Price Mechanism and its Applications

Section C: Essay Guiding Questions

Essay Q1:

- *Learn Section 6 especially 6.1 before attempting to answer this question.*
- *Why is there a need to allocate scarce resources?*
- *What is meant by a free market?*
- *Think about how you can integrate DD-SS diagrams into your answer.*

Essay Q2

Part (a)

Do note that in any question where there is a shift in the DD and/or SS curve, you need to explain very clearly the <u>price adjustment process</u>.

- You need good knowledge of DD-SS determinants and the applications of elasticities to answer parts a and b. As such, do learn the set of lecture notes especially pages 7-13 on DD determinants, pages 15-19 on SS determinants, pages 19-21 on Combined shifts, pages 33 - 54 on Elasticities and pages 66-67 on Quota.
- What is meant by revenue? How do you illustrate revenue from the DD-SS diagram?
- How do you decide what are the demand determinants and the supply determinants in the preamble.
- Can elasticities be applied to this question? What elasticities may not be relevant?
- Have you considered the effect of combined shifts of DD and SS curves on total revenue?

Part (b)

Do begin your analysis from a fall in the price of milk instead of what causes the price of milk to fall.

- When the cue word is 'impact', what do you examine in this context?
- One related market may be the market for soy milk. What is their relationship?
- What other markets can you think of which may have a different relationship with milk?

Is it possible to have 2 related markets where one market affects demand while the other market affects supply?

Essay Q3

Part (a)

- For parts a and b, you need knowledge of DD and SS determinants as well elasticities (as in Qn 2 above) before attempting this question.
- You need to get this correct: The fundamental issue for this question is whether a goods and services tax affects the demand or supply curve.
- After you have decided on this, what elasticity may be relevant for your analysis on different types of goods?
- Can you think of different examples of goods linked to the various factors affecting the relevant elasticity above?

Part (b)

- This question requires good application of how the 2 variables in the preamble affect demand and supply respectively. You need to clearly decide what causes a change in demand vs what causes a change in supply.

- You need to clearly categorise the different types of goods. There is a particular category of goods where the equilibrium quantity will definitely fall. What may that be?
- Are you able to use DD-SS diagrams to illustrate the differing effects on quantity?
- Did you use different examples of goods to illuminate your analysis?

Essay Q4

Part (a)

- Knowledge required same as Qns 2 and 3
- This question challenges your conventional understanding that the free market works automatically to correct any shortages or surpluses through changes in equilibrium price and quantity. We have learned from the lecture notes that when there is a rise in demand or fall in supply, given free market forces, the market price will **<u>rise to the level</u>** that corrects the shortage. If that is the case, why then are there still shortages? Where is the price at if there is a shortage? Why is the price at that level?
- This is a challenging GCE A levels question.

Part (b)

- When question asks ‘is that the only effective way’, how do you respond?
- To assess effectiveness, do you need thesis/anti-thesis for each measure?
- Do you need to discuss the stated measure in the preamble?
- Are you able to think of one demand measure and one supply measure that the government can use to overcome the shortage?