

The Basic Economic Problem

IGCSE Economics ■ Topic 1

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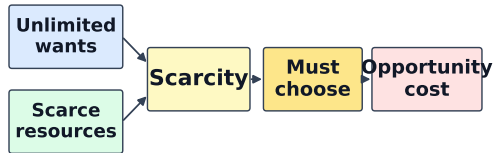
The Basic Economic Problem

What we will cover

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

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

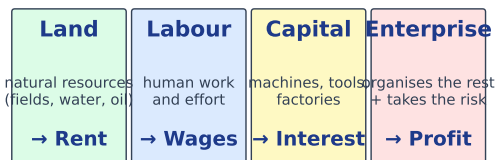
Four factors of production 生产要素, each earning a reward:

- **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

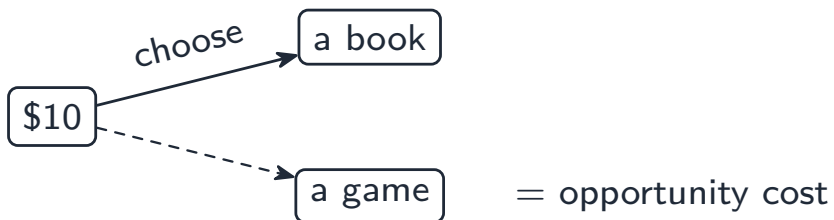


To make goods and services, firms use four types of resource.

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

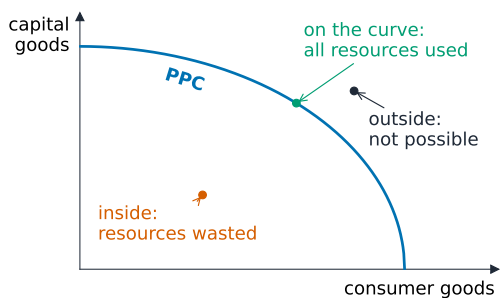
Opportunity cost

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

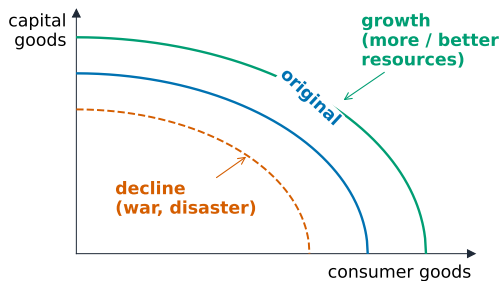
The production possibility curve



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

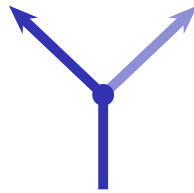
the next best choice given up

4 PPC

on it efficient; growth shifts it outward

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