

The economic problem and economic assumptions

Pearson Edexcel · International GCSE · Economics

Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.1.1–1.1.2 in full: the economic problem (five lettered rows) and economic assumptions (three rows). Worked numbers are original and re-derived below.

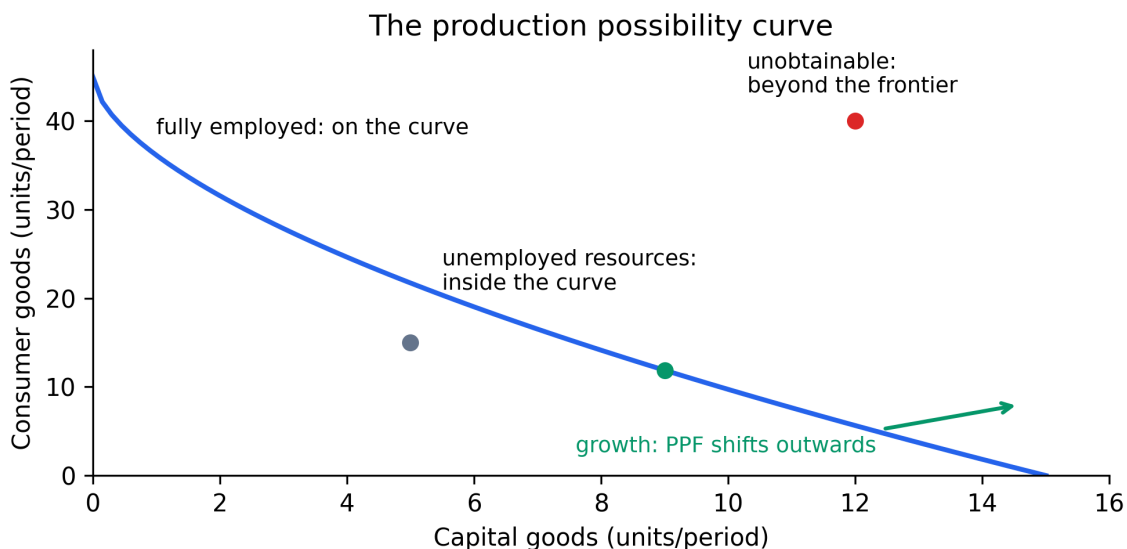
Must-know for this topic:

Family	Content
scarcity	unlimited wants, finite resources → choice
opportunity cost	the next-best alternative forgone, for consumers, producers and government
PPF	on the curve = fully employed; inside = unemployed resources; outside = unobtainable; shifts = growth
assumptions	consumers maximise benefit, firms maximise profit – with named exceptions

The economic problem

Scarcity is the problem of unlimited wants against finite resources: there is not enough of everything for everyone, so choices must be made (1.1.1a). Every choice has an **opportunity cost** – the benefit of the next-best alternative forgone – and this cost applies to every economic agent: the CONSUMER choosing between goods, the PRODUCER between products, and the GOVERNMENT between spending programmes (a hospital means fewer schools) (1.1.1b).

The **production possibility curve** (PPC/PPF) shows these choices as a diagram (1.1.1c): the maximum productive potential of an economy is the curve itself; a point ON the curve means fully employed resources; a point INSIDE the curve means unemployed or underused resources; a point BEYOND the curve is unobtainable with current resources; moving along the curve reallocates resources at an opportunity cost; and the whole frontier SHIFTS OUTWARDS with positive **economic growth** and INWARDS with negative growth (1.1.1d). Causes of positive growth: more resources (labour, capital), better technology, improved education. Causes of negative growth: resource destruction, disaster, war (1.1.1e). On the bowed curve below, one more capital good costs more and more consumer goods – resources are not equally suited to both uses.



Original model: the labelled points show full employment, unemployment and unobtainable production.

Economic assumptions

The base assumptions (1.1.2a): consumers aim to MAXIMISE THEIR BENEFIT (utility) and businesses aim to MAXIMISE THEIR PROFIT. Consumers may not maximise their benefit because (1.1.2b): they are not always good at calculating their benefits; habits are hard to give up; and they sometimes copy others' behaviour. Producers may not maximise profit because (1.1.2c): managers may REVENUE-maximise or SALES-maximise instead; producers may prioritise caring for customers; and producers may carry out charitable work. These exceptions matter: they explain real behaviour that the pure assumption misses, and they feed the IAL syllabus's behavioural ideas (herding, habit, satisficing).

Worked example. An original workshop can make 20 desks or 40 chairs per day on a straight frontier: the opportunity cost of one more desk is $\frac{40}{20} = 2$ chairs, so five more desks cost $5 \times 2 = 10$ chairs per day. Reallocating existing resources MOVES ALONG the frontier; more resources or better technology SHIFT it. A workshop with idle machines receiving a new order moves from INSIDE the frontier towards it – its frontier has not shifted; capacity was always there, unused.

Checklist

- Scarcity and the need for choice (1.1.1a).
- Opportunity cost for consumers, producers and government (1.1.1b).

- The PPF diagram: maximum potential, fully employed/unemployed resources, opportunity cost, outwards/inwards shifts, possible and unobtainable production (1.1.1c–d).
- Causes of positive and negative economic growth (1.1.1e).
- The two base assumptions (1.1.2a); the three consumer exceptions (1.1.2b); the three producer exceptions (1.1.2c).

Boundary notes: 4EC1 Paper 1 is 1 hour 45 minutes (90 marks) and Paper 2 is 1 hour 30 minutes (80 marks); calculators are allowed. Definitions carry one mark each – learn them word-perfect. Diagrams must label axes, the frontier and the points. All worked numbers are original.