

THEORY PROGRAM

**FORTNIGHTLY REVIEW [FNR]****Suggested 'Answers'****FNR: 06**

Issued on:

**AL - 2023**

Due on:

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

**Part [A]**

Question	Answer	Question	Answer
01	1	16	3
02	4	17	4
03	4	18	2
04	5	19	4
05	3	20	1
06	3		
07	4	(I)	False
08	1	(II)	True
09	2	(III)	True
10	4	(IV)	False
11	1	(V)	True
12	3	(VI)	False
13	5	(VII)	True
14	3	(VIII)	False
15	1	(IX)	True
		(X)	True

**Part [B]****Question [01]****(01) State the characteristics of a mixed economic system.**

- The economy comprises of four main economic operators in the form of consumers, producers, resource owners and the government.

- Consumers, producers and resource owners represent the private sector and are motivated by the incentive of self-interest. On the other hand the public sector receives motivation through the incentive of social wellbeing or benefit.
- The private sector and the public sector shall independently own production resources.
- In economic activities directed by the private sector there is a competitive environment and the public sector makes resource allocation decisions by way of a planning mechanism.
- There is a high degree of freedom received by consumers with regards to goods and services produced by the private sector, but such freedom tends to be limited or totally eliminated with regards to goods produced by the public sector.

[01 mark each, total 05 marks]

**Question [02]**

**(02) Describe what is meant by an economic system, and list the main components of the institutional structure of an economic system**

An economic system refers to a **social and institutional mechanism** which is created to solve the **basic economic problems** of a society. In this process an economic system performs **three main activities** or functions.

[02 marks]

- Making decisions with regards to **what goods to produce** in what particular quantity (**Production decisions / Allocation problem**)
- Making decisions with regards to **how to produce** the selected goods (**Choice of techniques decision / Production problem**)
- Making decisions with regards to **whom to produce** these selected goods (**Distribution problem/decision**)

[1 mark for each point, a maximum of 1 ½ marks]

**Institutional Features**

- **Institutional Structure** [01 mark]
  - Households
  - Enterprises
  - Government
  - Markets
  - Labour Organizations
  - Non-governmental Organizations
  - Incentives

[½ mark each, max 1 ½ marks]

- Legal Structure/System [01 mark]
- Traditions, values and culture [01 mark]

[Subtotal 4 ½ marks]  
[Total 08 marks]

**Question [03]**

**(03) Match the key terms given below with the most suitable statement.**

A - Statements	B – Key Terms
A natural-state resource.	Land
The knowledge and skills acquired by labour.	Human Capital
Manufactures goods used to make other goods and services	Capital
A person willing to assume the risk of a business.	Entrepreneur
Renewable and nonrenewable gifts of nature.	Natural resources
Physical and intellectual effort by people in the production process.	Labour

[02 marks each, total 12 marks]

**Question [04]**

**Distinguish between 'Individual Demand' and 'Market Demand' [06 marks]**

Individual demand is The quantities of a given product, an individual consumer operating in the market is expecting (willing) to purchase, at alternative prices which may exist in the market, when other factors remain constant during a specific period of time.

[03 marks]

Market demand is The sum of all the quantities of a given product, all consumers operating in the market are expecting (willing) to purchase, at alternative prices which may exist in the market, when other factors remain constant during a specific period of time.

[03 marks] [Total 04 marks]

**Question [05]****(05) State the principal factors which affect a consumer's demand for a given product.**

- **Price** of the own good [01 mark]
- **Non price factors** affecting the demand of the product
- Price of related products [**Price of substitute and complementary goods**]
- Consumer's **income**
- Consumer taste and preferences
- Consumer expectations
- Demographic and social factors
- Natural, man-made and acts of state

[01 mark each, max 04 marks]

[Total 05 marks]

**Question [06]****(06) Briefly explain what is meant by a Substitute good & a Complementary good.**

[03 marks each, total 06 marks]

Substitutes are two goods for which, other things equal, an increase in the price of one lead to an increase in the demand for other (or two goods for which the price and quantity demanded relationship between them is positive). In practice, a substitute is a good which can replace another to satisfy the same want.

[02 marks]

Substitute in a market context are essentially goods that compete with each other.

Examples:

Butter and margarine, Potatoes and sweet potatoes, Tea and coffee, Movie tickets and drama tickets, Bus travel and train travel.

[01 mark for minimum two pairs of examples, Subtotal 03 marks]

**Two goods for which, other things equal, an increase in the price of one lead to a decrease in the demand for the other** (or two goods for which the price and quantity demanded relationship between them is negative). In a practical sense, a complement is a good which is purchased and used with other goods to satisfy a want.

[02 marks]

Complementary goods are also known as goods with a joint demand, especially when two or more complements are bought together.

Examples:

Smart phone and mobile data (or Wi-Fi access), Tea and sugar, gun and bullets, Pen and ink, TV and Satellite Set-top (receiver) Box

**[01 mark for minimum two pairs of examples, Subtotal 03 marks]**

**[Total 06 marks]**

**Question [07]**

**(07) State whether the give pairs of goods are Substitute Goods or Complementary Goods.**

**[08 marks]**

<b>Pair of goods</b>	<b>Substitute or Complementary</b>
Toothpaste & Toothbrush	Complementary goods
Tea & Coffee	Substitute goods
Eyeglasses & Contact lenses	Substitute goods
Mobile phone & Sim card	Complementary goods
Pen & Notebook	Complementary goods
Coke & Pepsi	Substitute goods
Tennis ball & Tennis racket	Complementary goods
Butter & Margarine	Substitute goods

