

1.1 Introductory concepts

Name: _____ Class: _____ Date: _____

Total: 24 marks

KEY WORDS opportunity cost • production possibility frontier

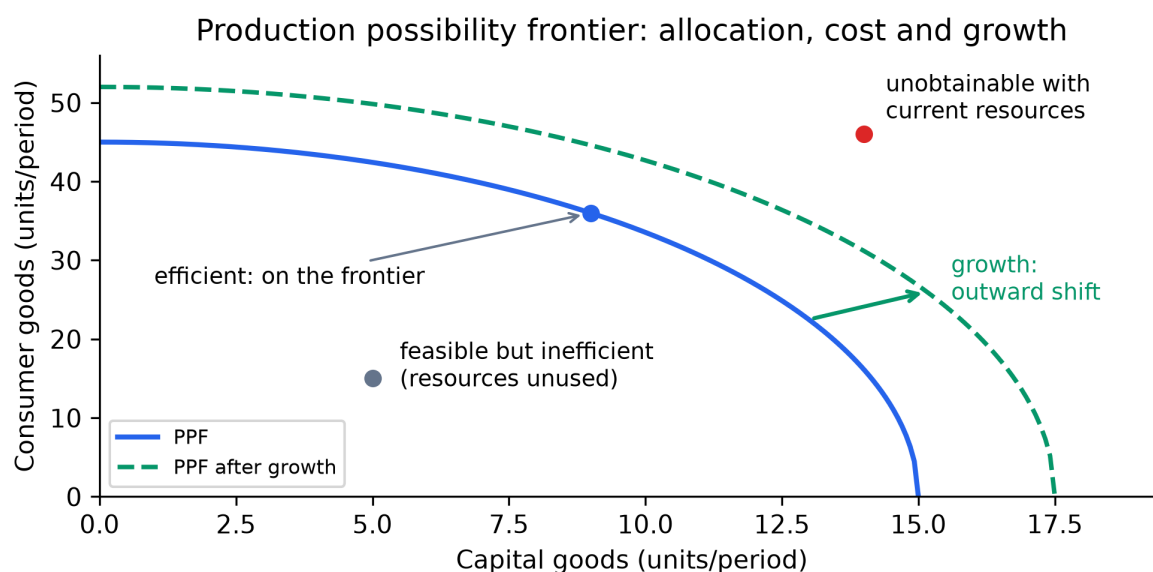
Introductory concepts

Objective

Use the nature-of-economics toolkit: positive and normative statements, scarcity and opportunity cost, production possibility frontiers, specialisation, money, financial markets and economic systems (spec 1.3.1, rows 1–6).

1 Key knowledge and worked examples

Models and choice. Economics builds models under the *ceteris paribus* assumption because it cannot run controlled experiments. Scarcity (unlimited wants, finite resources) forces choice; every choice's real cost is the next-best alternative forgone. A PPF shows maximum potential: on the frontier is efficient, inside is wasteful, outside is unobtainable; the slope is the marginal opportunity cost, and capital goods produced today shift the frontier out tomorrow.



Original model; points, shift and labels are specified in the worked examples.

2 Practice

2.1 Classify each statement as positive or normative: (a) "A unit tax of 6 raised the price consumers pay by 4." (b) "The government should not tax necessities." [2]

2.2 State one difference between a renewable and a non-renewable resource, and between a free good and an economic good. [2]

2.3 An economy can make 15 capital goods or 45 consumer goods per period on a straight PPF. (a) What is the opportunity cost of one more capital good? (b) What does a point inside the frontier show? [3]

2.4 For each event, state whether it is a movement along or a shift of the PPF: (a) unemployment falls and unused land returns to production; (b) a new technology improves yields in both sectors. [2]

2.5 List the four functions of money. [2]

2.6 Why does producing more capital goods today tend to raise future growth? [2]

3 Exam-style questions

3.1 (*Original.*) Using a PPF diagram, explain how an economy that chooses more capital goods today can achieve economic growth, and state one opportunity cost of that choice. [4]

3.2 (*Original.*) Give two advantages of a free market economy and two disadvantages of a command economy. [4]

3.3 (*Original.*) Explain one advantage and one disadvantage of the division of labour for a pin factory, with reference to Adam Smith. [3]

Solutions

2.1 (a) Positive – it can be tested against data. (b) Normative – it contains a value judgement (“should”).

2.2 Renewable resources regenerate (timber); non-renewable stocks are finite (coal). A free good needs no sacrifice (air); an economic good requires giving something up.

2.3 (a) $45 \div 15 = 3$ consumer goods per capital good. (b) Feasible but inefficient – resources are unused or misallocated.

2.4 (a) Movement towards the frontier (from inside) – not a shift, because capacity is unchanged. (b) A shift outward of the whole frontier.

2.5 Medium of exchange; measure of value; store of value; method of deferred payment.

2.6 Capital goods raise the productivity of future production, so more output is possible from the same resources and the frontier shifts outward; the cost is the consumer goods forgone today.

3.1 Diagram: PPF with capital goods on one axis; a point near the capital axis moves the future frontier outward (growth shown as a second, outer curve). Mechanism: more capital goods raise productivity per worker. Cost: the consumer goods forgone at the chosen point (the opportunity cost along the original frontier). Judgement: the growth is potential, not guaranteed – it assumes the capital is productive and maintained.

3.2 Free market advantages: the price mechanism allocates without a planner; consumer sovereignty and incentives drive efficiency and innovation. Command disadvantages: the state misreads preferences (no price signals); weak incentives and shortages follow from planning errors.

3.3 Advantage: each worker repeats one task, so speed and skill rise – Smith’s pin factory raised output per worker enormously. Disadvantage: work becomes repetitive and skills narrow, and output depends on smooth co-ordination of all tasks.

Local review guidance: positive/normative by the presence of a testable claim vs a value judgement; PPF answers name the margin (cost of ONE more unit) and inside/outside correctly; definitions give the contrast pair, not one side. This is authored classroom guidance.