READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections: I, II and III.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.
SECTION I

MODULE 1: METHODOLOGY – DEMAND AND SUPPLY

Answer ONE question.

Draw ALL diagrams neatly and carefully, and clearly label ALL axes and curves.

1. The ideological nation of Utopia devotes all its resources: land, labour, capital and entrepreneurship to producing food and clothing.

(a) (i) Define the term 'scarcity'.

(ii) Draw and label a graph of the production possibilities frontier (PPF) for Utopia.

(iii) Using the PPF from (a) (ii) above, explain how

a) the concept of opportunity cost is related to the problem of scarcity

b) economic growth can be achieved in Utopia.

(b) (i) State TWO differences between a ‘command economy’ and a ‘free market economy’.

(ii) Given the disadvantages of a centrally planned economy, discuss TWO possible economic reasons for the downfall of this type of economic system over the last three decades.

Total 25 marks
2. ABC Company Ltd which produces genuine cow leather, is increasing the unit price of leather so as to remain a viable entity. The following information applies to ABC.

When the price of leather increased from $9 to $10 the quantity demanded decreased from 150 units to 110 units.

(a) (i) List THREE determinants of price elasticity of demand. [3 marks]
(ii) Calculate the price elasticity of demand (using the arc method) and interpret the results. [8 marks]

(b) (i) Sketch and label the demand curve with which ABC Company Ltd is faced, showing revenue before and after the price change. [4 marks]
(ii) Advise ABC Company Ltd on a decision that is in the best interest of the company. (Justify your answer.) [3 marks]

(c) (i) Define the term ‘consumer surplus’. [2 marks]
(ii) The government has decided to support the genuine cow leather industry by imposing an effective price floor in the market.

Using a well-labelled diagram, illustrate consumer surplus after the imposition of the price floor. [5 marks]

Total 25 marks
3. The table below shows the quantity of shoes, total cost, total revenue and marginal revenue for a shoe manufacturer.

<table>
<thead>
<tr>
<th>Quantity of Shoes</th>
<th>Total Cost</th>
<th>Total Revenue</th>
<th>Marginal Cost</th>
<th>Marginal Revenue</th>
<th>Average Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>8</td>
<td>0</td>
<td>—</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>9</td>
<td>8</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>16</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>24</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>13</td>
<td>32</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>19</td>
<td>40</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>6</td>
<td>27</td>
<td>48</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>37</td>
<td>56</td>
<td>—</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

(a) (i) Copy the table into your answer booklet and complete it to show marginal cost and average cost for each level of output. [7 marks]

(ii) Use the completed table from (a) (i) above to plot the marginal cost, marginal revenue and average cost curves on the same diagram. [5 marks]

(b) (i) With the aid of an example, explain the relationship between the marginal cost curve and the average cost curve. [5 marks]

(ii) Identify the market structure under which the firm operates. (Justify your answer.) [3 marks]

(c) Analyse how a particular characteristic of perfect competition ensures that, in the long-run, perfectly competitive firms will make zero profits. [5 marks]

Total 25 marks
4. (a) (i) Define the term 'public good'. [2 marks]

(ii) Explain why public goods are usually provided by the government. [3 marks]

(b) (i) Define the term 'externality'. [2 marks]

(ii) a) Copy the diagram below into your answer booklet and label it to illustrate a negative production externality. [4 marks]

![Diagram showing negative production externality](image)

b) Use the completed diagram to explain how negative externalities lead to market failure. [4 marks]

(iii) Outline THREE policies that the private sector can adopt in order to correct market failures. [6 marks]

(c) Consider the market for used cars, where good quality cars and poor quality cars are traded. In this market, the sellers know the quality of the cars while buyers do not.

(i) Identify the issue being described above. [1 mark]

(ii) Explain how the issue identified in (c) (i) above leads to market failure. [3 marks]

Total 25 marks
SECTION III

MODULE 3: DISTRIBUTION THEORY

Answer ONE question.

5. (a) (i) Explain what is meant by the statement “The demand for all productive resources is a derived demand.” [2 marks]

(ii) Outline TWO factors that influence EACH of the following:

a) The demand for labour [4 marks]

b) The supply of labour [4 marks]

(b) Blue Corp is a semiconductor chip manufacturer. It operates in a perfectly competitive market and employs the least-cost combination of inputs. Blue Corp’s marginal product of labour is 28 chips per worker hour and the wage rate is $14 per hour; the marginal product of the machine is 60 chips per machine hour.

(i) State the ‘least-cost rule’. [2 marks]

(ii) Use the least-cost rule to calculate the hourly rental price of a machine. [3 marks]

(iii) Assume that the popularity of Blue Corp’s semiconductor chips has decreased. With the aid of a well-labelled diagram, explain the effect of this decrease on the marginal revenue product curve for machine hours. [6 marks]

(c) Outline TWO factors that can account for workers in some countries being more productive than workers in other countries. [4 marks]

Total 25 marks
6. (a) (i) Distinguish between 'relative poverty' and 'absolute poverty'. [4 marks]

(ii) Outline TWO strategies that governments can employ to alleviate poverty. [4 marks]

(b) (i) Given that Country A has a Gini coefficient of 0.61 and Country B has a Gini coefficient of 0.33, draw and label a diagram to show the Lorenz curve for both countries. Indicate, on your diagram, the line of inequality. [5 marks]

(ii) Explain the concept of 'income inequality'. [3 marks]

(iii) Compare the income share of the bottom fifty per cent of the population of Country A and Country B. [3 marks]

(iv) Outline THREE measures that the government of the country with more inequality can use to narrow the gap between the two countries. [6 marks]

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.