

# 1

# What is Economics About?

## Multiple Choice Answers

- |   |   |    |   |    |   |
|---|---|----|---|----|---|
| 1 | C | 6  | A | 11 | C |
| 2 | B | 7  | B | 12 | B |
| 3 | D | 8  | C | 13 | D |
| 4 | C | 9  | B | 14 | A |
| 5 | B | 10 | D | 15 | B |

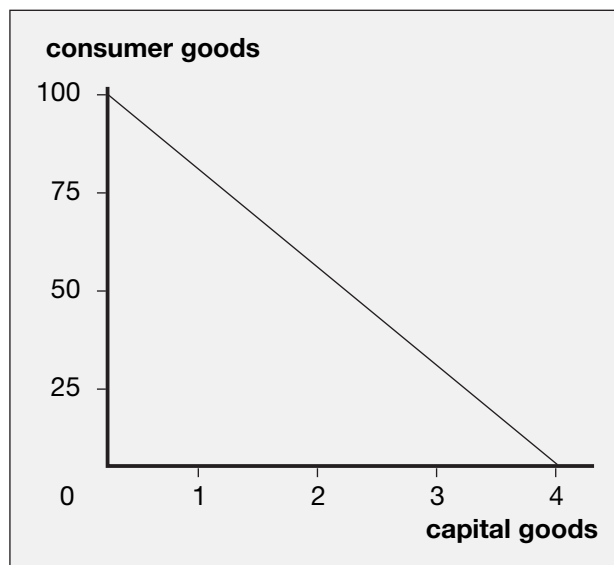
## Short Answer Questions

### Question 1

- (a) 50 soccer balls
- (b) Opportunity cost is the cost of satisfying one want above an alternative. It is measured by the cost of the want which is foregone.
- (c) At point A the economy is experiencing unemployment of resources. The total production in the economy is lower than it could potentially be, resulting in fewer wants being satisfied and a less efficient allocation of resources.
- (d) A correct answer may include any one of the following:
- The economy could apply new technology to production to allow a higher output with the same level of resources, causing the frontier to shift outwards.
  - New resources may be discovered or added in the economy, allowing a higher level of production, causing the frontier to shift outwards.
  - The production possibilities curve is concave. Suppose the economy starts producing only food. There are some resources that are suited to clothing and not food. If we decrease food production by a small amount these resources can move into clothing production, resulting in a larger increase in clothing. This means that the opportunity cost is not constant across the curve, and resources may specialise in the production of one of the goods.

## Question 2

(a)



- (b) Opportunity cost of one capital good =  $\frac{\text{Consumer Goods}}{\text{Capital Goods}}$   
 $= \frac{100}{4}$   
 $= 25$  consumer goods
- (b) Consumer goods are goods which are produced to satisfy consumer wants immediately, whereas capital goods are not immediately consumed, but are used in the production process.
- (c) A country that produces only consumer goods will satisfy a high level of wants in the short term since all resources will be producing consumer goods. However, since the economy is not producing capital goods, the productive capacity of the economy will fall in the long run (resulting in an inwards shift of the production possibilities frontier), resulting in fewer consumer goods being produced and fewer wants being satisfied.
- (d) A improvement in technology in the production of capital goods only will result in a higher level of production of capital goods with the same level of resources. Assuming that there is no change in technology to produce consumer goods, the production possibilities curve will shift outwards for capital goods only.

## Question 3

- (a) The economic problem is how to allocate the limited resources available in the economy towards satisfying the unlimited wants of society.
- (b) An individual is able to spend their income by buying goods and services for consumption, or they can save their income to be able to consume in the future.

- (c) A correct answer may include any two of the following:
- A business may face a decision about its target market, whether it should sell in high quantities at low prices, or target a niche market with lower quantities and higher prices.
  - A business may face a choice between investment or production. If the business invests in capital goods today, it will forego some production in the short term, but achieve higher levels of production at lower costs in the long term.
  - A business may face a choice between choosing capital or labour. A capital-intensive production may require less labour, but will require a large purchase of capital in the short term. If the business chooses labour, it may have to pay higher wages to attract the best-skilled workers.
  - The government's power as a lawmaker allows it to ban, outlaw or restrict certain economic activities which it sees as undesirable, such as deceptive advertising. The government can also tax products which may be harmful, such as cigarettes, or the government could subsidise production of goods and services which are desirable in the economy, such as subsidies to health insurance. Or the government could provide the good or service itself.

## Economic Terms

The economic terms should appear in the following order:

- Needs
- Unemployment
- Collective wants
- Economic problem
- Recurrent wants
- Production
- Opportunity cost
- Tax
- Utility
- Capital goods