

AS Micro: Showing Good Analysis Skills in the Exam

Be Clear about the Command Words!

Define, Explain, **Analyse**, 'Distinguish between' and 'Outline' **require no evaluation!**

Evaluate, Assess, Discuss, To what extent, Examine **do require evaluation!**

What does analysis mean?

Analysis means **explaining a theory or a relationship. Or explaining cause and effect**

Best to analyse step-by-step using connectives

In doing so, you demonstrate that you are confident in handling some economic theory

Build Chains of Analysis Using Connective Phrases!

This means that...

The effect of this is ...

This has an impact on...

Therefore...

This can cause...

This is because...

As a result....

Connective words – always help analysis and evaluation in economics

Cause and Effect	Contrasting	Qualifying	Sequencing	Comparing	Illustrating
consequently	but	however	meanwhile	likewise	such as
because	despite	unless	after	as	in the case of
therefore	on the other hand	but	then	equally	for instance
thus	otherwise	if	when	similarly	for example
so	unlike	although	eventually	in the same way	
	instead of	on the other hand	while		
	alternatively		next		
	whereas		before		

Analysis Diagrams

Analysis diagrams help to explain the theory

Accurate, neat, well-drawn analysis diagrams can make a big difference to your script. Take care with them and do lots of practice!

Analyse **two possible effects** of a decision to introduce rent controls into the UK housing market



Analyse **two possible effects** of a decision to introduce rent controls into the UK housing market

A rent cap is a legally imposed price ceiling limiting what a landlord can charge. To be effective it must be set below the normal free market equilibrium rent.

One possible effect is that the supply of properties available might contract. This is because a rent cap lowers the financial incentives to let out a property. Then if available supply falls, the rental market will experience excess demand as shown in my analysis diagram. More people wish to rent at these low prices than there are houses available. This is called a disequilibrium.

A second effect might be to cause a shadow market to emerge, with tenants paying the legal maximum rent but also being charged extra by landlords for ancillary services such as keys and decoration. The landlords want to claw back extra revenue and therefore increase their producer surplus. Consequently the maximum rent may be less than the actual cost of renting the property.

Knowledge

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Application

Evaluation

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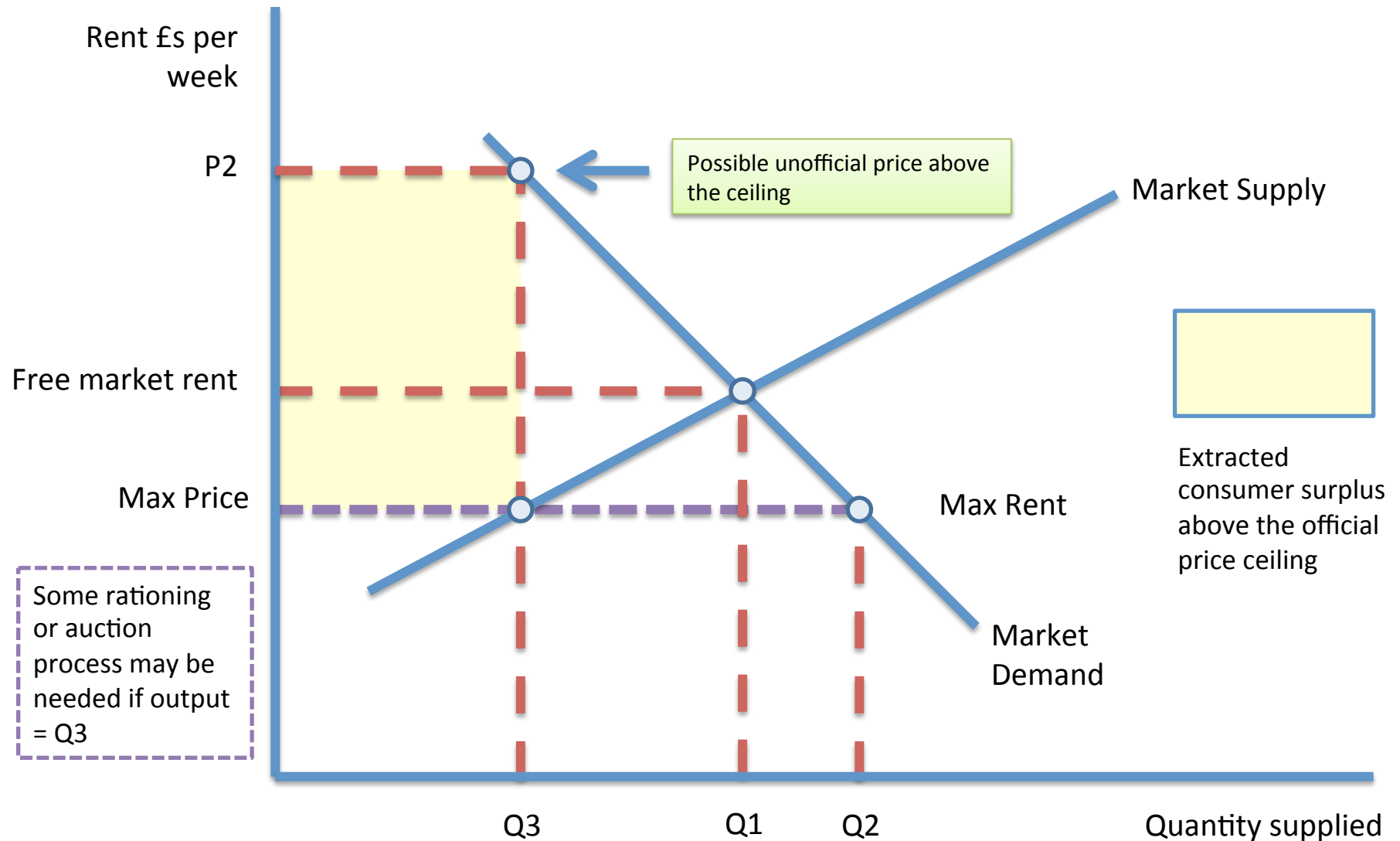
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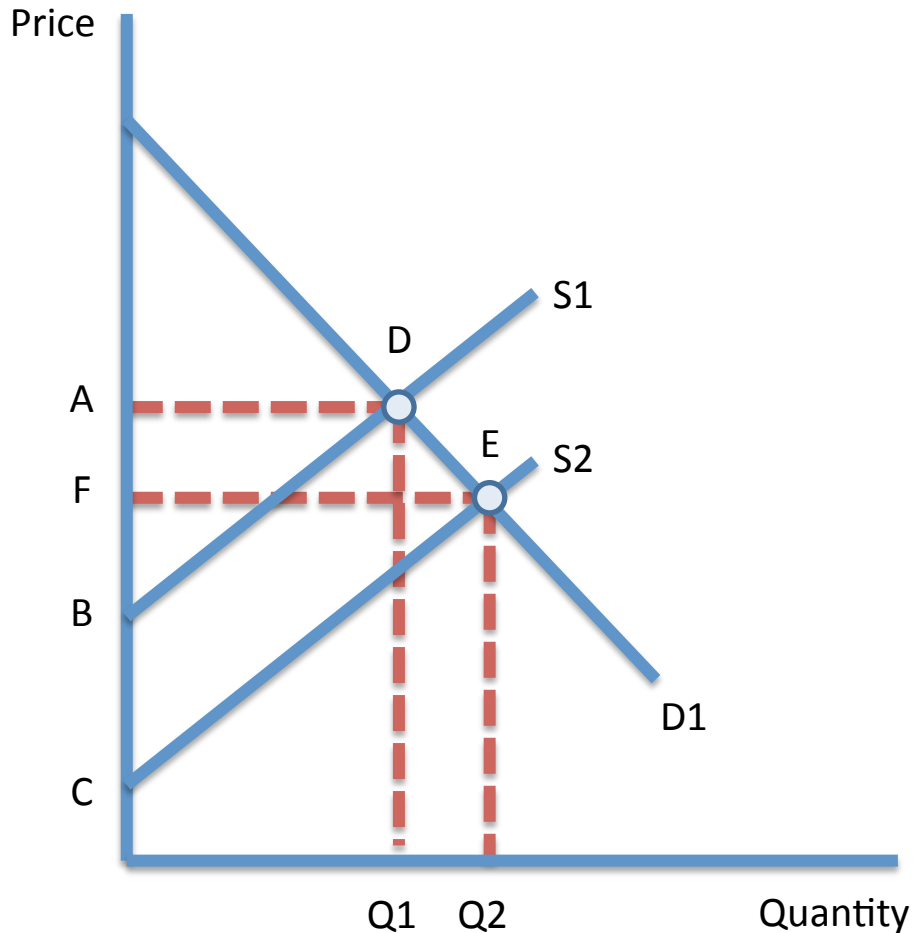
Analyse **two possible effects** of a decision to introduce rent controls into the UK housing market



Analyse **two possible effects** of a decision to introduce rent controls into the UK housing market (**Edexcel**)



Analyse the effect of **an increase in market supply** of tablet computers on the **level of producer surplus (Edexcel)**



Producer surplus is the difference between the price a business gets when selling their output and the minimum price they need to supply to the market.

An outward shift in supply (for example caused by higher productivity) leads to a fall in the market price and an expansion of demand. As a result, the area of producer surplus rises from ADB to area FEC . This is shown in my diagram.

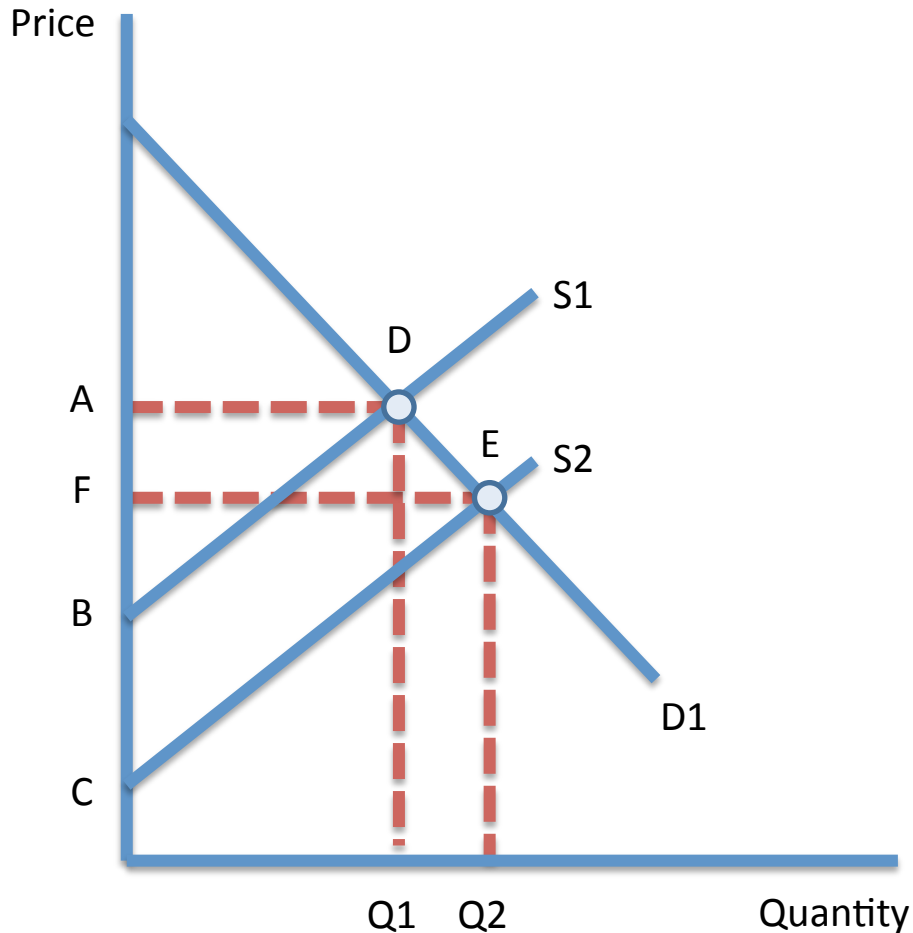
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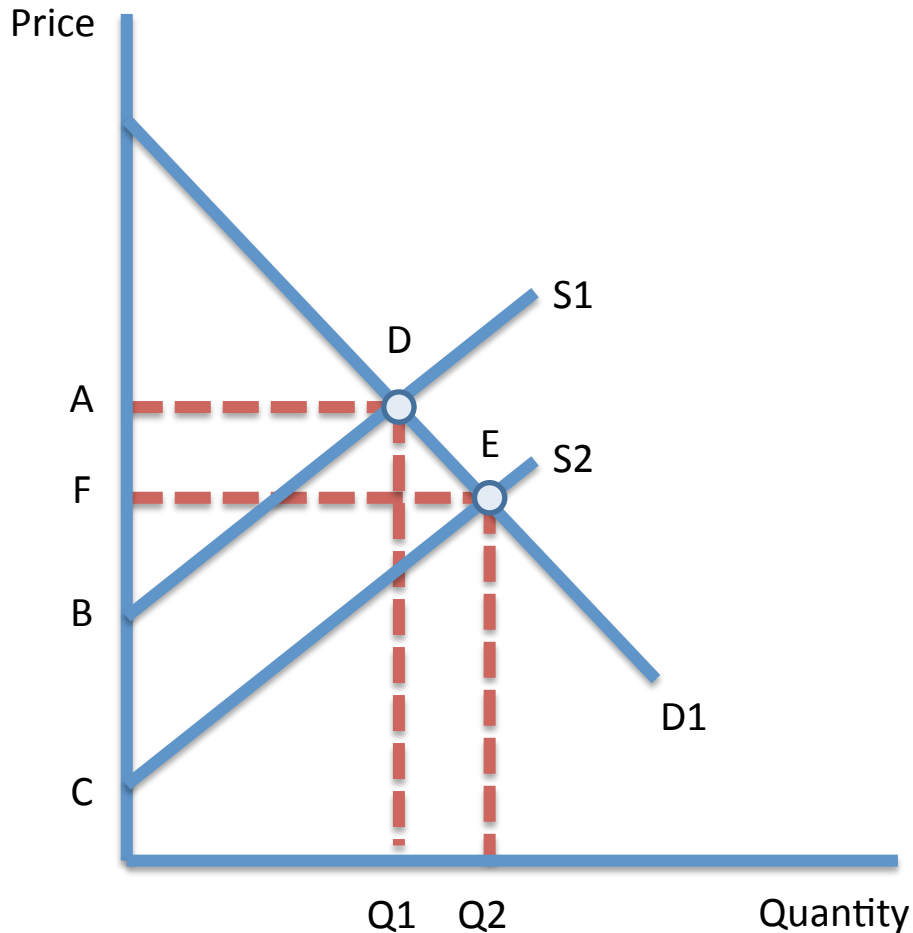
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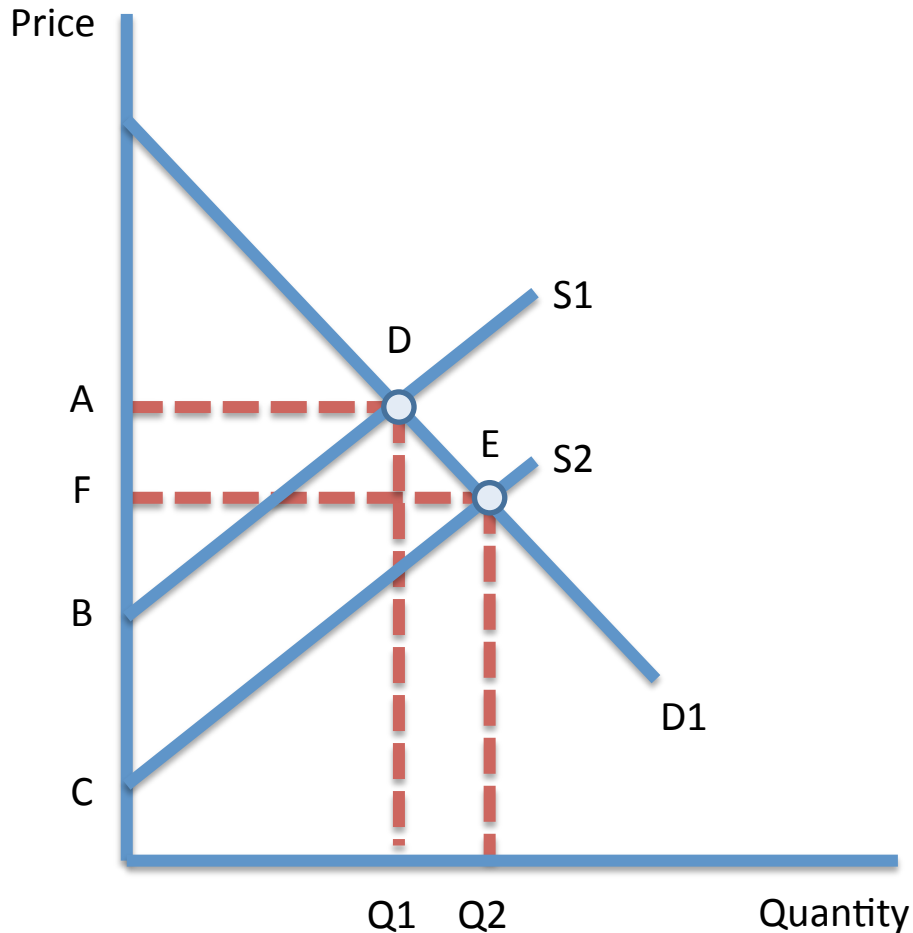


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The effect of a tax is to cause an inward shift of supply and the amount of the tax is shown by the vertical distance between the pre and post-tax supply curves. A low price elasticity means that $P_{ed} < 1$. As a result, when a tax is imposed, the producer can pass on most of this tax to the consumer in the form of a higher price.

In this way the producer is able to protect some of their revenues and profits.

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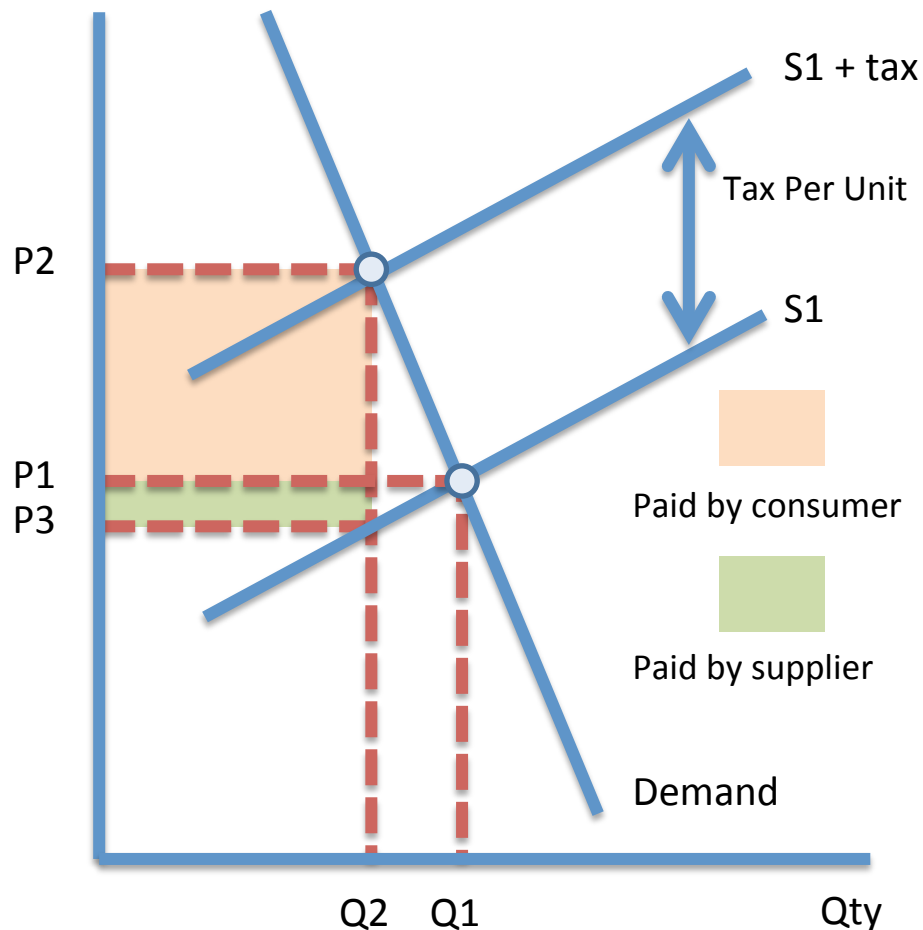
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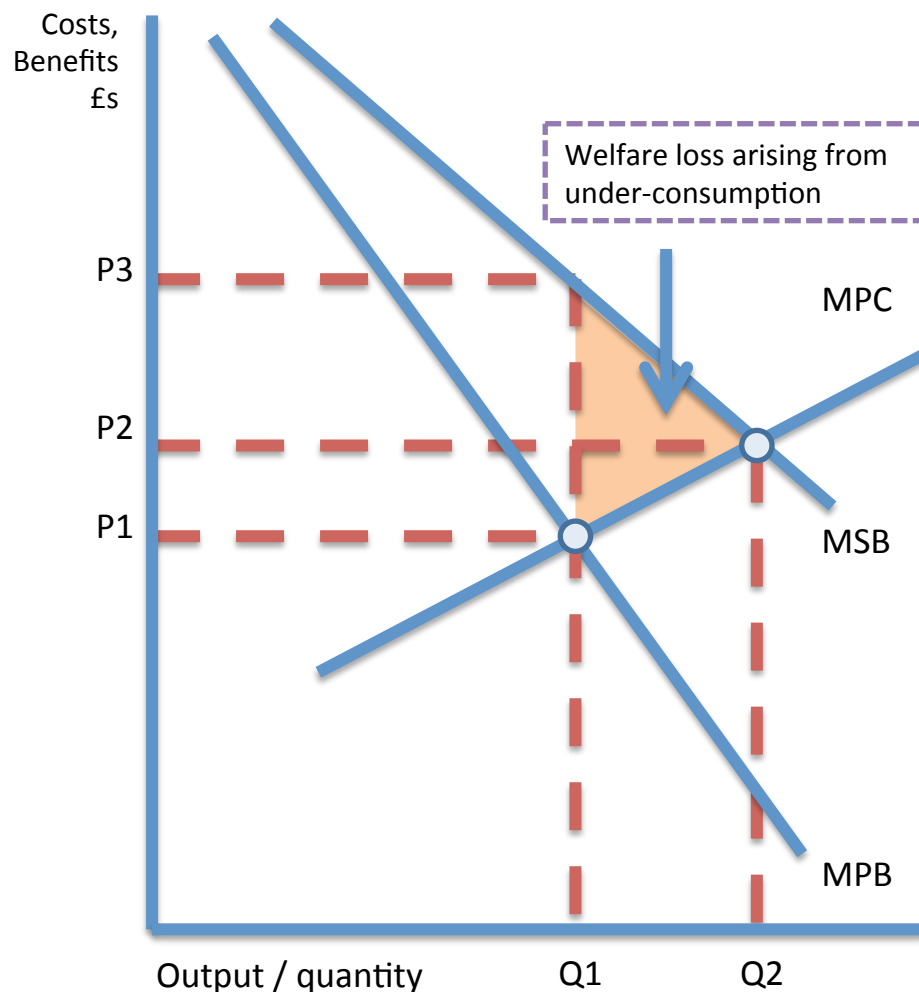
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Many economists regard education as a merit good that when consumed provide external benefits. These include rising incomes & productivity for the workforce and improved occupational mobility to reduce unemployment.

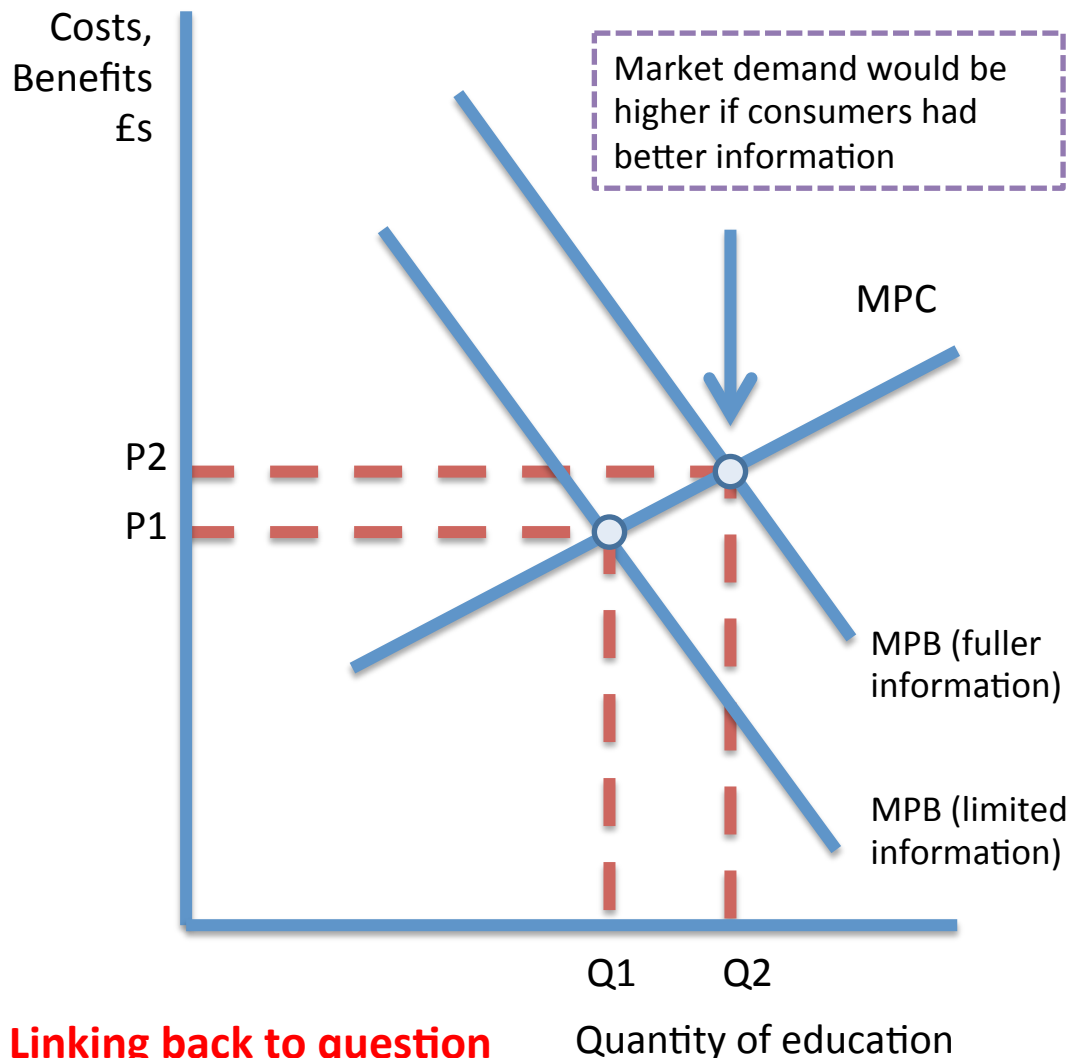
One reason why the market may under-provide education is that it is a long-term investment decision. The private costs (including annual £9k tuition fees) must be paid now but private benefits (including higher earnings potential) take many years to happen. In my diagram, private optimum consumption is Q1 (where $MPC = MPB$) but the social optimum is higher at Q2 when positive externalities are taken into account.



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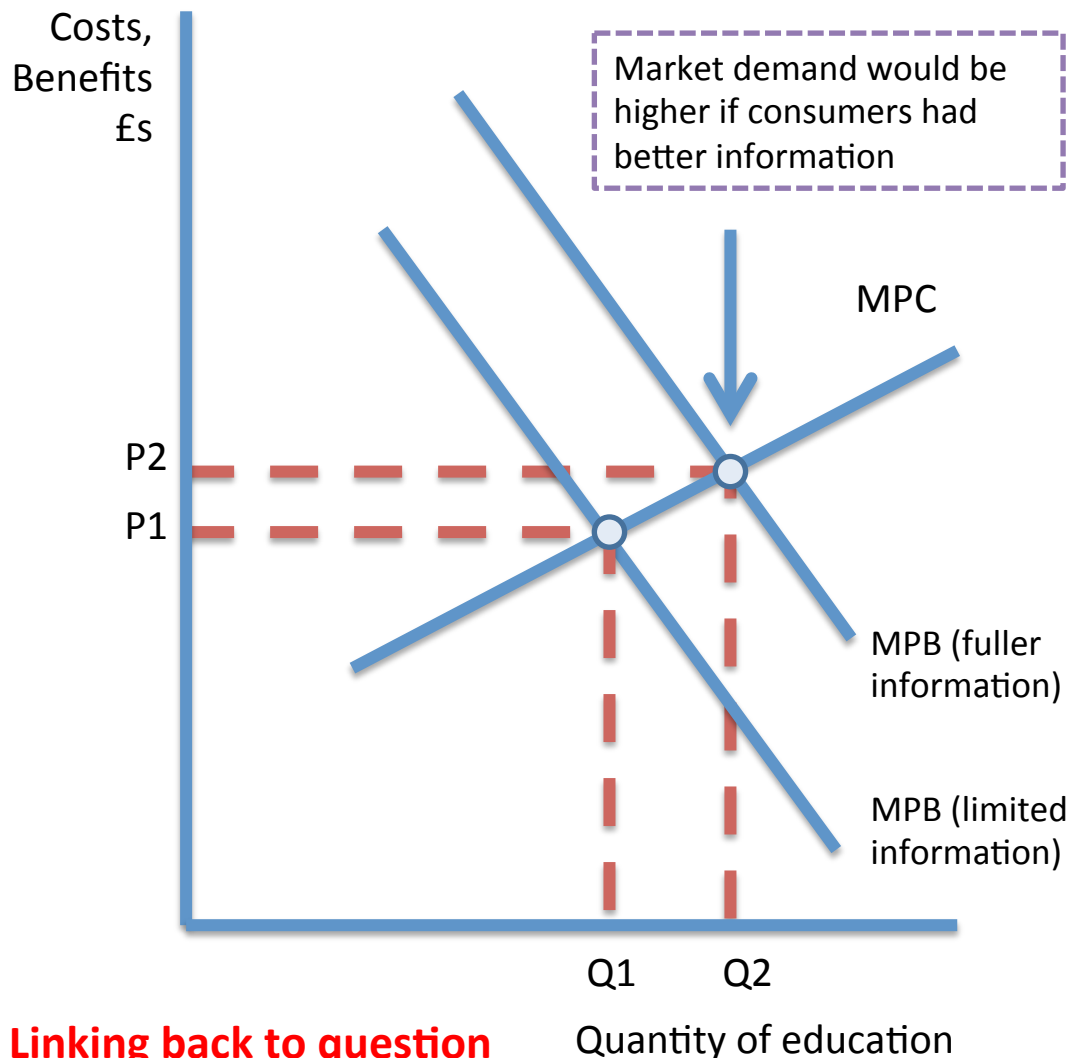
With the help of an appropriate diagram, explain the view of education as a service which markets tend to under-provide



Another cause of the market under-providing education is information failure. This means that individuals may have imperfect information about their own private benefits of staying in education for example beyond the minimum school-leaving age of 17. If people had better information on the benefits to themselves of consuming a good or service, then the marginal private benefit curve would shift outwards leading to a higher equilibrium quantity and therefore less risk of a market failure.

Linking back to question

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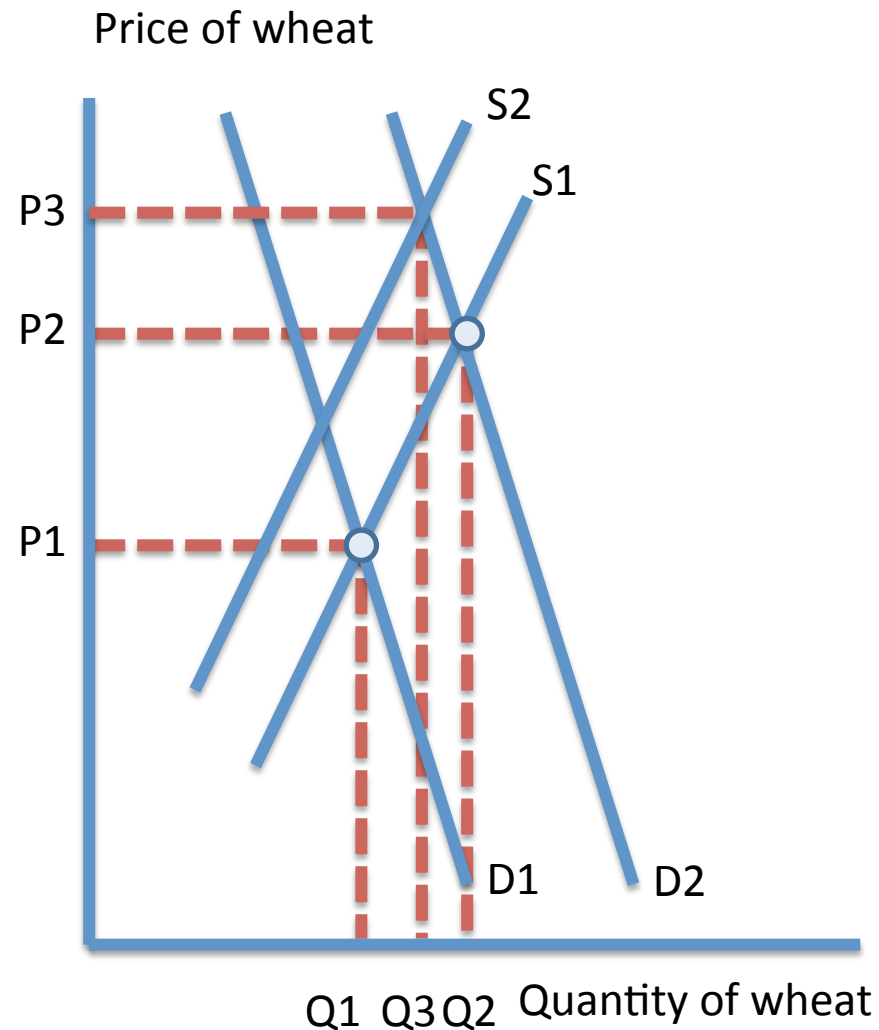
Rising real incomes in China and India have increased demand for cars and motor bikes and contributed to higher world oil prices. Because crude oil and bio-fuels are substitutes, rising oil prices has caused an increase in the demand for bio-fuels. Extract B says that this has caused farmers to switch production of wheat away from food towards bio-fuels. And the higher cost of oil will have increased their costs.

In the short term the supply of wheat is likely to be inelastic because of production lags and low stocks and spare capacity. Therefore an outward shift of demand for wheat in use for bio-fuel will bring about a large increase in price. This is added to by rising costs for wheat farmers.

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