Exercise walk-through

1.1 Scarcity and assumptions: supported rehearsal

International Baccalaureate · IB Diploma · Economics · HL

What is economics?

- **Economics** is the study of how individuals, firms and governments make choices about how to use scarce **resources**.
- The starting point is **scarcity**: human wants are unlimited, but the **resources** to satisfy them are limited.
- Because resources are scarce, every choice has an **opportunity cost**: the value of the next best alternative that is given up.
- An hour spent revising economics cannot also be spent working in a café; money spent on a hospital cannot also build schools.

How do economists approach the world?

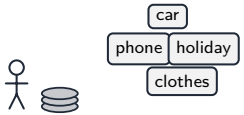
- Economists use the **scientific method** :
- 1. observe something in the real world; 2. form a **hypothesis**: a statement that can be tested; 3. build a **model** : a simplified picture of how the economy works, such as a demand curve or a production possibilities curve; 4. make predictions and test them against data; 5. keep, change or reject the **model** depending on the results.
- Models simplify on purpose.
- A map of the underground railway does not show every street, but it is the most useful map for travelling by underground.

Writing a Paper 1 answer (2)

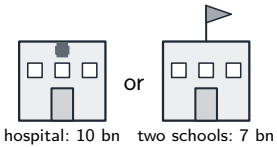
- The same skills apply in every unit:
- 1. **Define** the key terms in the question precisely. 2. **Draw** a fully labelled diagram (axes, curves, equilibrium, shifts) and **refer to it** in your writing. 3. **Explain** the chain of cause and effect step by step, using the diagram. 4. **Use a real-world example** with specific detail: the country, the year, the policy and, where you can, a number. 5. **Evaluate:** weigh short-run against long-run effects, consider different stakeholders, question the assumptions (for example *ceteris paribus*), and say which effect matters most and why. 6. **Conclude** with a judgement that answers the question as it is set, and say what it depends on.

Exercises 2.1·2.2

2.1 Define scarcity and explain why it forces choice on all three economic agents. [2]

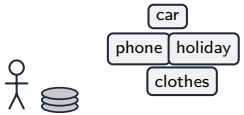


2.2 A government spends its 10 billion budget on a hospital valued at 10 bn; two schools valued at 7 bn were the alternative. State the choice's opportunity cost and the test of whether the choice was rational. [2]



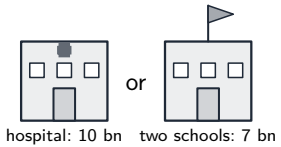
Exercises 2.1·2.2

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2.1 Scarcity is the condition of unlimited wants against finite resources (1). Because no agent can satisfy every want, consumers budget, producers allocate inputs, and government rations its budget – every agent must choose (1).

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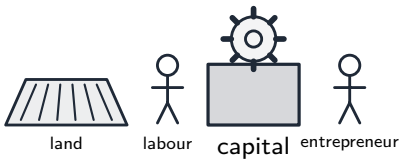
2.2 The opportunity cost is the two schools (7 bn of benefit forgone) (1). The choice is rational if the hospital's benefit exceeds that 7 bn – benefit above the best alternative's (1).

Exercises 2.3·2.4

2.3 Classify each statement as positive or normative: (a) "Youth unemployment is 14%." (b) "The government should cut tuition fees." [2]

positive normative

2.4 Name the four factors of production and the reward each earns. [2]



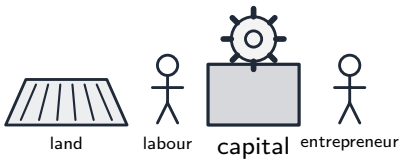
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positive normative

2.3 (a) Positive – testable against data (1). (b) Normative – it contains the value word “should” (1).

2.4 Name the four factors of production and the reward each earns. [2]



2.4 Land → rent; labour → wages; capital → interest; enterprise → profit.

Exercises 2.5·3.1

2.5 State the ceteris paribus assumption and give one example of a relationship it isolates. [2]

ceteris paribus

3.1 *(Original.)* Explain, using the scientific method, how an economist would test the claim that a tuition subsidy raises enrolment. [4]



Exercises 2.5·3.1

2.5 State the ceteris paribus assumption and give one example of a relationship it isolates. [2]

ceteris paribus

2.5 "All other things equal" – holding all other influences constant while examining one relationship (1). Example: quantity demanded and price, holding income, tastes and other prices fixed (1).

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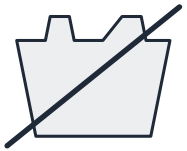


3.1 Hypothesis: lower fees raise enrolment (1). Model: the demand curve – enrolment (quantity) rises as price falls, ceteris paribus (1). Test: compare enrolment before/after the subsidy, or across regions with and without it, against the prediction (1). Revision: if enrolment did not rise, re-examine the assumption – e.g. incomes also fell, or places were capped – and re-specify the model rather than discarding the method (1).

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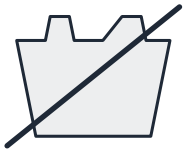
Exercise 3.2

3.2 *(Original.)* Using one key concept, explain why a country banning single-use plastics is an economic (not purely environmental) decision. [3]



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3.2 Any one concept, applied: INTERVENTION – the ban is a government choice correcting a market outcome; or SUSTAINABILITY – present consumption trades against future resources; or EFFICIENCY – the market price of plastics omits external costs, so the unregulated outcome is not efficient. A stated concept plus the economic reasoning (choice under scarcity) earns the marks.

Local review guidance: definitions word-perfect – scarcity and opportunity cost are the two one-mark definitions of this unit; scientific-method answers walk the FULL loop including the revision step; (R1) key-concept answers NAME the concept in capitals before applying it. This is authored classroom guidance.