Exercise walk-through

Scarcity, choice and opportunity cost ▪ 1.1

eXercise

You must be able to

- explain **scarcity 稀缺** and the **economic problem 经济问题**
- define and apply **opportunity cost 机会成本**
- explain the three questions (what, how, for whom) every economy must answer

Method — Scarcity forces choice

- **Scarcity:** wants are unlimited 无限 but resources are **finite 有限**, so choices must be made.
- **Opportunity cost:** the **next best alternative 次优选择** given up when a choice is made.
- A government that spends on hospitals gives up the schools that money could have built (opportunity cost).

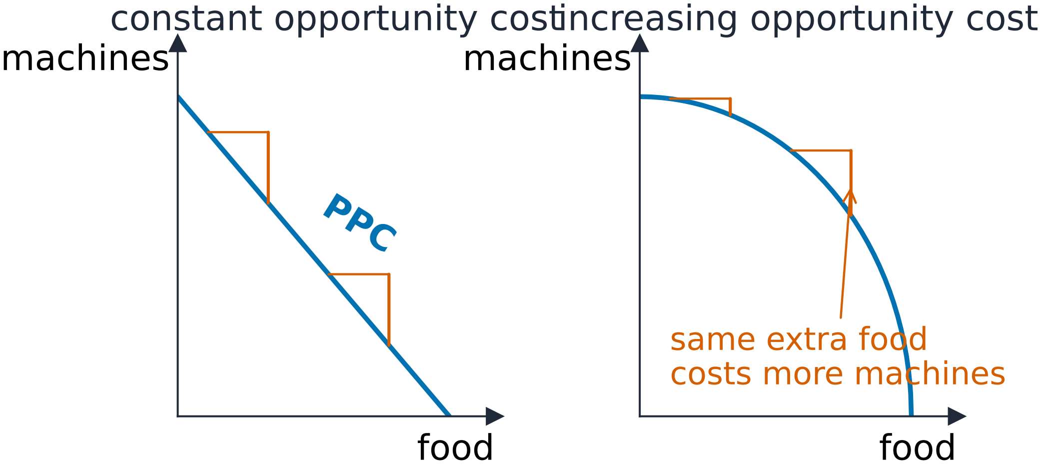
Answer shapes (marked by **level of response** on the assessment objectives — AO1 knowledge, AO2 application, AO3 analysis, AO4 evaluation):

- **Explain [up to 8]:** define (AO1), apply to the context (AO2), develop a chain (AO3).
- **Discuss/Evaluate [up to 12]:** add a two-sided, supported judgement (AO4).

Method — Scarcity forces choice

Land includes the natural resources firms extract — they are finite and scarce

Method — Scarcity forces choice



Practice 2.1 ▪ 2 marks

Define the term *opportunity cost*.

Solution 2.1

Method: Scarcity forces choice

Worked steps

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

Practice 2.2 ▪ 1 mark

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

Solution 2.2

Method: Scarcity forces choice

Worked steps

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

Practice 2.3 ▪ 3 marks

State the three basic questions every economy must answer.

Solution 2.3

Worked steps

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

Exam-style 3.1 ▪ 1 mark

Opportunity cost is best defined as:

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

Solution 3.1

Method: Scarcity forces choice

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

Worked steps

B. Opportunity cost is the next best alternative forgone.

Exam-style 3.2 ▪ 4 marks

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

Solution 3.2

Method: Scarcity forces choice

Worked steps

[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.

Exam-style 3.3 ▪ 8 marks

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

Solution 3.3

Method: Scarcity forces choice

Worked steps

[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.