Past-paper walk-through

The nature of the basic economic problem ▪ 1.1

eXercise

Questions in this set

- 0455/12 J25 Q1 ▪ 1 mark
- 0455/23 J25 Q5 ▪ 20 marks
- 0455/22 M25 Q2 ▪ 20 marks
- 0455/11 N24 Q1 ▪ 1 mark
- 0455/12 N24 Q1 ▪ 1 mark
- 0455/13 N24 Q1 ▪ 1 mark
- 0455/11 J24 Q1 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 1

0455/12 J25 ▪ Q1 ▪ 1 mark

1 A university rejects 2000 qualified applicants who wish to study there.

Which factor of production could have caused the university to make this decision?

A infinite quantity of capital

B scarcity of labour

C surplus of land

D unlimited supply of enterprise

Solution 1

Answer: **B**

Why

- The university cannot expand to take everyone, so something limits it.
- The buildings and lecture rooms are man-made aids to production – capital.
- Scarcity of capital is what forces the choice, which is the fundamental economic problem.

Question 5

0455/23 J25 ▪ Q5 ▪ 20 marks

5 Missions to outer space face the same basic economic problem as that experienced on Earth. The African Space Agency was created to improve science and technology on the African continent. This agency also aims to coordinate trade between African countries to help technological development. This may improve how markets work. In 2021, total government spending on this agency was more than $500 million.

(a) Define the basic economic problem. [2]

(b) Explain how a market allocates resources. [4]

(c) Analyse the benefits a country may gain from exporting to and importing from other countries.

[6]

(d) Discuss whether or not an increase in government spending will benefit an economy. [8]

Question 5

(a) (a) Define the basic economic problem. [2] **[2]**
(b) (b) Explain how a market allocates resources. [4] **[4]**
(c) (c) Analyse the benefits a country may gain from exporting to and importing from other countries. [6] **[6]**
(d) (d) Discuss whether or not an increase in government spending will benefit an economy. [8] **[8]**

Solution 5

(a)

Mark scheme

- Define the basic economic problem.
- The basic economic problem is the scarcity (1) of resources
- / factors of production (1) compared to unlimited wants of
- humans (1) .
- 2

Solution 5

(b) Mark scheme

- Explain how a market allocates resources.
- Logical explanation which might include:
- A market is made up of buyers (1) and sellers (1) who trade
- products (1) through the interaction of demand (1) and
- supply (1) creating market equilibrium 1
- Price signals / price mechanism indicate to sellers how to
- allocate their resources (1) profit provides the incentive for
- sellers to respond to changes in demand (1).

Solution 5

- If demand for the product increases, price will rise (1) more
- resources will be devoted to its production (1).
- If demand for the product decreases, price will fall (1) fewer
- resources will be devoted to its production (1).
- 4 One mark for more resources devoted to products in high
- demand / fewer resources devoted to products in low
- demand.
- 0455/23
- May/June 2025
- Mark

Solution 5

- Guidance

Solution 5

(c) Mark scheme

- Analyse the benefits a country may gain from exporting
- to and importing from other countries.
- Allows countries to specialise (1) in what they are best at
- producing (1) develop skills (1) increase efficiency 1
- Exports create demand for the output of domestic producers
- (1) causing economic growth in that country (1) creating
- employment 1
- Exports create larger markets (1) able to take advantage of

Solution 5

- economies of scale (1) produce at a lower average cost (1).
- Incomes in other countries maybe higher (1) allowing more
- income to be earned by exporting 1
- Exports are a component of total (aggregate) demand (1) so
- increased exports will lead to higher output / cause
- economic growth (1).
- Imports allow consumers to enjoy more goods and services
- (1) greater choice / variety (1) at low prices (1) increase
- living standards (1).
- Imports provide greater competition (1) which can increase

Solution 5

- quality (1).
- Imports allow countries to obtain goods / raw materials they
- cannot produce (1) at a lower price (1) reducing costs of
- production (1) obtain tariff revenue (1).
- Spread of ideas / technology (1) increasing productivity (1).
- 6 Reward but do not expect reference to comparative or
- absolute advantage.
- 0455/23
- May/June 2025
- Mark

Solution 5

- Guidance

Solution 5

(d) Mark scheme

- Discuss whether or not an increase in government
- spending will benefit an economy.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- increase total demand
- ▪
- some forms of government spending e.g. education /

Solution 5

- healthcare may increase productivity
- ▪
- reduce unemployment
- ▪
- increase economic growth
- ▪
- reduce inequality
- ▪
- increase access to merit goods
- ▪

Solution 5

- provide public goods
- Why it might not:
- ▪
- increased inflation
- ▪
- increase a current account deficit if spent on e.g.
- imported capital goods
- ▪
- increased taxation to pay for increased spending
- ▪

Solution 5

- increase government debt
- ▪
- government spending may be inefficient – the private
- sector may be more efficient
- 8
- Level
- Description
- 3
- A reasoned discussion which accurately
- examines both sides of the economic

Solution 5

- argument, making use of economic
- information and clear and logical
- analysis to evaluate economic issues
- and situations. One side of the argument
- may have more depth than the other, but
- overall both sided of the argument are
- considered and developed. There is
- thoughtful evaluation of economic
- concepts, terminology, information
- and/or data appropriate to the question.

Solution 5

- The discussion may also point out the
- possible uncertainties of alternative
- decisions and outcomes.
- 6–8
- 2
- A reasoned discussion which makes use
- of economic information and clear
- analysis to evaluate economic issues
- and situations. The answer may lack
- some depth and development may be

Solution 5

- one-sided. There is relevant use of
- economic concepts, terminology,
- information and data appropriate to the
- question.
- 3–5
- 0455/23
- May/June 2025
- Mark
- Guidance
- 8

Solution 5

- Level
- Description
- 1
- There is a simple attempt at using
- economic definitions and terminology.
- Some reference may be made to
- economic theory, with occasional
- understanding.
- 1–2
- 0

Solution 5

- A mark of zero should be awarded for no
- creditable content.
- 0

Question 2

0455/22 M25 ▪ Q2 ▪ 20 marks

2 South Korea makes use of both economic goods and free goods. Its output includes products with both elastic and inelastic supply. The country is building the world's first floating city, estimated to cost $180m. This is to cope with rising sea levels caused by climate change. Governments take a number of measures to reduce greenhouse gases which contribute to climate change, including banning the burning of wood to heat homes.

(a) Identify a difference between economic goods and free goods. [2]

(b) Explain how opportunity cost will influence a government's decision on whether to spend tax revenue on a large infrastructure project. [4]

(c) Analyse the influences on whether supply of a product is elastic or inelastic. [6]

(d) Discuss whether or not a government should ban the burning of wood to heat homes. [8]

Question 2

(a) (a) Identify a difference between economic goods and free goods. [2] **[2]**

(b) (b) Explain how opportunity cost will influence a government's decision on whether to spend tax revenue on a large infrastructure project. [4] **[4]**

(c) (c) Analyse the influences on whether supply of a product is elastic or inelastic. [6] **[6]**

(d) (d) Discuss whether or not a government should ban the burning of wood to heat homes. [8] **[8]**

Solution 2

(a) Mark scheme

- Identify a difference between economic goods and free goods.
- Economic goods use up resources / need factors of production to
- produce them (1) free goods do not 1
- Economic goods are scarce / in limited supply (1) free goods are in
- unlimited supply (1).
- Economic goods have an opportunity cost (1) free goods do not (1).
- 2 No marks for examples.
- One mark for economic goods and one mark

Solution 2

- for free goods.

Solution 2

(b) Mark scheme

- Explain how opportunity cost will influence a government's
- decision on whether to spend tax revenue on a large infrastructure
- project.
- Logical explanation which might include:
- Opportunity cost is the (next) best alternative (1) forgone / given up (1).
- Tax revenue is limited (1) if a government spends some of it on an
- infrastructure project, it will not be able to spend on something else /
- could use the money to spend on something else (1) an example (1).

Solution 2

- Governments have to decide on their priorities / consider which form of
- spending will provide the greatest benefit (1) reason why spending on
- infrastructure may be the best option / may not be the best option (1).
- 4
- 0455/22
- February/March 2025
- Guidance
- Level
- Description
- 2

Solution 2

- A reasoned discussion
- which makes use of
- economic information and
- clear analysis to evaluate
- economic issues and
- situations. The answer
- may lack some depth and
- development may be one-
- sided. There is relevant
- use of economic concepts,

Solution 2

- terminology, information
- and data appropriate to
- the question.
- 3–5
- 1
- There is a simple attempt
- at using economic
- definitions and
- terminology. Some
- reference may be made to

Solution 2

- economic theory, with
- occasional understanding.
- 1–2
- 0
- A mark of zero should be
- awarded for no creditable
- content.
- 0
- 0455/22
- February/March 2025

Solution 2

- Guidance

Solution 2

(c) Mark scheme

- Analyse the influences on whether supply of a product is elastic or
- inelastic.
- Coherent analysis which might include:
- Elasticity of supply is a measure of the responsiveness of supply to a
- change in price / formula / elastic supply is when pes is > 1/ inelastic
- supply is when pes <1 (1).
- Elastic supply occurs when supply changes by a greater percentage than
- the change in price / inelastic supply is when supply changes by a

Solution 2

- smaller percentage than the change in price (1).
- Whether the product can be stored / non-perishable (1) if it can be, it will
- be elastic (1) able to adjust supply quickly to changes in price (1) as if
- price rises, goods can be taken out of storage (1).
- Whether the production time is short (1) if so, output can be increased
- quickly to take advantage of higher prices (1).
- Cost of altering supply (1) if it is costly to alter the supply, supply is likely
- to be inelastic (1).
- Whether there are unemployed resources / level of capacity (1) if there
- are, supply can be adjusted by taking on more resources (1).

Solution 2

- Whether resources / factors of production are mobile (1) if they can
- change use / location (1).
- Time (1) supply usually becomes more elastic, the longer the time period
- (1).
- Level of competition (1) supply is likely to be more elastic in a competitive
- than in a monopoly market (1).
- 6
- 0455/22
- February/March 2025
- Guidance

Solution 2

(d) Mark scheme

- Discuss whether or not a government should ban the burning of
- wood to heat homes.
- In assessing each answer, use the table opposite.
- Why it should:
- ▪
- reduce external costs / pollution
- ▪
- correct market failure / information failure

Solution 2

- ▪
- improve people's health
- ▪
- protect forests
- ▪
- replace wood with a more environmentally-friendly fuel
- ▪
- wood could be used for other purposes
- Why it should not:
- ▪

Solution 2

- wood may be bought mainly by the poor, increase poverty
-
  -
- other sources of fuel may be more expensive
-
  -
- may be difficult to enforce
-
  -
- may cause unemployment
-
  -
- may be better to tax wood as a fuel, could use revenue to subsidise
- more environmentally-friendly sources of fuel

Solution 2

- ▪
- some alternative fuels may be more polluting.
- 8
- Level
- Description
- 3
- A reasoned discussion
- which accurately
- examines both sides of the
- economic argument,

Solution 2

- making use of economic
- information and clear and
- logical analysis to evaluate
- economic issues and
- situations. One side of the
- argument may have more
- depth than the other, but
- overall both sides of the
- argument are considered
- and developed. There is

Solution 2

- thoughtful evaluation of
- economic concepts,
- terminology, information
- and/or data appropriate to
- the question. The
- discussion may also point
- out the possible
- uncertainties of alternative
- decisions and outcomes.
- 6–8

Solution 2

- 0455/22
- February/March 2025
- Guidance

Question 1

0455/11 N24 ▪ Q1 ▪ 1 mark

1 What has an opportunity cost in consumption?

A air

B food

C sea water

Question 1

D sunlight

Solution 1

Answer: **B**

Why

- A good has an opportunity cost only if it is scarce – using it means giving something up.
- Air, sea water and sunlight are free goods, available without sacrifice.
- Food has to be produced with scarce resources, so consuming it has an opportunity cost.

Question 1

0455/12 N24 ▪ Q1 ▪ 1 mark

1 Which economic question is **least** likely to arise as a result of scarcity?

A For whom will we produce?

B How will we produce?

C What will we produce?

D When will we produce?

Solution 1

Answer: **D**

Why

- Scarcity forces the three basic questions: what, how, and for whom to produce.
- Each is about allocating limited resources between unlimited wants.
- A question that would still arise even with unlimited resources is not caused by scarcity.

Question 1

0455/13 N24 ▪ Q1 ▪ 1 mark

1 What is the cause of the economic problem facing the global market for gold?

A Consumer wants for gold are limited.

B Gold is a limited resource.

C Only governments can sell gold.

D There is an unlimited supply of gold.

Solution 1

Answer: **B**

Why

- The economic problem is unlimited wants against limited resources.
- Gold is scarce – there is only a finite amount of it.
- Wants for it are not limited, so scarcity is what creates the problem.

Question 1

0455/11 J24 ▪ Q1 ▪ 1 mark

1 What is a free good?

A free samples of a new product

B health services provided by the state

C second-hand clothing

Question 1

D sunlight

Solution 1

Answer: **D**

Why

- A free good has no opportunity cost – using it means giving up nothing.
- That requires it to be genuinely unlimited relative to wants.
- Sunlight is the standard example; anything produced or provided by the state uses scarce resources.