1.1 The nature of the basic economic problem

Name: _____ Class: _____ Date: _____ **Total: 19 marks**

KEY WORDS free good • opportunity cost • resources • economic good • goods

Objective

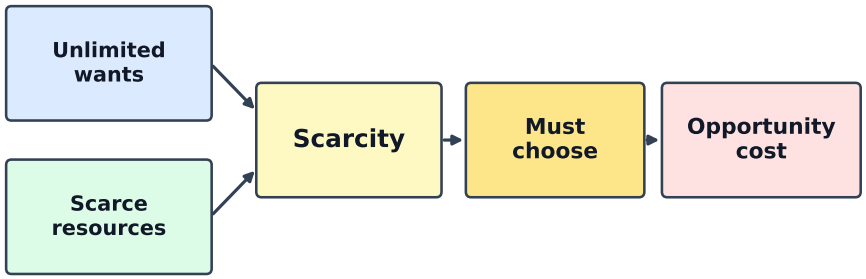
Build the skills to answer exam questions on **the basic economic problem** – **scarcity**, **choice**, and **economic and free goods**.

You must be able to:

- explain scarcity and why it forces choices
- identify the four decision-makers (consumers, workers, producers, governments)
- distinguish economic goods from free goods

1 Key knowledge and worked examples

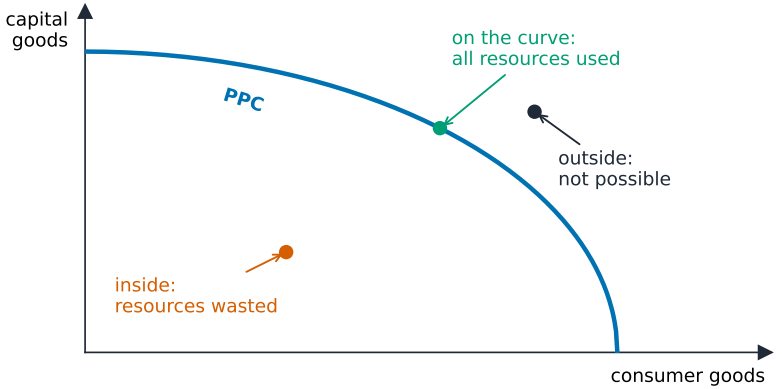
■ Scarcity forces choice



Exam: scarcity forces choice — opportunity cost is the next-best alternative forgone

*Unlimited **wants** + **finite** resources → **scarcity***

- **Economic problem** : wants are unlimited but resources are scarce, so we must choose.
- **Decision-makers:** consumers, workers, producers (**firms**), governments.
- **Economic good** : scarce, has an **opportunity cost**. **Free good** : not scarce (air, sunlight), no opportunity cost.



on = efficient · inside = inefficient · outside = unattainable

Scarcity forces a choice between two goods – the PPC shows the limit and the trade-off

Answer shapes (the discuss question is marked by **level of response** – **K** knowledge, **App** application, **An** analysis, **Ev** judgement):

- **Analyse [up to 6]:** define + a developed reasoning chain.
- **Discuss [8]:** both sides + a supported judgement (Ev).

2 Practice

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]

3 Exam-style questions

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]

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

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

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

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

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

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

- 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)

3.3

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