1 The economic problem – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
Scarcity			
Resources			
wants			
economic problem			
Opportunity cost			
alternative			
factors of production			
reward			
land			
labour			
capital			
enterprise			
entrepreneur			

Recall

You make choices with limited money every day. Bring this with you:

- You cannot buy everything you want – money runs out.
- A country, too, has only limited resources.

At AS, economics begins with this one big problem: we can never have everything we want.

New ideas

1 Scarcity and the economic problem

Scarcity is the central idea of economics. **Resources** (the things we use to make goods and services) are **limited**, but human **wants** are **unlimited**. People always want more.

Because wants are bigger than resources, this is the **economic problem**. Every society must answer three questions: **what** to produce, **how** to produce it, and **for whom**.

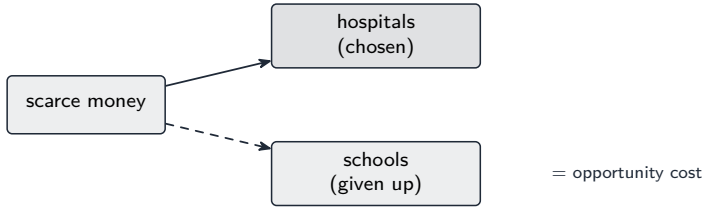
Micro-check. State why resources are described as scarce. [1]

2 Opportunity cost

Because resources are scarce, you must **choose** – and every choice means giving something up.

Opportunity cost is the next best **alternative** you give up when you make a decision.

Worked example. A government spends its money on new hospitals. Its opportunity cost is the new schools that the same money could have built.

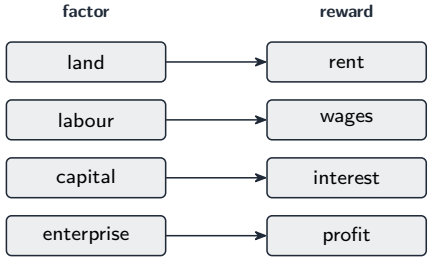


Micro-check. You spend your money on a phone instead of a holiday. State the opportunity cost. [1]

3 Factors of production

The **factors of production** are the four kinds of resource used to make goods and services. Each earns a **reward**:

- **land** – natural resources (fields, water, oil) → earns rent;
- **labour** – human work → earns wages;
- **capital** – man-made things used to produce (machines, factories) → earns interest;
- **enterprise** – the skill of the **entrepreneur**, who brings the others together and takes the risk → earns profit.



Micro-check. State which factor of production earns **wages**. [1]

Watch out: opportunity cost is the *next best* alternative given up – only *one* thing, not everything you didn't choose. The four factors each earn a reward: land → rent, labour → wages, capital → interest, enterprise → profit.

Practice

1.1 Explain what is meant by **scarcity**, using the words *resources* and *wants*. [2]

1.2 Define **opportunity cost** and give one example. [2]

1.3 Name the **four** factors of production. [4]

1.4 State the reward earned by (a) land, (b) labour, (c) capital. [3]

1.5 A farmer uses a field to grow wheat instead of keeping cattle. State the opportunity cost. [1]

1.6 Challenge. A student spends an evening studying instead of working a paid shift or meeting friends. Explain why the opportunity cost is only *one* of these, not both. [2]