THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]**	FNR: **03**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

Question	Answer	Question	Answer
01		11	
02		12	
03		13	
04		14	
05		15	
06		16	
07		17	
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10		20	

Part – [B]

Question [01]

(01) 'Assume Amal is paid every fortnight, and as a result of an increase in wages in the beginning of the second fortnight of the month from his employer, Amal increased his consumption of soft drinks and donuts, decreased his consumption of butter cake, Milk Powder, maintained same consumption of fish buns as first fortnight, while does not have the need to buy anymore mosquito coils for the month.

Based on the given explanation identify whether the following goods are normal, neutral goods, goods subject to satiation or inferior goods.

a. Soft drinks: - Normal Good
b. Donuts: - Normal Good
c. Butter cake: - Inferior Good
d. Milk Powder - Inferior Good
e. Fish buns: - Neutral Good
f. Mosquito Coils: - Goods subject to satiation.

Question [02]

State whether the changes in the following factors would cause demand for a good to rise or fall

[½ mark for each change, total 05 Marks]

Factor: Income [Normal Good]	Effect on Demand
Increase in Income	Increase/Rightwards Shift
Decrease in Income	Decrease/Leftwards Shift

Factor: Price of related goods	Effect on Demand
Increase in price of substitute goods	Increase/Rightwards Shift
Decrease in price of substitute goods	Decrease/Leftward shift
Increase in price of complementary goods	Decrease/Leftwards shift
Decrease in price of complementary goods	Increase/Rightwards shift

Factor: Taste & preferences	Effect on Demand
More desire for a good/ preference	Increase/Rightwards Shift
Less desire for a good/ preference	Decrease/Leftwards Shift

Factor: Number of buyers	Effect on Demand
Increase in number of buyers	Increase/ Rightwards Shift
Decrease in number of buyers	Decrease/Rightwards Shift

Factor: Future Price	Effect on Demand
Increase in price	Decrease/ Leftwards Shift
Decrease in price	Increase/ Rightwards Shift

Question [03]

Define the following 'Concepts' (Ensure to provide a **complete** and **theoretically correct** definition, using the **correct technical terms**)

Suggested Answer:

(1) **Scarcity** in economics is the limitedness or insufficiency of the available stock of productive resources in comparison or relative to the unlimited human wants of a given society.

[02 marks]

Relative scarcity is a central or fundamental and universal economic problem or concept.

[01 mark] [Total 03 marks]

Additional:
TWO essential features which exist within every society, which leads to the creation of a **problem of scarcity**

- ✓ Human wants tend to be unlimited during a given period of time
- ✓ The amount of resources available to produce goods and services to satisfy such human wants is limited during the given point of time.

(2) A given resource or combination of resources represent more than one (or multiple) productive uses (i.e., can be used to produce different goods and services/ for different purposes).

[02 marks]

Alternative uses are a quality or attribute common to many resources. This is also known as (AKA) 'Competing Ends'. Alternative uses of resources is one of the reasons for the creation of a 'Problem of Choice'

[01 mark] [Total 03 marks]

(3) The problem of Choice in economics is broadly a decision of Allocating scarce resources with alternative uses to satisfy a society's unlimited wants.

All societies face Unavoidable tradeoffs due to relative scarce resources with alternative uses. Therefore, economics is known as a science of choices.

[02 marks]

There are three basic economic problems or choices faced by any society in the process of resource allocation:

- What to produce in what quantity
- How to produce
- Whom to produce

[01 mark] [Total 03 marks]

(4) The opportunity cost is the value (real value) of the next or second best alternative foregone, when a choice must be made among alternative choices or activities.

[02 marks] Alternative definitions are acceptable.

Opportunity cost is a highly subjective and real concept. Cost in economics is opportunity cost and, in some situations, may include external cost.

[01 mark] [Total 03 marks]

Question [04]

(04) **Define** 'Price Elasticity of Demand (PED)' and state the principal 'Determinants' of PED

[08 marks]

Price Elasticity of Demand (PED) measures the responsiveness (sensitivity) of a given product's quantity demanded to a change in the given product's relative price, while factors other than price affecting demand are constant.

PED is estimated by dividing the percentage change in quantity demanded of a given product by the percentage (or proportionate) change in the price of the product. This formula can be given as follows:

$$\textbf{PED} = \frac{\textbf{Percentage Change in Quantity Demanded}}{\textbf{Percentage Change in Price}}$$

[04 marks, including formula]

Also Known As [AKA]: **Own Price Elasticity of Demand**

Principal Determinants of PED:

- Availability of Substitutes (Alternatively: Number of Close Substitutes for a Good/Uniqueness of the Product)
- The Percentage of a Consumer's Income allocated to Spending on the Good
- Nature of the good / Degree of Necessity or whether the Good is a Luxury
- The Time Period Allowed Following a Price Change/ How Much Time has Passed since the Price Change

[01 mark each, subtotal 04 marks]
[Total 08 marks]