

Economics A Level Summer Work

If you have any questions about this work or need further guidance, e-mail the Economics Course Team Leader Owen Pile at opile@longroad.ac.uk

You are expected to have completed this work and be ready to hand in (on paper) at your first lesson.

The fast food market The price of a Big Mac

One of the first things we explain in Economics is how the price of any product is determined.

This exercise looks at why the price of the Big Mac varies across the world.

1. Identify the most expensive and cheapest place to buy a Big Mac (in \$US)
 - a. Most expensive:
 - b. Cheapest:
2. Calculate
 - a. the median price:
 - b. the mean price is:
3. What percentage of the highest priced Big Mac is the lowest the priced Big Mac? It will be below 100%. Show your calculation.



4. If £1 = \$1.50 how many burgers could you buy in New York if you changed £50 into US\$

The price of a product (such as a Big Mac) is determined in a free market by the forces of supply and demand. If demand is greater than supply, the price of a product will go up (e.g. Wimbledon final tickets), whereas if supply is greater than demand, the price will fall (e.g. January sales).

The demand for a product is affected by:

- A change in the price of a substitute good
 - Substitutes are goods that can act as replacements for another product. E.g. a rise in the price of Pepsi will cause the demand for Coke to rise
- Change in the price of a complementary good
 - Complements are goods that go together such as PlayStation consoles and PlayStation games
 - A rise in the price of a complement should cause a fall in demand for the other good. E.g. If printers rise in price, demand for printer cartridges will fall
- Changes in the income of consumers
 - For most goods, when a person's income increases, so does their ability to purchase goods, so they buy more of it (e.g. eating out).
- The effects of advertising
 - This can help stimulate consumer tastes and fashions and so increase demand for a product.
- Interest rates and demand
 - Many expensive products like cars are bought on credit using money borrowed from banks or on credit cards and so the demand for them may change if there is a change in the rate of interest charged on the loan.

The supply of a product is affected by:

- Changes in the costs of production
 - Lower costs of production mean that a business can supply more at each price. Similarly, if the costs of production increase, for example the firm has to pay higher wages, then supply will fall at each price.
- Changes in production technology
 - The technologies used in producing goods and services can change and in industries where technological change is rapid we see increases in supply and lower prices for the consumer.
- Government taxes and subsidies
 - Indirect taxes like VAT will force up the price that consumers pay. Any subsidy put on a product (e.g. £5,000 if you buy an electric car) will reduce the price for consumers.
- Changes in climate
 - For food products, the effect of climate conditions can exert a great influence on market supply. Good weather will produce a bumper harvest and will increase supply. Similarly, bad weather will lead to a poorer harvest and therefore a decrease in supply.
- The price of ingredients or raw materials can affect the price of the finished good. E.g. the price of steel affects the price of knives.
- The number of sellers in an industry affects market supply. When new firms enter a market, supply increases causing downward pressure on price.

Your tasks:

Having read about demand and supply, explain why the price of a Big Mac varies around the world.

Select two countries from the list to illustrate the points you are making.

5. Explain why the **demand** for Big Macs will be higher in some countries than other countries. To do this you need to look at the demand factors and explain which factors might be high in one country, but low in another.
You do not have to cover all of the factors (100 words maximum).
6. Explain why the **supply** of Big Macs will be higher in some countries than other countries. To do this you need to look at each of the supply factors and explain which factors might be high in one country, but low in another.
You do not have to cover all of the factors (100 words maximum).

How much should governments intervene in the economy?

7. Finally, look at an example where the government doesn't allow the market to operate freely, but instead intervenes to alter the price of a product and therefore the amount demanded and supplied.

Economists around the world disagree on this. Your task is to research both sides of the argument *For and against the government imposing a tax on sugary drinks*.

- Introduction: Explain what the problem is with the current consumption of sugary drinks.
- Paragraph 2: Explain the major arguments that people put forward in favour of taxing sugary drinks. Include the evidence from imposing this type of tax in Mexico.
- Paragraph 3: Explain the major arguments that people put forward against imposing the tax.
- Conclusion: Based on the research that you have done, do you think taxing sugary drinks is a good idea or not?