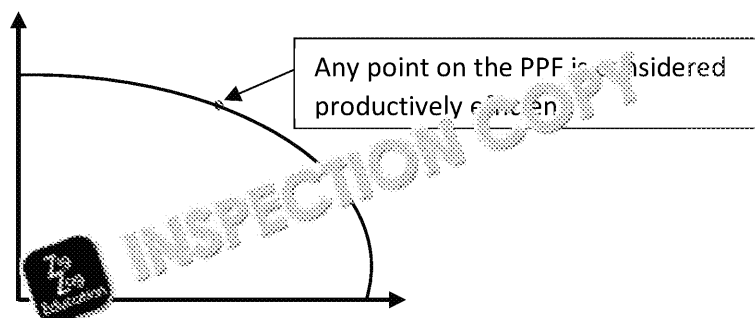
3. Economic efficiency refers to a situation in which there is both allocative and produ

Activity 4 – Allocation of resources and objectives of economic agents

1. • What to produce?
   • How to produce?
   • For whom to produce?

2. a)

Governments	Economic welfare
Households	Utility, wages
Firms	Sales, profit, revenue

   b) Each of these agents pursues their objectives by *maximisation*. Firms will attem
      Consumers will maximise their utility – it seems natural that people strive to be

Activity 5 – Allocation of resources

1. • Planned economies: government decides how to allocate resources.
   • Market economies: forces of demand and supply allocate resources automatic
   • Mixed economies: a combination of the price mechanism and government dec

2.

Free market economy	Advantages	• Firms tend to profit maximise. Can lead to h higher wages f... k. s, which they can sp • Competit on b...een firms means low price • ...tion also means efficient resource a ...duction decisions are based on consume political decision. • Innovation is encouraged – this has effects o • Economic freedom.
	Disadvantages	• Can lead to market failure. • Certain public goods are not provided. • No control over pollution levels. • May create a more unequal society as the ri become poorer. • Profit motive can produce adverse effects o • Free market economies are vulnerable to in • Businesses can be manipulative, e.g. is produ preference or can businesses manipulate pre • Promotes consumerism.

Planned economy	Advantages	- More certainty in terms of economic decisio - Creates more equal societies. - Provides public goods. - Can overcome market failures by governme - Maximises welfare rather than profits. - Produces socially beneficial products.
	Disadvantages	- Can lead to government failure. - Public sector does not profit maximise. Pro - Public sector tends to have higher average c eliminate unemployment by overmanning p - Lack of consumer sovereignty, e.g. consume what is to be produced - Possible threa' ⸱ 'ⸯ ⸱ ⸱cracy. - Burea cr 'ic

Activity 6 – Opportunity c⸱

1. a) E.⸱ ⸱re ⸱ ⸱ ⸱ value of the next best alternative foregone.
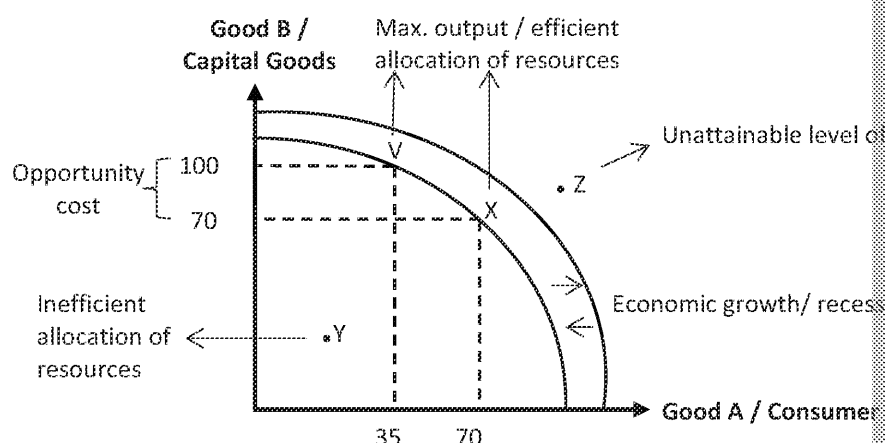
   b) 15⸱ ⸱% = 3%

2.

3.

Business Decision	Poss⸱
Clothes shop purchases a new line of shirts	e.g. ⸱
IT firm repays its loan	e⸱
School employs more lunchtime staff	e.g⸱
Record shop pays a musician to visit and play	
Educational publisher writes a new business book	e⸱
Football team buys foreign player	⸱
Bank opens a new locatic⸱	e.g. promotior⸱

Activity 7 – Specialisat⸱⸱ ⸱ ⸱ ⸱ue

2.

D	⸱	V	I	S	I	O	N		O	F	⸱

S	P	E	C	I	A	L	I	S	A	T	I	⸱

4.
- Countries can specialise in the production of goods and services for which the⸱ Saudi Arabia can specialise in the production of oil. In this manner, all countri⸱ goods that they themselves cannot produce due to a shortage of one or more⸱
- Division of labour also helps to reduce scarcity to an extent because it increas⸱ or the capital goods. Hence, the same amount of resources can produce more⸱

Activity 8 – Supply and demand (1)

1. a)

Keywords	Definitions
Individual demand	Quantity demanded by a single producer.
Market demand	Aggregate quantity demanded by producers.
Joint demand	When demand for one good is positively linked to
Composite demand	When a good is demanded for multiple uses.
Competitive demand	Demand for similar goods.
Individual supply	Quantity supplied by a single producer.
Market supply	Aggregate quantity supplied by producers.
Joint supply	When two or more goods are produced together.
Composite supply	When there are a number of ources to supply a g
Competitive supply	Supply of similar goo

Activity 9 – Supply and demand (2)

1. • Shifts in demand may be due to:
        Demographic changes, changes in fashion, changes in income, changes in price
    • Shifts in supply may be due to:
        Costs of production, output of related goods, taxes and/or subsidies, natural d

2. a) Consumer surplus will decrease.

    b)
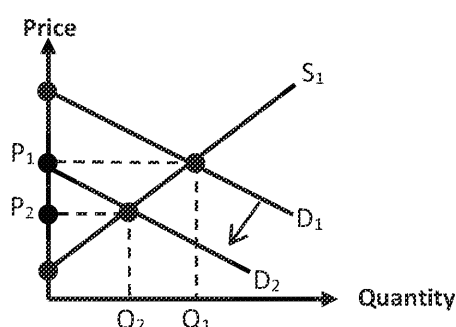
    c) Consumer surplus.

    d) ½ × height × base

3. a) Demand will increase and the producer surplus will also increase.

    b)

    c) Producer surplus.

    d) ½ × height × base

Activity 10 – Supply and demand (3)

1. • Markets are competitive. There are a large number of buyers and sellers in a [ ] takers (*not* price makers).
   • Ignores the 'time lags'. For example, it may take a while before a fall in price [ ]
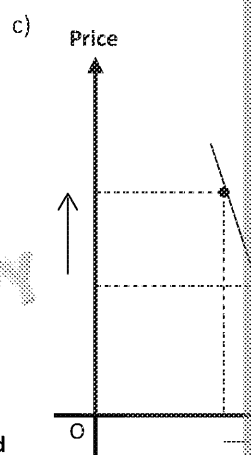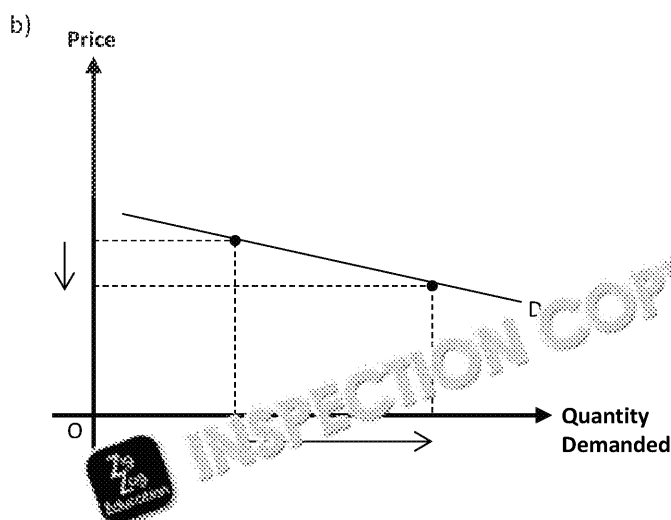
2.

Corrected mistakes are
indicated by this circle
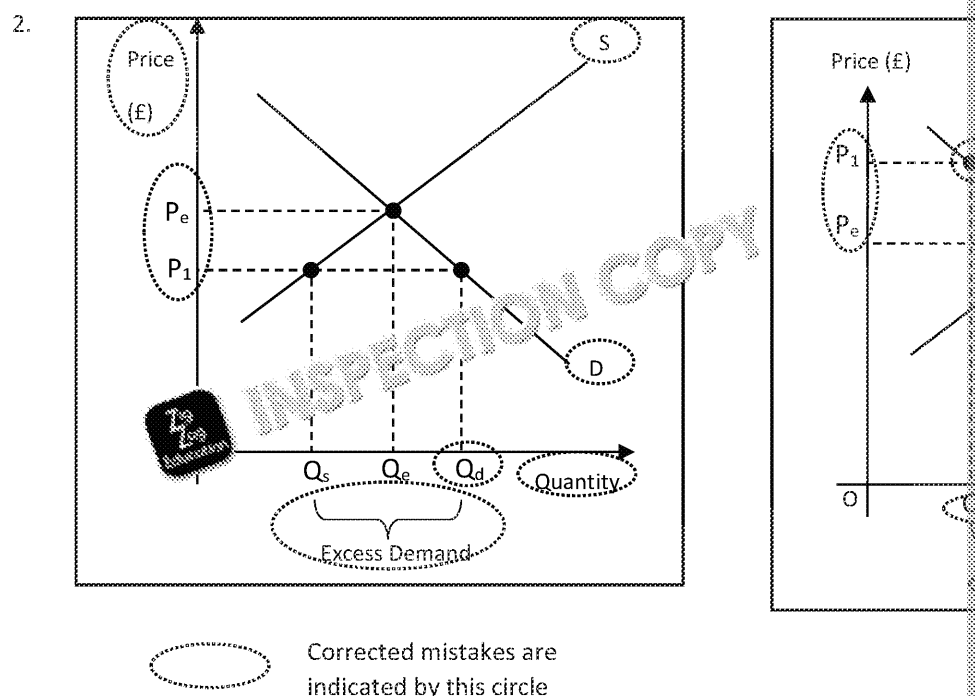
Activity 11 – Price elasticity of demand

1. PED measures the responsiveness of demand following a change in the price of a g[ ]

2. Price elasticity of demand = $\dfrac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

3. a) Total revenue = price × quantity

   b)

   c)

   d) When demand is unit elastic.

Activity 12 – Income elasticity of demand

1.

Positively elastic demand	YED > 0	Normal/luxury good	
Positively inelastic demand	0 < YED < 1	Normal good/necessity	
Negatively elastic/inelastic demand	YED < 0	Inferior good	

2.
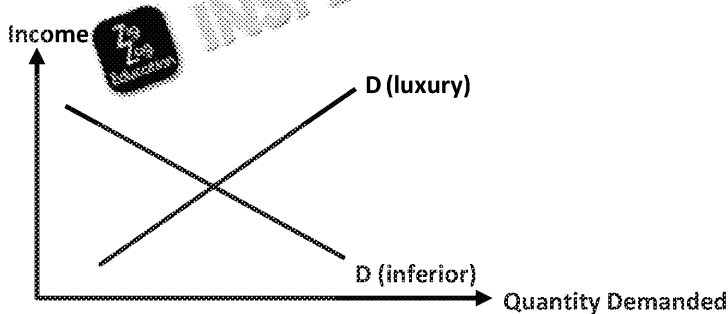
3. XED bigger than 1 suggests that cross elasticity of demand is elastic. This means th[…] of Pepsi will result in a massive increase in the demand for Coca-Cola. Likewise, if P[…] will experience a massive increase in demand, as consumers switch from Coca-Cola[…]

Activity 13 – Elasticities (1)

A. % change in demand =
$$\frac{500{,}000 - 1{,}000{,}000}{1{,}000{,}000} \times 100 = -50\%$$

% change in price = $\frac{10 - 5}{5} \times 100 = 100\%$

PED (chocolates) = $\frac{-50}{100} = -0.5$

Inelastic demand

B. % change in supply =
$$\frac{500{,}000 - 300{,}000}{300{,}000} \times 100 = 66.67\%$$

% change in price = $\frac{3 - 2}{2} \times 100 = 50\%$

PES (soup) = $\frac{66.67}{50} = 1.3$

Elastic supply

C. % change in demand =
$$\frac{150{,}000 - …}{50{,}000} \times 100 = 200\%$$

% change in income =
$$\frac{35{,}000 - 30{,}000}{30{,}000} \times 100 = 16.67\%$$

YED (flowers) = $\frac{200}{16.67} = 12$ (approx.)

Luxury good

D. % change in de[…]

% change in in[…]

YED (wine) = [...]

Inferior good

E. % change in de[…]

$$\frac{5 - 15}{15} \times 100 = -6[…]$$

% change in pr[…]

XED (tea or mi[…]

Complementary[…]

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Activity 15 – Economies and diseconomies of scale

1. a) When an increase in the size of a firm leads to a decrease in its average cost.

   b) When there is a decrease in the average cost of a firm due to an increase in th[...] operates in.

   c) When an increase in the size of a firm also leads to an increase in its average c[...]

2.

3.
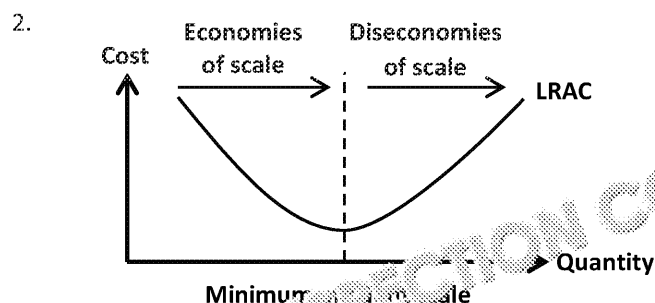
Fina[...]onomies	Easier access to credit for larger businesses.
Technical economies	Technology that might not be suitable for small busine[...] businesses, e.g. automated distribution systems.
Managerial economies	Room for specialist managers once a business grows la[...] business development, manager of human resources.
Marketing economies	Nationwide advertising is expensive so likely only cost[...]
Risk-bearing economies	Larger businesses can cross-subsidise losses from diffe[...] retail store in London could cross-subsidise the losses [...]

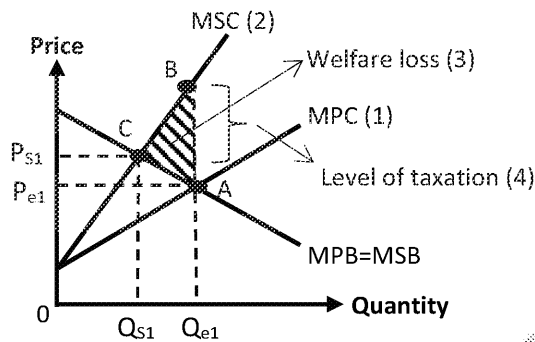## Activity 16 – Market failure (1)

1.

Market failure	This refers to the misallocation of resources that result from[...]
Misallocation of resources	This refers to the inefficient use of resources. In other[...] the best possible way, which means the market is not [...]
Externality	This refers to the additional consequences, positive or[...]
Private cost	This is the direct cost of production to the producer.
External cost	This is the cost to the third party of production or cons[...]
Social cost	This is the external cost and private cost combined.
Private benefit	This is the direct benefit or utility of consumption to th[...]
External benefit	This is the benefit to the third party of production or c[...]
Social benefit	This is the external benefit and private benefit combin[...]
Marginal private cost	This is the private cost of producing one more unit of a[...]
Marginal private benefit	This is the private benefit of cons[...]ming one more unit[...]
Marginal social cost	This is the cost of pr[...] [...]e [...]ore unit of a good t[...]
Marginal social benefit	This is the b[...] of [...]suming one more unit of a go[...]
Market equilibrium	Th[...] [...]he marginal private benefit is the same [...] [...]cing and consuming a good or a service.
Social [...]al equili[...]	This is where the marginal social benefit is the same as producing and consuming a good or a service.
Welfar[...]	This refers to the loss in efficiency that results from th[...]
Welfare gain	This refers to the gain in efficiency as the market move[...]
Economic agents	These are all the stakeholders in an economy (i.e. they[...]
Government intervention	This refers to the measures that a government underta[...]

Activity 17 – Market failure (2)

1.

The government could tax cigare~~tt~~ ~~to o~~ ~~o~~~~...~~age consumers from purchasing them.

Activity 1~~8~~ ~~...~~ve ~~...~~~~...~~t failure

1. Market ~~...~~~~...~~ refers to the misallocation of resources that result from the price me~~...~~
   Government failure refers to the misallocation of resources that results from meas~~...~~
   correct the initial misallocation of resources caused due to market failure.

2.

Reasons	Explanation
Asymmetric information	Government decisions may not be fully inform~~...~~ information.
Administrative costs	Intervention generally has high administration ~~...~~ government for monitoring compliance of rule~~...~~ These costs may be greater than the benefits i~~...~~
Distortion of price mechanism	There is a misallocation of resources when the ~~...~~ to function freely.
Conflicting priorities	Government may have conflicting priorities, wh~~...~~ compromised measures taking place to deal wi~~...~~
Unintended consequences	Government intervention may have some addi~~...~~