

1.1 The economic problem and economic assumptions

Name: _____ Class: _____ Date: _____

Total: 17 marks

KEY WORDS scarcity • opportunity cost

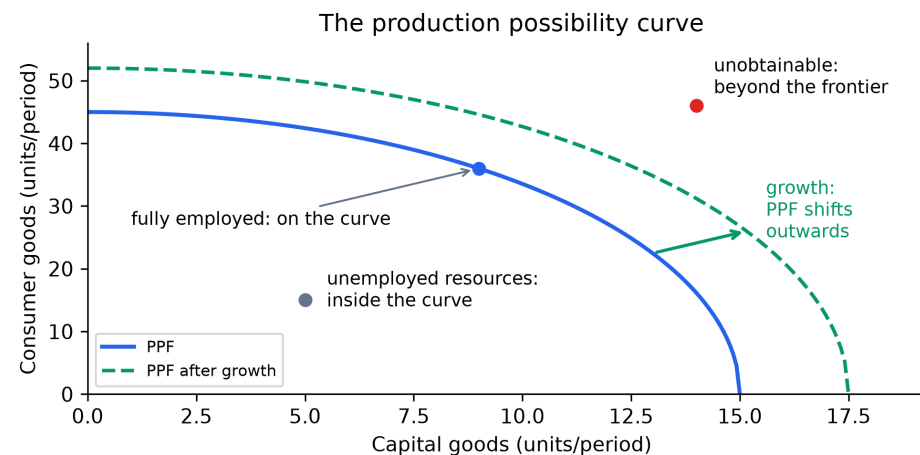
The economic problem and economic assumptions

Objective

Apply scarcity and opportunity cost to all three economic agents, read the production possibility curve, explain growth shifts, and use the assumptions with their exceptions (spec 1.1.1–1.1.2).

1 Key knowledge and worked examples

The economic problem. Scarcity (unlimited wants, finite resources) forces choice; every choice's cost is the next-best alternative forgone – for consumers, producers and government. The PPF shows maximum potential: on the curve fully employed, inside unemployed resources, beyond unobtainable; growth shifts the frontier outwards. Consumers maximise benefit and firms profit – unless habits, copying, poor calculation, revenue-maximising managers, customer care or charity intervene.



Original model; the labelled points are worked in the questions.

2 Practice

2.1 Define scarcity and state why it forces choice. [2]

2.2 A government builds a hospital rather than a school. State the opportunity cost and name the economic agent making the choice. [2]

2.3 A workshop can make 20 desks or 40 chairs per day on a straight frontier. Calculate the opportunity cost of 5 more desks. [2]

2.4 On a PPF diagram, state what is shown by (a) a point inside the curve; (b) a shift of the curve outwards. [2]

2.5 Give one reason a consumer may fail to maximise their benefit, and one reason a producer may fail to maximise profit. [2]

3 Exam-style questions

3.1 (*Original.*) A country's PPF shifts inwards. Explain two possible causes and state what happens to the maximum productive potential. [4]

3.2 (*Original.*) A firm donates 5 percent of profits to charity and its manager is paid on revenue, not profit. Explain whether the firm still fits the profit-maximisation assumption. [3]
