

The economic problem and economic assumptions

Edexcel IGCSE Economics 4EC1 sections 1.1.1-1.1.2 full package

1. Topic 1 at a glance

Topic 1 at a glance

4EC1 topic 1: spec sections 1.1.1 and 1.1.2 - the economic problem (five lettered rows) and economic assumptions (three rows).

Must-know: scarcity forces choice; opportunity cost is the next-best alternative forgone for consumers, producers and government; the PPF shows maximum potential with inside/on/beyond points and growth shifts; consumers maximise benefit and firms profit - with three named exceptions each side.

2. The economic problem

The economic problem

Scarcity: unlimited wants, finite resources, so every economic agent must choose. Opportunity cost is the benefit of the next-best alternative forgone - a consumer's budget, a producer's product line, a government's spending programme.

The PPF diagram: the curve is maximum productive potential; on it, fully employed; inside, unemployed resources; beyond, unobtainable. Moving along the curve has an opportunity cost; positive growth shifts the frontier outwards (more resources, better technology), negative growth inwards (destruction, disaster, war). The bowed shape means resources are not equally suited to both goods.

3. Economic assumptions

Economic assumptions

Base assumptions: consumers maximise benefit; businesses maximise profit.

Consumer exceptions: poor calculation of benefits; habits hard to give up; copying others. Producer exceptions: managers revenue- or sales-maximise; caring for customers; charitable work. These exceptions explain real behaviour and feed the IAL behavioural ideas.

Check yourself

Check yourself

Scarcity and choice; opportunity cost for the three agents.

The PPF diagram's five readings; the workshop desk-and-chair arithmetic; growth causes both ways.

The two assumptions and their three-plus-three exceptions.