IB Economics – Competitive Markets: Demand and Supply

Exam Practice Questions: 1.4: Price Signals and Market Efficiency

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1.4 PRICE SIGNALS AND MARKET EFFICIENCY: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

a. Explain how the three concepts of scarcity, choice **and** opportunity cost are interrelated. **[10 marks]**

b. Assuming a competitive market, explain how the price mechanism functions to reallocate resources following an increase in the demand for coffee. **[10 marks]**

c. Assuming a competitive market, explain how the price mechanism functions to reallocate resources following an increase in the supply of coffee. **[10 marks]**

d. Examine how the concepts of producer surplus and consumer surplus are related to allocative efficiency. **[10 marks]**

e. In a competitive market, explain how allocative efficiency is achieved at the equilibrium price in a market. **[10 marks]**

2. IB ECONOMICS HL PAPER 3 EXAMINATION QUESTIONS

Question One **[25 marks]**

Given the supply and demand functions for good A: QD = 40 − 5P and QS = −20 + 10P.

a. Calculate equilibrium price and quantity. **[2 marks]**

b. On a graph, plot the supply and demand curves and the equilibrium price and quantity. **[4 marks]**

c. Identify and calculate the value of the consumer **and** producer surpluses. **[6 marks]**

d. If firms colluded to fix prices at $1.00 above the equilibrium price, calculate the value of the welfare loss in the market. **[2 marks]**

e. An increase in productivity means that the number of units supplied increases by 10 at each price. State the new supply function and plot the new supply curve. **[2 marks]**

f. Derive the new equilibrium price and quantity. Plot this on your graph. **[3 marks]**

g. Following an increase in supply, explain how price works in a competitive market as a signal and an incentive to restore market equilibrium. **[6 marks]**