

Exercise walk-through

1.1

Scarcity, choice and opportunity cost

A-Level Economics

Who decides what, how and for whom?

Three illustrative ways to allocate clinic appointments

A: private clinics choose services and methods, responding to paying patients. B: a central authority sets service quantities, staffing and eligibility. C: public clinics provide tax-funded appointments while private clinics also sell appointments. Classify each arrangement and identify who decides what is supplied and who receives it.

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Three illustrative ways to allocate clinic appointments

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Compare ownership, decision-making and allocation. A public service inside a wider economy does not by itself make the whole economy centrally planned.

Allocation rules differ even when the service is the same

A illustrates a **market economy** : decentralised buyers and sellers influence production through prices and purchasing decisions. Ability to pay affects who receives appointments.

B illustrates a **planned economy** : central decisions allocate resources and determine provision. Eligibility, quotas or waiting rules may replace price allocation; planning does not remove scarcity.

C illustrates a **mixed economy** : public decisions and market choices coexist. Tax funding shifts who pays; it does not make staff time or equipment unlimited.

These are simplified arrangements. Judge the whole system and actual rules; ownership alone does not establish efficiency, fairness or the absence of prices.

Economic systems, in detail



Exam: real economies are mixed — the question is how far market vs government decides

Economic systems form a spectrum: a pure market at one end, full government planning at the other, mixed economies in between.

Who decides, in each system

Market economy

Prices decide. The **private sector** – firms and households – owns the resources and follows the profit signal.

Planned economy

A **planned economy**, also called a **command economy**: the government owns resources and decides what is made, how, and for whom.

Mixed economy

Both. The private sector and the **public sector** each make decisions, and the argument is about where the line sits.

What is being allocated

Resources are what we use to make goods and **services** – and land includes **non-renewable resources** such as oil and coal, which can run out.

Every system answers the same three questions – what, how, and for whom. They differ only in who answers them.

Exercises 2.1-2.3

2.1 Define the term *opportunity cost*.

[2]

2.2 A student spends \$20 on a textbook instead of a concert ticket. State the opportunity cost.

[1]

2.3 State the three basic questions every economy must answer.

[3]

Exercises 2.1-2.3

2.1 Define the term *opportunity cost*. [2]

2.1

- the next best alternative that is given up when a choice is made (2 for a clear definition; 1 for a partial idea)

2.2 A student spends \$20 on a textbook instead of a concert ticket. State the opportunity cost. [1]

2.2

- the concert ticket (the enjoyment of the concert) given up (1)

2.3 State the three basic questions every economy must answer. [3]

2.3

- what to produce; how to produce it; for whom to produce it (1 + 1 + 1)

Exercises 3.1·3.2

3.1 Opportunity cost is best defined as:

[1]

☐

A the money price of a good

B the next best alternative given up

C the total cost of all alternatives

D the cost of producing one more unit

3.2 Explain, using an example, why scarcity means that producers face opportunity cost.

[4]

Exercises 3.1-3.2

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- A the money price of a good
- B the next best alternative given up
- C the total cost of all alternatives
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3.1 B

- Opportunity cost is the next best alternative forgone

3.2 Explain, using an example, why scarcity means that producers face opportunity cost.

[4]

3.2

- [4] AO1 1–2 (define scarcity and opportunity cost) + AO2/AO3 up to 2 – e.g. a factory's resources are finite, so using them to make cars means the trucks it could have made are given up
- that forgone output is the opportunity cost

Exercise 3.3

3.3 Discuss whether opportunity cost is the most important idea a government should consider when deciding how to spend its budget. [8]

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3.3

- [8] AO1/AO2/AO3 up to 5 + AO4 up to 3 (a supported judgement). **For:** opportunity cost shows the true cost of each choice, helping spend limited funds where the benefit is greatest. **Against:** a government must also weigh equity, long-term effects and political aims, not just opportunity cost. Judgement: opportunity cost is essential to good budgeting but is one of several factors – its importance depends on the decision