Exercise walk-through

1.2 Economic methodology

A-Level Economics

What we will cover

1. Scarcity & opportunity cost
2. Thinking like an economist
3. Factors of production
4. Economic systems & prices
5. Production possibility curve
6. Types of goods



scarce natural resources

Scarcity forces a choice on all three agents

scarcity	we never have enough to give everyone everything they want – the one idea the whole subject starts from
consumers	buy a phone and you give up the holiday that money could have paid for
producers and firms	use a factory to make cars and you give up the trucks it could have made
governments	spend tax money on hospitals and you give up the schools that money could have built
the common answer	**opportunity cost** – the next best alternative given up, not the money spent

> Every economic question is one of three: what to produce, how to produce it, and for whom. Scarcity is why all three must be answered.

Reading a production possibility curve

On the curve	Production is efficient for the given resources and technology; more of one good costs some of the other.
Inside it	Unused capacity or waste: more output may be feasible without sacrificing the other plotted good.
Outward shift	Growth. It happens with more resources, or better ones – new **technology** , a bigger or more skilled workforce.
Inward shift	War or disaster can move the curve inward – **economic decline** .

> The curve is a picture of opportunity cost: its slope *is* what one more unit of this good costs in units of that one.

Exercises 2.1·2.2

2.1 State the difference between a *positive* and a *normative* statement. [2]

2.2 Define the term *ceteris paribus*. [2]

Exercises 2.1·2.2

2.1 State the difference between a *positive* and a *normative* statement. [2]

2.1

- a positive statement is about fact and can be tested true or false; a normative statement is an opinion about what should happen and cannot be tested (2 for a clear difference; 1 for a partial idea)

2.2 Define the term *ceteris paribus*. [2]

2.2

- a Latin phrase meaning “all other things stay the same” – holding other factors constant while one changes (2 for a clear definition; 1 for a partial idea)

Exercises 2.3·3.1

2.3 State whether each is micro or macro: (a) the market for coffee; (b) a country's total unemployment. [2]

3.1 Which is a **normative** statement? [1]

- **A** A rise in income tax reduces consumer spending.
- **B** Unemployment rose to 6% last year.
- **C** The government ought to cut income tax for the poor.
- **D** A higher minimum wage can raise firms' costs.

Exercises 2.3·3.1

2.3 State whether each is micro or macro: (a) the market for coffee; (b) a country's total unemployment. [2]

2.3

(a)

- micro

(b)

- macro (1 + 1)

3.1 Which is a **normative** statement? [1]

☐ **A** A rise in income tax reduces consumer spending.
B Unemployment rose to 6% last year.
C The government ought to cut income tax for the poor.
D A higher minimum wage can raise firms' costs.

3.1 C

- "Ought to" signals a value judgement, so it is normative

Exercises 3.2·3.3

3.2 Explain, with an example, why economists use the assumption of *ceteris paribus*. [4]

3.3 Explain the difference between positive and normative statements, and why the distinction matters for economic policy. [6]

Exercises 3.2·3.3

3.2 Explain, with an example, why economists use the assumption of *ceteris paribus*. [4]

3.2

- *[4]* AO1 1–2 + AO3 up to 2 – the real economy has many variables; by holding all but one constant (ceteris paribus), e.g. studying how price alone affects quantity demanded, economists can isolate one cause-and-effect relationship

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3.3 Explain the difference between positive and normative statements, and why the distinction matters for economic policy. [6]

3.3

- *[6]* AO1 2 (define each) + AO2/AO3 up to 4 – positive statements can be tested with data, so they settle facts; normative statements rest on value judgements, so people who agree on the facts may still disagree on policy
- distinguishing them helps separate what *is* from what *ought* to be done