

Exercise walk-through

1.1

The nature of the basic economic problem

IGCSE Economics

What we will cover

- 1 The economic problem
- 2 Factors of production
- 3 Opportunity cost
- 4 The production possibility curve
- 5 Shifting the PPC

Goods, services, and who makes the choices

goods

things you can **touch** – food, phones, clothes

services

things done *for* you – a haircut, a bus ride, a lesson

consumers choose

what to buy with a limited income

producers choose

what to make, and with which factors

governments

choose **what to provide and how to spend public money**

enterprise

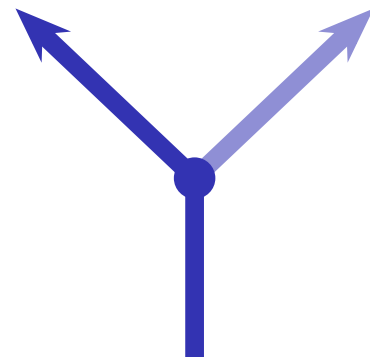
organising the other three factors and **taking the risk**; the **entrepreneur** is the person who supplies it

Free goods goods

are unlimited and have no opportunity cost; **economic goods** are scarce, so every unit of one means giving up another.

Check yourself

- 1 What causes scarcity?
- 2 Name the four factors of production.
- 3 What does a point inside the PPC show?
- 4 What shifts the PPC outward?



Answers 1. unlimited wants & finite resources 2. land, labour, capital, enterprise
3. resources are being wasted 4. economic growth

Exercises 2.1·2.3

2.1 Define the term *scarcity*.

[2]

2.2 State the difference between an *economic good* and a *free good*.

[2]

2.3 Identify the four groups of decision-makers in an economy.

[4]

Exercises 2.1·2.3

2.1 Define the term *scarcity*.

[2]

2.1

- **scarcity**: not enough resources to satisfy everyone's **unlimited wants** (K)

2.2 State the difference between an *economic good* and a *free good*.

[2]

2.2

- an **economic good** is scarce and has an opportunity cost (K)
- a **free good** is not scarce and has **no opportunity cost** (K)

2.3 Identify the four groups of decision-makers in an economy.

[4]

2.3

- **consumers, workers, producers** (firms), **governments** (K each)

Exercises 3.1·3.2

3.1 Which is a **free good**?

[1]

☐

A a free gift with a purchase

B the air you breathe

C a state-funded school place

D a discounted product

3.2 Explain why scarcity means that consumers must make choices.

[4]

Exercises 3.1-3.2

3.1 Which is a **free good**?

[1]

☐

A a free gift with a purchase

B the air you breathe

C a state-funded school place

D a discounted product

3.1 B

- the air you breathe is **not scarce**, so it is a **free good** (K)
- A, C and D all use scarce resources

3.2 Explain why scarcity means that consumers must make choices.

[4]

3.2

- resources are scarce but wants are unlimited, so a consumer **cannot buy everything** (K)
- they must **choose**, and the next best thing given up is the **opportunity cost** (An)

Exercise 3.3

3.3 Discuss whether scarcity affects a government in the same way as it affects a consumer. [6]

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3.3

- **similar:** both face scarce resources; each choice has an opportunity cost ($K + A_n$)
- **different:** a government chooses for millions; a consumer chooses only for themselves (A_n)
- **judgement (Ev):** scarcity forces both to choose, but the **scale and aims differ**