The Basic Economic Problem

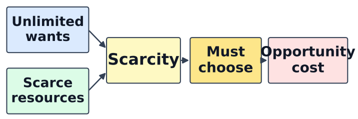
IGCSE Economics ▪ Topic 1

IGCSE Economics

What we will cover

1 Scarcity

The economic problem



Resources 资源 are **finite** 有限的 but **wants** 欲望 are unlimited, so resources are **scarce** 稀缺.

> **Scarcity** 稀缺性 forces choice, and every choice has an **opportunity cost** 机会成本.

Factors of production

Four **factors of production** 生产要素, each earning a reward:

- **land** 土地 – rent
- **labour** 劳动 – wages
- **capital** 资本 – interest
- **enterprise** 企业家才能 – profit

Land is a scarce natural resource

Factors of production – the four rewards

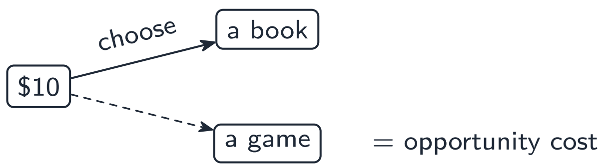
Land	Labour	Capital	Enterprise
natural resources (fields, water, oil)	human work and effort	machines, tools, factories	organises the rest + takes the risk
→ Rent	→ Wages	→ Interest	→ Profit

To make goods and services, firms use four types of resource.

> We call them the **factors of production** 生产要素.

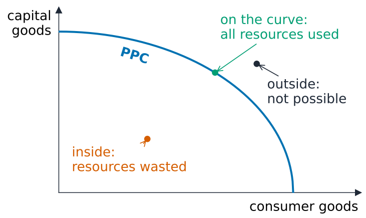
Opportunity cost

Opportunity cost 机会成本 is the next best choice you give up. An **economic good** 经济物品 is scarce (it has an opportunity cost); a **free good** 免费物品 (air) does not.



2 The PPC

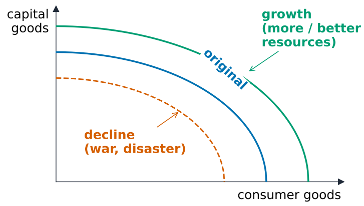
The production possibility curve



The **PPC** 生产可能性曲线 shows the most a country can make of two goods.

- on the curve – efficient
- inside – wasting resources
- outside – not yet possible

Shifting the PPC



Economic growth 经济增长 shifts the whole curve outward (more or better resources). Decline (war, disaster) shifts it inward.

3 Recap

Worked example – opportunity cost

A government has £10m and can build a hospital or a school. It builds the hospital. What is the opportunity cost?

- Wants are unlimited but resources are scarce, so every choice gives something up.
- The opportunity cost is the next best alternative given up.
- ⇒ the school.
- It is not "the £10m" – it is what the money would have bought.

State the one next-best alternative, not a list of everything forgone. On a PPC, opportunity cost is why you must move along the curve to gain more of one good.

Topic 1 – key takeaways

1 Scarcity
finite resources, unlimited wants

2 Factors
land, labour, capital, enterprise

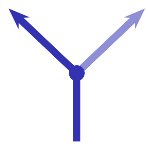
3 Opportunity cost
the next best choice given up

4 PPC
on it efficient; growth shifts it outward

The Basic Economic Problem
└Recap

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