P58
Data Analysis 3.1

Complete the column showing the opportunity cost of each extra unit of B in terms of the number of units of A sacrificed.

1st B opp cost is 10 A
2nd B opp cost is 15 A
3rd B opp cost is 20 A
4th B opp cost is 23 A
5th B opp cost is 32 A

P59
Business Analysis 3.1

Why do you think the size of economies and the composition of economies varies so much?

Answers might include:
- Natural resources
- Previous investment
- Labour force - size and skills
- Impact of government policy e.g. to encourage innovation
- Stage of economic development

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Data Analysis 3.2

1. Plot the PPF for the data shown in table 3.3

2. Calculate the number of units sacrificed as each employee is transferred from industry A to industry B.

3. Calculate the number of units gained as each employee is transferred from industry A to industry B.

<table>
<thead>
<tr>
<th>Sacrifice of A</th>
<th>Gain in terms of B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>5</td>
<td>30</td>
</tr>
</tbody>
</table>

4. Is the law of diminishing returns operating in both these industries? Explain your answer.

Law of diminishing returns is evident as resources are transferred successively more is given up for successively less.
Business Analysis 3.2

Discuss the ways in which the UK government might help to encourage exports.

Answers might include:
- Subsidize specific export related industries
- Invest in export focused industries
- Help share information and advice with exporters
- Negotiate trade deals with other countries to provide access to markets

Think About It 3.2

In what way do you think that the infrastructure of a country can help economic growth?

- Helps with transport getting supplies in and products to consumers.
- Help with information e.g. via broadband enabling customers to access products and businesses to access supplies and markets.
- Helps encourage businesses to locate there due to access to energy and other resources.

Think About It 3.3

1. Which of the following statements relating to the PPF are true and which are false?
   A: All combinations of goods on the frontier are productively inefficient = FALSE
   B: Economic growth can shift the frontier outwards = TRUE
   C: With a negative output gap, an economy will produce inside the frontier = TRUE
   D: As resources are moved from one industry to another, there is an opportunity cost = TRUE

2. How might a negative output gap in an economy affect the marketing, finance, operations, and human resource (HR) functions of a business?

   Answers might include: Could mean less demand therefore may have knock on effect leading to less output, employment and a further fall in demand. Businesses will consider how many people they employ, what prices to set, what segments target and how to adapt their strategy.

Think About It 3.6

How else do you think that managers in Brazil could cope with skills shortages in their industries?

Train existing staff; look for technological solutions; import staff; export production.
Think About It 3.5

1. How would the demand for factors of production be affected by a decrease in demand for cars?

Demand for factors of production are derived demands; with less demand for cars there will be less demand for e.g. labour and materials.

2. What dangers do you think there might be in letting business decide things for themselves without any government intervention? What about the dangers of letting households decide what they want to do for themselves?

*Answers might include:*

- Businesses may behave unethically; they may exploit employees, consumers or other firms.
- Households may pursue their own interest at the expense of society as a whole. They may not realize how bad or good certain items are for society in the long run.

3. Do you think that it is fair to let the free market determine who gets what in the economy?

*Answers might include:*

May lead to outcomes which are not seen as fair in that they are unequal. However may encourage incentive, innovation and better quality.

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Business Analysis 3.3

Do you think that fraud is likely to be inevitable when managers try to maximize profits?

May well be if they are left unregulated. In the pursuit of profit managers may behave in ways society may regard as undesirable.

Data analysis 3.3

1. At which price do the decisions of producers and consumers match each other?

   The equilibrium price is between £7 and £8.

2. What quantity is supplied and demanded at a price of £10? What does the price need to do for the market to reach equilibrium?

   At £10 there are 100 units demanded and 270 supplied so there is excess supply. Price will fall to reach equilibrium.

3. What quantity is supplied and demanded at a price of £5? What does the price need to do for the market to reach equilibrium?

   At £5 there are 250 units demanded and 0 supplied so excess demand. Price will rise to reach equilibrium.
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Business Analysis 3.5

Why do you think the government may have invested this much money into this business?

Answers might include:

- May want to control its decisions
- May want to ensure it survives
- May be important for jobs, for energy and for developing technology
- May be worried of the effects on the economy if it fails

Suggested Answers to Short Answer Questions

1. Resources are limited i.e. scarce; wants are unlimited and therefore a choice has to be made about how to use the resources we have.
2. What to produce, how to produce it and who to produce it for.
3. Shows the maximum combination of products that can be produced given the resources in the economy.
4. Shows more can be produced i.e. represents economic growth.
5. It is the sacrifice foregone in the next best alternative; moving resources into industry A and mean some output of B is sacrificed.
6. It occurs on the frontier of the production possibility frontier; more of one product can only be produced if less of another product is produced.
7. By the forces of supply and demand.
8. Measures the difference between what is actually being produced and what could be produced using the resources available in the economy.
9. It means there is a combination of private and public sector; a mixture of market forces and government intervention is responsible for providing the products in the economy.
10. In a planned economy there may be problems coordinating production across the economy, information problems; there may be a lack of incentive to innovate; there may be shortages or surpluses as too much or too little is produced relative to demand.