

Exercise walk-through

1.1

Scarcity

AP Microeconomics

The economic problem

A market stall has one hour left

The seller can pack 30 fruit boxes or deliver 12 orders. The same worker cannot do both at once.

$$OC_{1 \text{ delivery}} = \frac{\text{boxes forgone}}{\text{deliveries gained}} = \frac{30}{12} = 2.5 \text{ boxes}$$

Scarcity forces a choice even when both activities are useful.



Opportunity cost is the next-best alternative forgone: here, 2.5 boxes per extra delivery, not every possible use of the hour.

Scarcity, and the resources it applies to

economics

begins with one stubborn fact: wants are effectively **unlimited**, and the **resources** to satisfy them are not

land

natural resources, and the rent they earn

labor

human effort, and wages

capital

tools, machines and buildings, and interest

entrepreneurship

organising the other three and **bearing the risk** – and profit

the consequence

every choice has an **opportunity cost**: the next best alternative given up

Scarcity is not poverty. Even a rich society must choose, which is why the subject applies to every economy at every income level.

Factors of production



The four **factors of production** are the scarce resources every economy allocates.

Exercises 2.1-2.3

2.1 Define opportunity cost.

[1]

2.2 List the four factors of production.

[2]

2.3 State the difference between an economic good and a free good.

[2]

Exercises 2.1-2.3

2.1 Define opportunity cost.

[1]

2.1

- the value of the next-best alternative given up when a choice is made
-

2.2 List the four factors of production.

[2]

2.2

- land, labour, capital, entrepreneurship
-

2.3 State the difference between an economic good and a free good.

[2]

2.3

- an economic good is scarce and has an opportunity cost; a free good is not scarce

Exercises 3.1-3.2

3.1 The opportunity cost of a choice is

[1]

☐

A its money price

B the value of the next-best alternative given up

C the total cost of everything

D always zero

3.2 Which of these is a free good?

[1]

☐

A a car

B clean air where it is abundant

C a loaf of bread

D a haircut

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3.2 B

- clean air where it is abundant.

Exercise 3.3 (a)

3.3 A student spends an evening studying instead of working a \$40 shift.

(a) State the opportunity cost of studying.

[1]

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[1]

(a)

- the \$40 of wages given up

Exercise 3.3 (b)

3.3 A student spends an evening studying instead of working a \$40 shift.

(b) Name the factor of production that human effort represents.

[1]

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[1]

(b)

- labour

Exercise 3.3 (c)

3.3 A student spends an evening studying instead of working a \$40 shift.

(c) Explain why the student must make a choice.

[1]

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[1]

(c)

- time is scarce – an evening can be used only once