Quick Answers

Question 1

Explain two reasons why the supply of bananas may decrease.

Logical explanations which might include:

- a period of bad weather/natural disaster (1) this would decrease the crop (1)
- a rise in costs of production (1) e.g. higher wages paid to farm workers would make it more expensive to produce the product (1)
- a government tax (1) this acts as a disincentive/is an extra cost (1)
- the removal of a subsidy (1) would reduce the incentive to produce the product (1)
- a change in the price of other crops (1) may encourage a shift of resources (1)
- change in the availability of land (1) e.g. flooding may reduce the supply of land (1)

Question 2

Analyse how investment in research and development can help a firm to grow in size.

- More innovation (1) e.g. Faster machines (1) increase productivity (1) decrease cost of production (1) decrease price of products (1) increase demand (1) increase market share (1) increase profits (1) more reinvestments (1)
- New products produced (1) larger exports (1) enter new markets (1) at start no direct competition (1) may be high demand (1)
- More skilled workers needed (1) creating a bigger workforce (1)
- Provide information (1) influence what is produced (1)

Question 3

Explain two reasons why the supply of a raw material such as oil may rise in the future.

- New supplies may be discovered (1) after investment searching for them (1)
- Price may rise (1) giving suppliers a profit incentive to supply more (1)
- Advances in technology / cuts in wages (1) may reduce costs of obtaining the raw material (1)
- Government subsidies (1) providing finance to search for oil / greater incentive to increase output (1)

Question 4

Define supply.

- The number of products firms are willing to provide/sell (1) and are able to provide/sell (1) at a given price (1)

Question 5

Discuss whether or not government subsidies are always beneficial to producers.

Up to 5 marks on how subsidies are beneficial to producers:

- Subsidies will lead to a decrease in cost of production (1) leading to a decrease in the price of products / shown on a diagram (1) and an increase the quantity demanded for producers / shown on a diagram (1)
- Total revenue for producers may increase (1) increasing profits (1)
- Subsidies will enable producers to increase investment (1) increasing future output (1)
- Producers can maintain a stable livelihood (1) ensure a stable income (1) ensure jobs can continue to be provided (1)
- Subsidies can encourage new entrants to an industry (1) increasing competition (1)

Up to 5 marks on how subsidies are not beneficial:

- Subsidies may be relatively small (1) and not be enough to offset the firm's losses (1) or not enough to offset higher costs (1)
- Subsidies can lead to complacency (1) where producers do not use subsidies in an effective way (1) they will be reluctant to lose the subsidies (1) and producers not receiving the subsidy e.g. those in a competing industry will be at a disadvantage (1)
- Subsidies have opportunity cost for the government (1). Other government provisions might be sacrificed (1) e.g. healthcare and education (1)

Guidance

Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is to be rewarded.