

Issued On:		Past Paper Questions [PPQs]	14 [10 – 24]
Deadline:		Model Questions [MQs]	3 [12 – 14]
Marks : Time	1 mark = 1 ½ Mnt	Units - Essentials Covered	Unit 1

Structured Essay Type Question Answers:

Part - [A] PPC Application

[01] 2006 A/Ls (ECON-I, Part II): **Q2** Sub-parts (a) to (c)

(a) Draw a production possibilities curve reflecting increasing opportunity costs for an economy producing two goods, public sector goods (vertical axis) and private sector goods (horizontal axis). The economy is currently producing at point A which is located on the mid-point of the production possibilities curve and show it on the diagram.

(02 marks)

(b) Mark the following points on your diagram:

- I. Point (B) which shows production following the election of a new government which
 - II. Privatizes many public sector services but maintains full and efficient employment.
- III. Point (C) where unemployment is present in the economy
- IV. Point (D) where the economy is in a recession.
- V. Point (E) where the state takes over production of all goods and services in the economy.

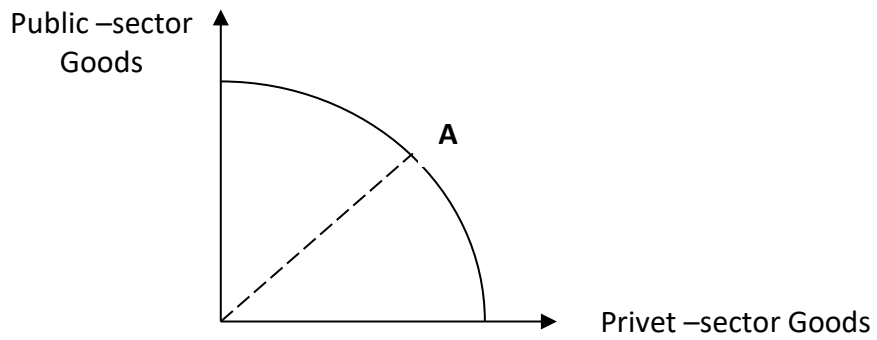
(01 mark each)

(c) Now draw two new production possibilities curves on the same diagram to show the following:

- I. The position after a devastating war has hit the economy.
- ii. There is an increase in productivity by 50% in the public sector goods and by 100% in the private sector goods.

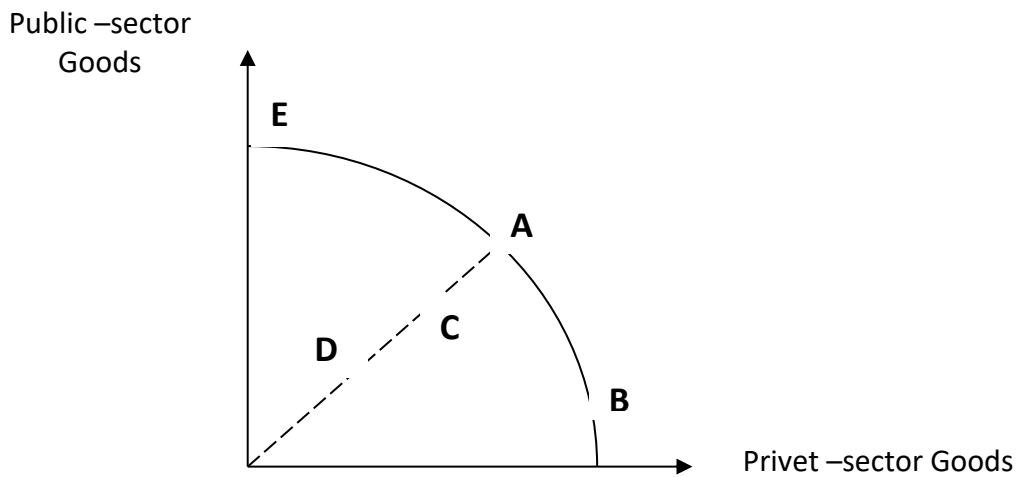
(02 marks each)

(a)



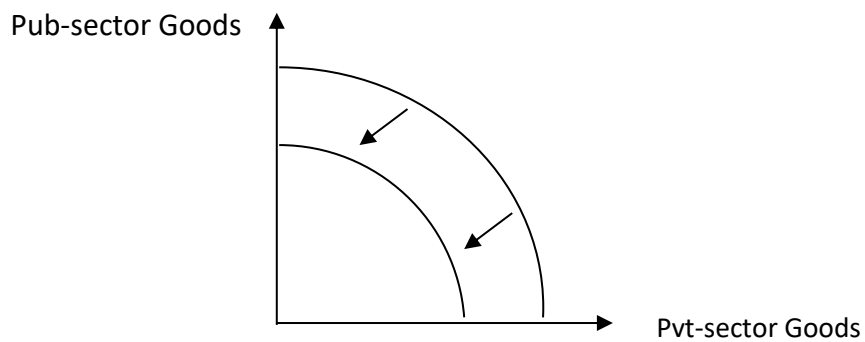
(b)

[02 marks]

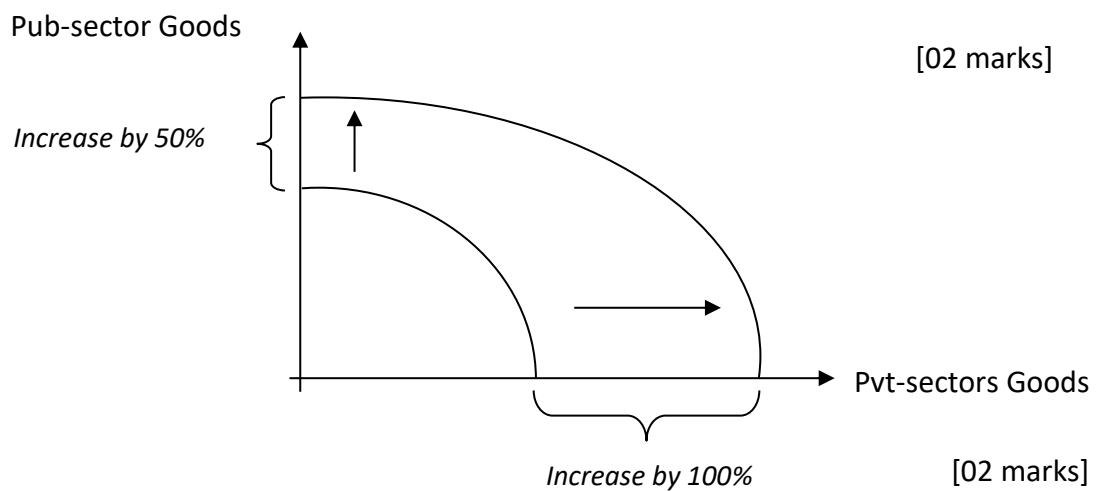


[01 mark each, Sub-total 05 marks]

(c) (I)



(II)



[02 marks]

[02 marks]

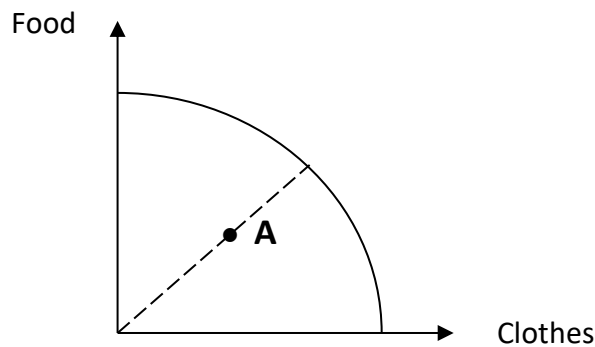
[02] 2007 A/Ls (ECON-I, Part II): Q1 Sub-parts (III)

(III) How would the following events be shown using a production possibilities frontier for food and cloth?

- A. The economy is experiencing a recession.
- B. Economic growth takes place
- C. Society decides it wants more food and less cloth
- D. Technological advances takes place in food production sector

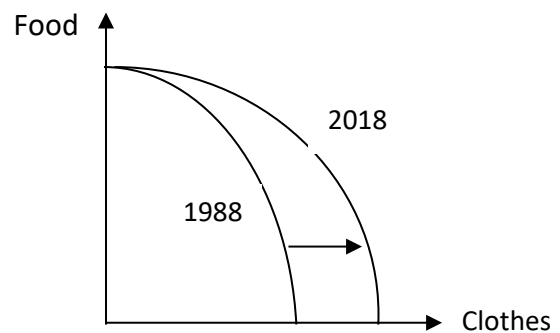
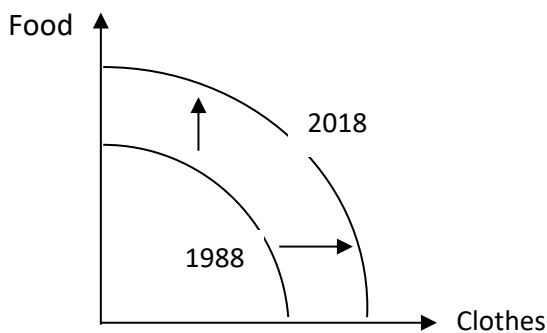
(04 marks)

(a)

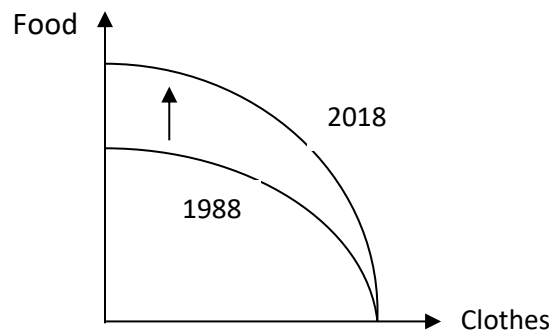


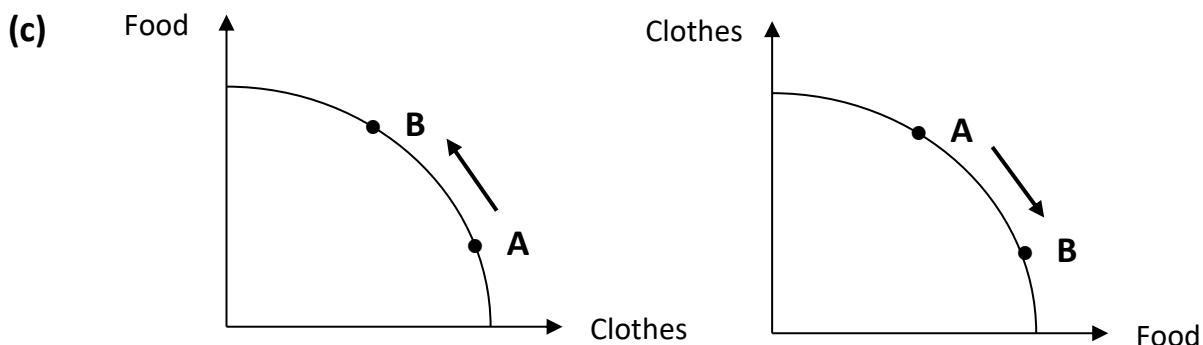
[01 mark]

(b)

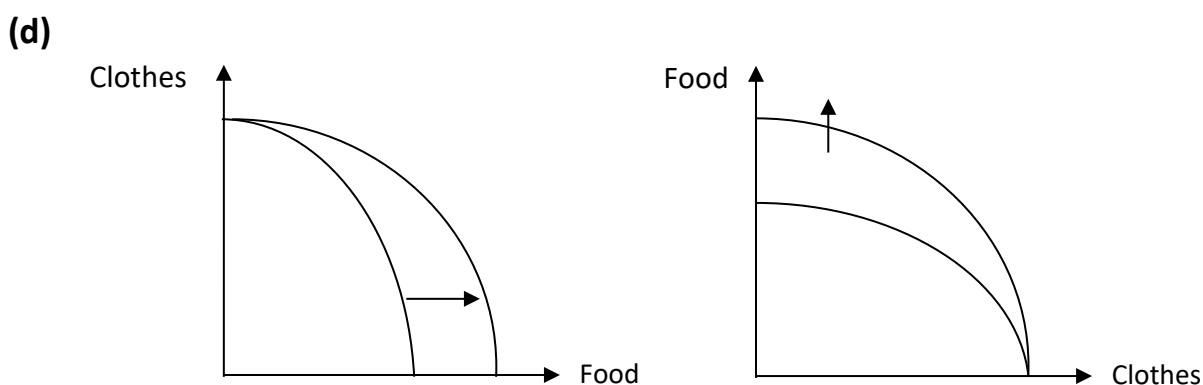


[01 mark for anyone of these approaches]





[01 mark for anyone of these approaches]



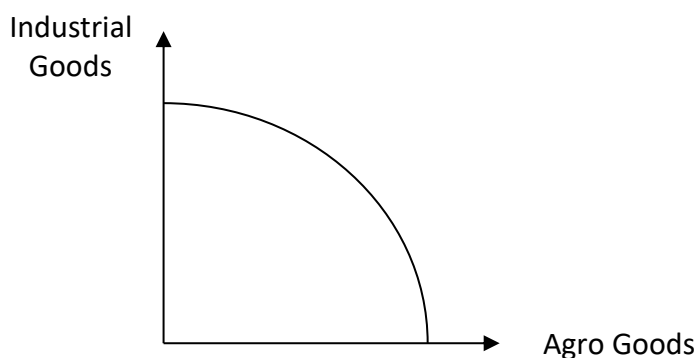
[01 mark for anyone of these approaches]

[03] 2010 A/Ls (ECON-I, Part II): Q2 Sub-parts (III)

(III) Construct a production possibilities curve (PPC) for a country facing increasing opportunity costs and show how the following events can be represented in a PPC framework.

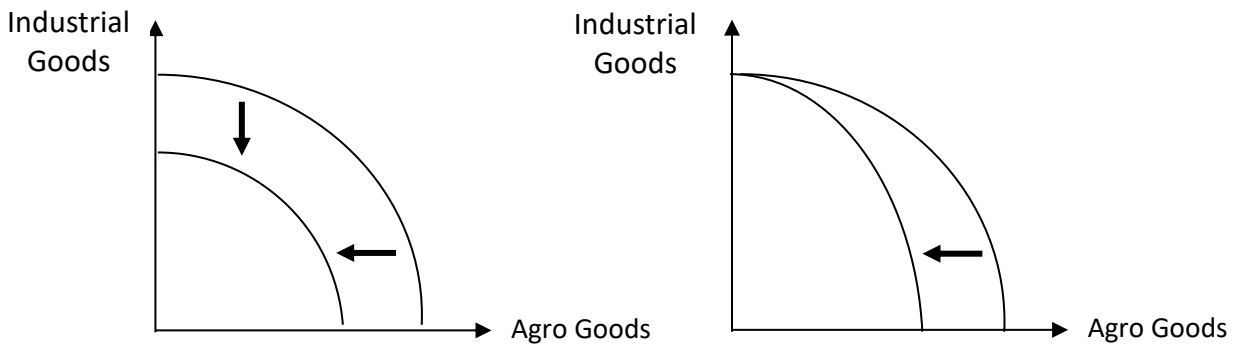
- (a) A large number of skilled workers emigrating to other countries.
- (b) A recession
- (c) A new and better fertilizer is invented
- (d) Economic growth

(04 marks)



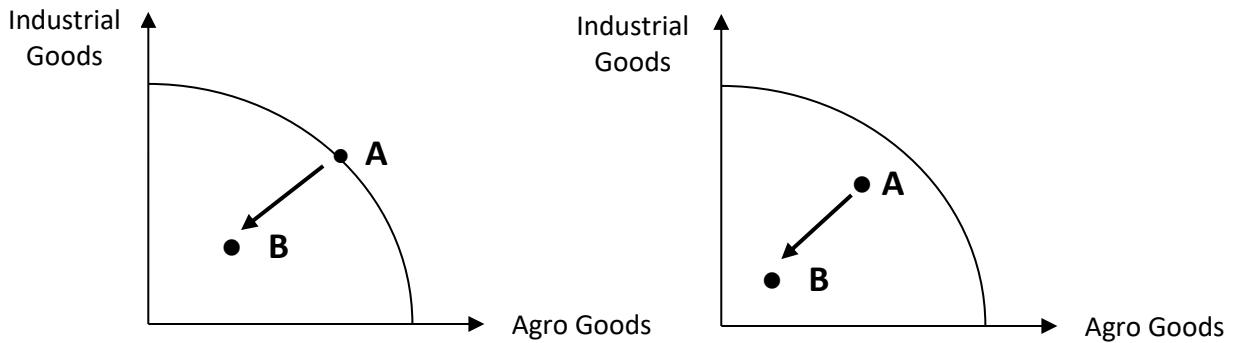
[01 mark]

(a)



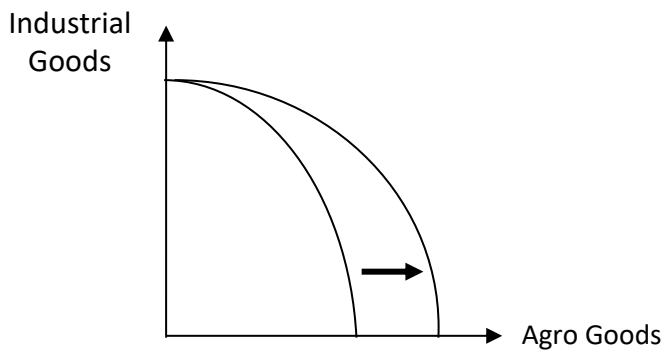
[01 mark for anyone of these approaches]

(b)



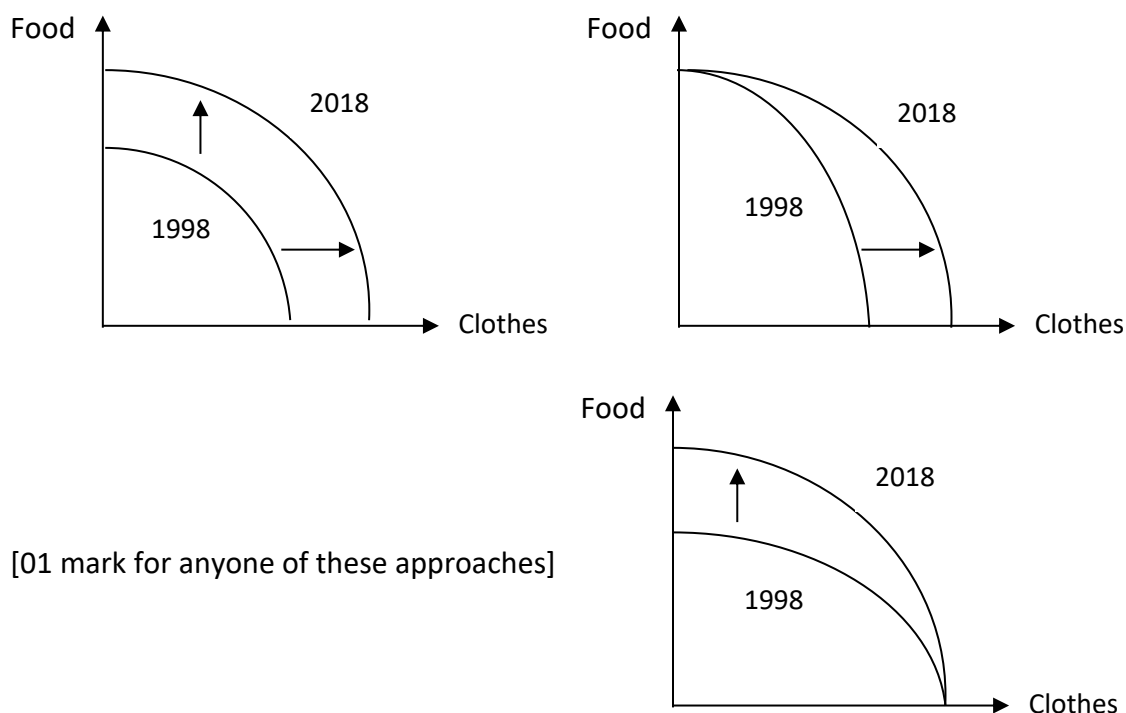
[01 mark for anyone of these approaches]

(c)



[01 mark]

(d)



[04] 2013 A/Ls (ECON-II): Q1 Sub-parts (V)

How does the production possibilities frontier help to illustrate the microeconomic and macroeconomic issues in the economy?

(04 marks)

Microeconomic Application [Issues]:

- Scarcity (Relative Scarcity)
- Choice (Problem of Choice)
- Opportunity Cost resulting from making choices
- Results of change in technology in a given industry ...

[01 mark each, maximum 02 marks]

Macroeconomic Applications [Issues]:

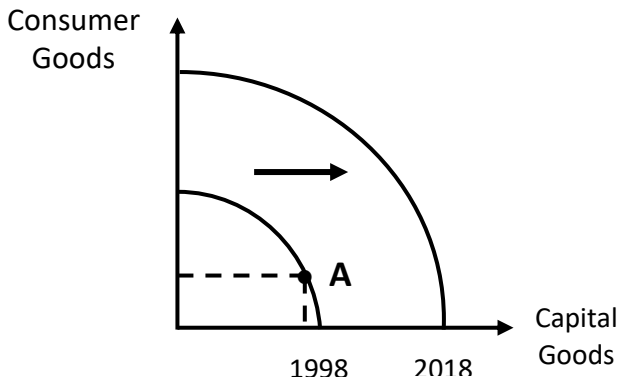
- Full employment and Underemployment (Unemployment)
- Economic Growth
- Economic Recession (Downturn) and Depression
- Economic Decline...

[01 mark each, maximum 02 marks]

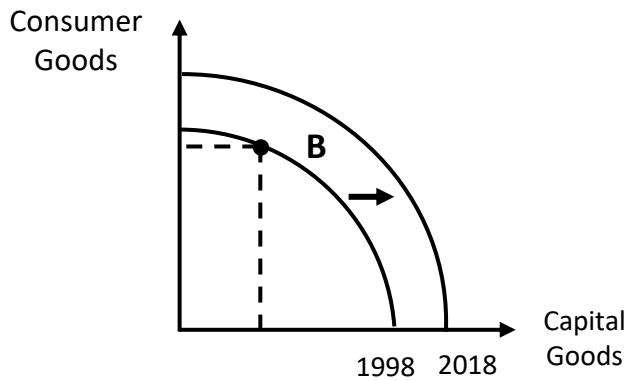
[05] 2015 A/Ls (ECON-II): Q1 Sub-parts (III)

Describe, using production possibilities curves, how economies can grow faster if they are willing to cut back on current consumption

(04 marks)



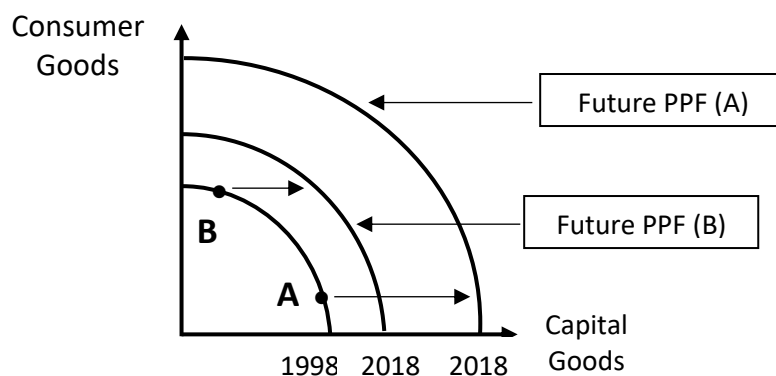
(A) An economy allocating relatively less resources towards the production of consumer goods during the present period of time. Is able to achieve relatively higher degree of economic growth in the future.



(B) An economy allocating relatively less resources towards the production of capital goods during the present period of time. Is expected to achieve relatively lower degree of economic growth in the future.

[01 mark for each diagram and 01 mark for the explaining, total 04 marks]

Alternative, representation approach



[06] 2016 A/Ls (ECON-II): Q2 Sub-parts (IV)

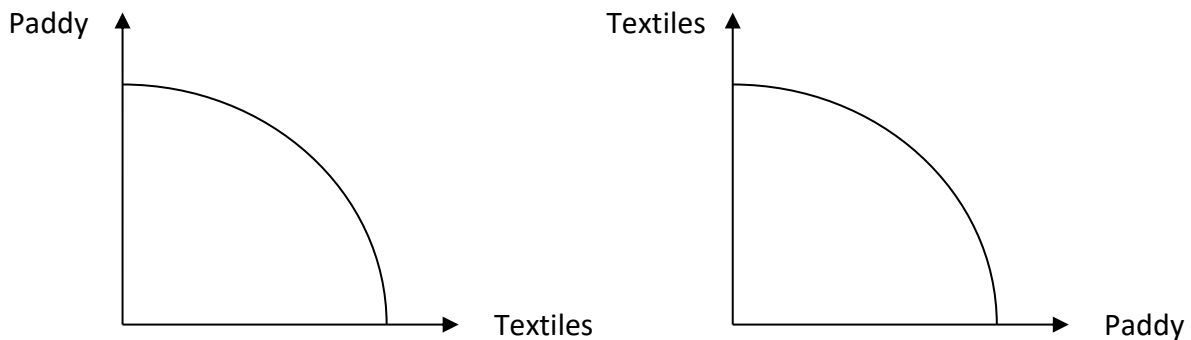
(IV) Draw a production possibilities curve for a country facing increasing opportunity cost for producing paddy and textile. Show how the PPF changes given the following events:

(02 marks)

- (a) A new and better fertilizer is invented
- (b) There is a surge in the quantity of labour which can be employed in both sectors
- (c) A server drought results in a 10% decrease in usable farmland
- (d) A new technology is invented in the textile industry to reduce cost of production

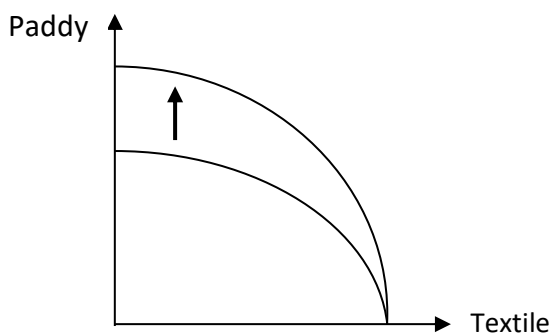
(04 marks)

[06] 2016 A/Ls (ECON-II): Q2 Sub-parts (IV)

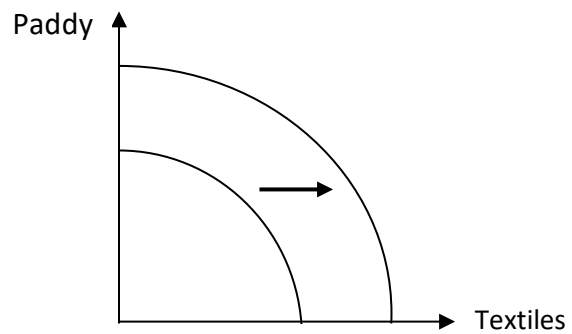


[02 marks for anyone of these approaches, with a Concave PPF]

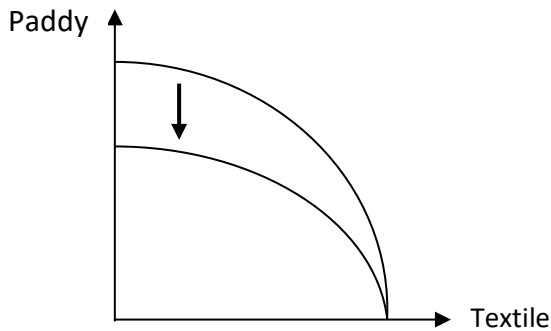
(a)



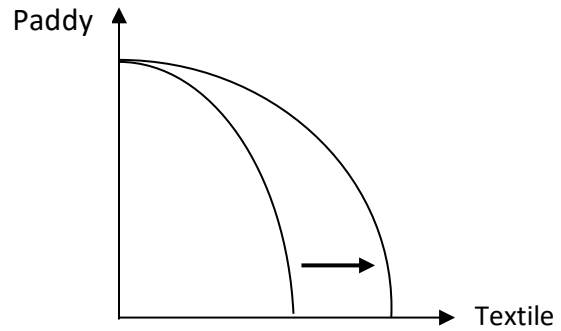
(b)



(c)



(d)



[01 mark each, total 04 marks]

[07] 2020 A/Ls (ECON-II): Q1 Sub-parts (IV)

Explain what happens to a country's production capacity due to a pandemic such as Covid 19 using a production possibilities curve

(05 marks)

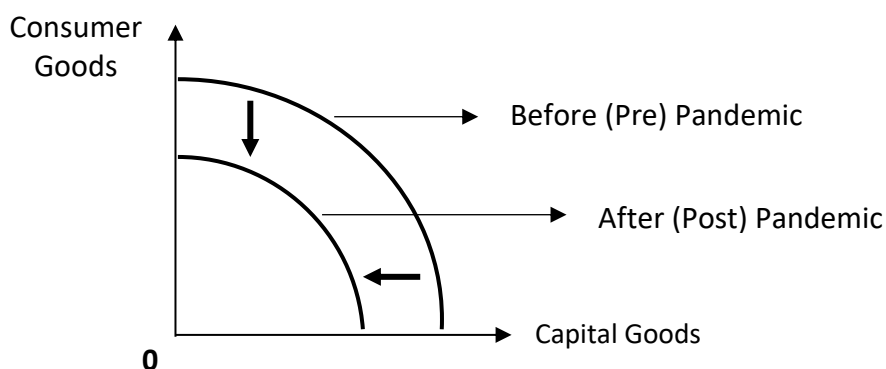
What happens to an economy's production capacity due to a pandemic disease such as Covid 19 depends on its impact on the country's resource endowment and its productivity.

(01 mark)

If the pandemic makes a significant impact on the size of the labour force and the productivity of labour, then it is likely to reduce the production capacity of the economy and causing the PPC to shift downwards in the short run.

(01 mark)

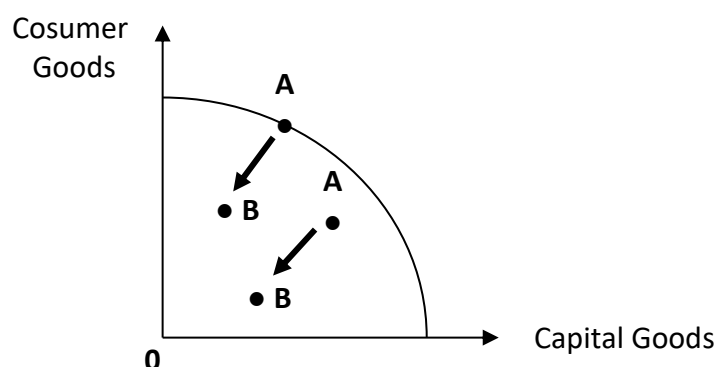
PPC would shift downward to indicate the decrease in potential output



(01 mark for the correct diagram)

If the pandemic does not make a significant impact on the size of the labour force and its productivity it is unlikely to reduce the production capacity of the economy. In this situation, although the pandemic may not influence the productive capacity (potential output) of the economy, the rate of utilization of the production capacity can be affected due to public reaction to the disease such as lockdowns, supply chain and market disruptions

In this situation, PPC does not shift downwards, but the actual production level of the economy will be contracted as shown below.



(01 mark for the correct diagram)

Part - [B] Economic System, Market Economic System

- ➔ [08] 2018 A/Ls (ECON – II): Q1 (III)
 List the three fundamental questions any economic system must answer and outline briefly the three basic economic systems that have evolved to answer these questions. [04 marks]
- 2011 A/Ls (ECON-II): Q1 (I)
 What re the three basic economic problems any economic system must address [03 marks]
- 2008 A/Ls (ECON – I - II): Q1 (I)
 What are the functions of an economic system? [03 marks]
- 2007 A/Ls (ECON – I - II): Q1 (I)
 What are the three basic economic questions [03 marks]

Fundamental (Basic) Questions or Problems:

- (1) **What to produce, in which quantity**
[Additional: allocation problem, production decision]
- (2) **How to produce**
[Additional: production problem, choice of techniques decision]
- (3) **Whom to produce**
[Additional: distribution problem, distribution decision]

[01 mark]

Basic Economic Systems:

[Solving basic economic problems, based on mechanism of resource allocation]

- Market Economic System
- Command (Centrally Planned) Economic System
- Traditional Economic System
- Mixed Economic System

[01 mark each, maximum 03 marks]

*No marks if terms such as 'Socialist/Communist' or 'Capitalist' economic system is used

[09] 2008 A/Ls (ECON – I - II): Q1 (II)

State the reasons for the variety of economic systems [04 marks]

2006 A/Ls (ECON – I - II): Q1 (a)

Outline the nature of resource ownership in (I) a planned economy and in (II) a market economy

[02 marks]

(1) Ownership of Resources (Property Resources) and Rights:

- **Capitalist Economic Systems**
[Private sector property ownership and rights]
- **Socialist (Communist) Economic Systems**
[Public sector property ownership]

Additional: Differences in terms of private property ownership, freedom of private enterprise, freedom of resource mobility, freedom of employment choice.

(2) Mechanism of Resource Allocation (Mechanism of Coordinating Decisions to Solve Basic Economic Problems):

- **Market Economic System**
[Decentralised market or price mechanism]
- **Command (Centrally Planned) Economic System**
[Centralised planning mechanism and commands]
- **Traditional Economic System**
[Traditions, customs and cultural norms]

Additional: Differences in terms of price mechanism, central planning mechanism, command based decision making, decision making based on traditions and customs.

(3) Incentives Structure (System) Influencing Decision Making Units:

- **Market Economic System**
[Dominated by material incentives, main source profits]
- **Command Economic System**
[Dominated by coercive incentives, main source authoritative power, common benefit]
- Certain economic systems may operate dominated by moral incentives such as based on incentives such as national pride, patriotism, ethical commitments



[10] 2009 A/Ls (ECON – I - II): Q2 (I)

What are the main characteristics of a market economy?

[04 marks]

- Private property ownership
- Freedom of private enterprise and freedom of choice
- Competitiveness (competitive markets)
- Incentives based on self-interest (profit driven incentives)
- Mechanism of resource allocation, 'Price Mechanism'
- Consumer sovereignty
- Limited government role (laissez Faire government role)

[01 mark each, maximum 04 marks]

[11] 2017 A/Ls (ECON – II): Q1 (IV)

What functions do price serve in a market economy [03 marks]

2011 A/Ls (ECON – II): Q1 (III)

What are the **three** functions of price in a market economy? [03 marks]

Functions of Price (or Price Mechanism):

- **Signalling (information) Function:**
Signalling the information which allows economic agents operating within markets (consumers and producers) to make and coordinate decisions.
- **Incentives function:**
Creating incentives for buyers and sellers to efficiently respond to price signals.
- **Rationing Function:**
Rationing and allocating resources among competing uses

[01 mark each, total 03 marks]

[12] 2009 A/Ls (ECON – I - II): Q2 (II)

What is the **role** of **profit** in a **market economy** [04 marks]

- Encouraging introduction of innovations
- Making resource allocation among different sectors of the economy efficient
- Providing market signals (resources flow towards industries with high profit expectations)
- Acting as the return or reward for risk taking
- Providing resources or funds required for business expansion (retained profits: shareholders are encouraged to invest more in shares, if more profits are declared as dividends)
- A source of tax revenue to the government

[01 mark each, maximum 03 marks]

[13] 2016 A/Ls (ECON – II): Q1 (V)

Why is **private property** and **protection of private property rights** so critical to the success of the **market economy**?

[04 marks]

A market economic system is founded on the pillars of private property, private entrepreneurship, self-interest and freedom of choice. Property rights refer to a unique right or entitlement to use property resources owned by an individual or institution as per their freewill or self-interest. The market economic system can only function if such property rights are established and protected. If property rights are not ensured and protected, output of a market economy will be highly restricted.

[01 mark]

Property ownership and rights, shall directly affect trade and exchange. In a market economic system, exchange take place through ‘markets’. Exchange of goods and services between two parties based on discussion and negotiation can only take place, if property rights of each party is accepted and protected.

[01 mark]

Well-defined and protected property rights is essential for citizen of a market economic system to accumulate wealth in the form capital and to contribute such wealth towards the economy’s economic growth process. If a given society believes, ones savings can be acquired or taken by someone else, such a society will not be motivated to engage in saving, due to the lack of incentives.

[01 mark]

A lack of well-defined structure of property ownership and rights, leads to market inefficiencies. A problem specific to natural resources (common resources) tends to be exploitation and over utilisation of such resources, due to the lack of properly defined private property ownership and rights.

[01 mark] [Total 04 marks]

[14] 2016 A/Ls (ECON – II): Q1 (V)

Why do **entrepreneurs** play a key role in a market economy [02 marks]

One of the key pillars upon which a market economic system is founded is ‘private entrepreneurship’, therefore entrepreneurs are essential for a market economic system.

[01 mark]

When solving the basic economic problem common to all economic systems’: what to produce in which quantity, entrepreneurs play a primary role in a market economic system. Entrepreneurs organize and mobilise resources in order to produce goods and services. Entrepreneurs may even engage in starting new businesses, risking their own funds or savings.

[01 mark] [Total 02 marks]



[15] 2010 A/Ls (ECON – I - II): Q2 (IV)

Examine the main **shortcomings** of **price mechanism** as a means of allocating resources

[05 marks]

2008 A/Ls (ECON – I - II): Q1 (IV)

Examine whether the operations of a market economy always produces a desirable outcome

[05 marks]

2009 A/Ls (ECON – I - II): Q2 (III)

Would the market economy always be able to allocate resources efficiently?

Explain your answer

[04 marks]

- Under provision or allocation of resources to produce Merit goods
- Non allocation of resources to produce Public goods
- Over allocation of resources to produce De-merit goods
- Barriers to competition and efficient resource allocation, such as formation of Monopoly markets, imperfectness of information and consumer exploitation (producer sovereignty overriding consumer sovereignty)
- Disparities in income and wealth distribution
- The creation of macroeconomic instability leading to market failure

[01 mark each, maximum 04 marks]

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