IGCSE ECONOMICS · 1.1 THE MARKET SYSTEM · CHAPTER 2 · PAPER 1

Economic Assumptions

Topic question sheet L02 | **Total: 27 marks** | **Time: 30 minutes** | **Student Book pp. 12–17**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 Which of the following would help consumers and producers to maximise their benefits and profits? **(1)**

A Higher prices
B Access to more information
C Fewer suppliers
D Brand loyalty

2 Which of the following is a reason why consumers may not maximise their benefit? **(1)**

A Some consumers have high incomes
B Opportunity costs are always zero
C Consumers develop buying habits that are hard to give up
D Consumers compare prices online

3 According to economists, a rational business that can sell its product for $5 would charge: **(1)**

A $4.50 to attract more customers
B $5
C $4 to undercut rivals
D whatever its costs are

4 UNICEF raises money to help children and their mothers. It is best described as a: **(1)**

A profit-maximising firm
B public limited company
C not-for-profit organisation
D monopoly

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 What is meant by a **rational** consumer? **(2)**

6 State the assumption economists make about the aim of businesses. **(1)**

7 A van hire firm charges $40 a day plus 5 cents per km. Calculate the cost of hiring a van for one day and driving 240 km. You are advised to show your working. **(2)**

8 Explain **one** reason why a business may not maximise its profit. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Brightside Café

Brightside Café in Nairobi is run as a social enterprise. It employs young people who have left care, and trains them as baristas. Its prices are 10% higher than those of a large coffee chain across the road.

The café's manager says: "We could make more profit by hiring experienced staff, but our aim is to give young people a start." Many customers say they choose Brightside because they like its purpose, even though the chain is cheaper. Others visit the chain every day out of habit.

Fictional case, written for this sheet.

9 With reference to the extract, analyse why Brightside Café does not maximise its profit. **(6)**

10 With reference to the extract, assess whether Brightside's customers are behaving rationally. **(9)**

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Mark scheme: Economic Assumptions

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *Which of the following would help consumers and producers to maximise their benefits and profits? (1 mark)*

Answer: B (Access to more information). More information lets people find the best price and quality.

2 *Which of the following is a reason why consumers may not maximise their benefit? (1 mark)*

Answer: C (Consumers develop buying habits that are hard to give up). Habit can lead people to ignore better-value options.

3 *According to economists, a rational business that can sell its product for $5 would charge: (1 mark)*

Answer: B ($5). A rational firm charges the highest price the market will stand.

4 *UNICEF raises money to help children and their mothers. It is best described as a: (1 mark)*

Answer: C (not-for-profit organisation). It aims to help a cause, not to make a profit.

Section B

5 *What is meant by a rational consumer? (2 marks)*

A consumer who makes thoughtful, logical decisions (1) to maximise their benefit/satisfaction (1).

6 *State the assumption economists make about the aim of businesses. (1 mark)*

Businesses aim to maximise profit (1).

7 *A van hire firm charges $40 a day plus 5 cents per km. Calculate the cost of hiring a van for one day and driving 240 km. You are advised to show your working. (2 marks)*

Working: 240 × $0.05 = $12 (1).

Answer: $40 + $12 = $52 (1).

8 *Explain one reason why a business may not maximise its profit. (3 marks)*

Point: decisions are delegated to managers with different aims (1).

Development: e.g. sales managers paid commission try to maximise sales (1); to sell more the price must fall, so profit on extra units falls (1).

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Section C

9 *With reference to the extract, analyse why Brightside Café does not maximise its profit. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): social enterprise aims to improve well-being; profit is not its main aim.

Application (2): it employs young people who have left care; it could hire experienced staff.

Analysis (2): training inexperienced staff raises costs and may lower productivity, so profit is lower than it could be; its aim is to give young people a start.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, assess whether Brightside's customers are behaving rationally. (9 marks · levels)*

For rational: they get satisfaction from supporting the café's purpose, so paying 10% more can maximise their benefit.

Against: the chain is cheaper for a similar product; some customers visit the chain out of habit, not choice; satisfaction is hard to measure.

Judgement: rationality depends on what gives each customer satisfaction; paying more for a purpose can be rational, but habit-driven choices are less likely to maximise benefit.

Levels: L1 1–3 (points listed, little use of the data) · L2 4–6 (developed points, some use of the data, limited evaluation) · L3 7–9 (developed points on both sides using the data, with a supported judgement).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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