1.1 What is economics? How do economists approach the world?

Name: _____ Class: _____ Date: _____ **Total: 17 marks**

KEY WORDS scarcity • opportunity cost

What is economics? How do economists approach the world?

Objective

Apply scarcity, choice and opportunity cost to all economic agents, keep positive and normative statements apart, and use the scientific method, the ceteris paribus assumption and the nine key concepts (syllabus 1.1–1.2).

1 Key knowledge and worked examples

> **Unit 1 toolkit.** Scarcity (unlimited wants, finite resources) forces consumers, producers and government to choose; every choice's cost is the next-best alternative forgone. Positive statements are testable, normative statements carry value judgements. Economists work by hypothesis → model → prediction → data test → revision, isolating one relationship at a time under ceteris paribus. Nine key concepts: scarcity, choice, efficiency, equity, well-being, sustainability, change, interdependence, intervention.

2 Practice

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]

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

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

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

3 Exam-style questions

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

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

Solutions

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).

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).

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

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

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).

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).

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.