

What is Economics About?

1

Multiple Choice

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

Short Answers

Question 1

- Needs are essential, individual desires for the basic necessities of life such as food, clothing and shelter. Wants are non-essential material desires of an individual or community. Our wants are unlimited and will change over time.
- Collective wants are goods and services that are demanded by the community as a whole and are generally underprovided by the private sector. These wants include hospitals, parks and general infrastructure. Governments play an important role in providing goods and services to satisfy collective wants and pay for them with taxation revenue collected by the community.
- One example of individuals having to choose between satisfying current wants and future wants is the choice between spending money on an overseas holiday that will satisfy a current want or saving up for a deposit to purchase a house in the future. Another example is the choice between entering the workforce after year 12 and earning a wage earlier in life, or deciding to pursue further tertiary study at TAFE or university and boost long term earnings. One final example is an individual's choice of bank accounts – between one that allows unlimited transactions and offers a lower rate of return and one that does not allow withdrawals for three years and offers a higher rate of return.
- One of the key questions an economy must answer is how to produce – which resources to use and in what combination to mostly efficiently produce goods and services. Businesses influence how an economy produces by deciding how much labour to use, what types of workers to hire, where to locate production facilities, what types of machines to use and how to combine the factors of production. Businesses will make decisions about how to produce to minimise costs such as rent, wages and interest.

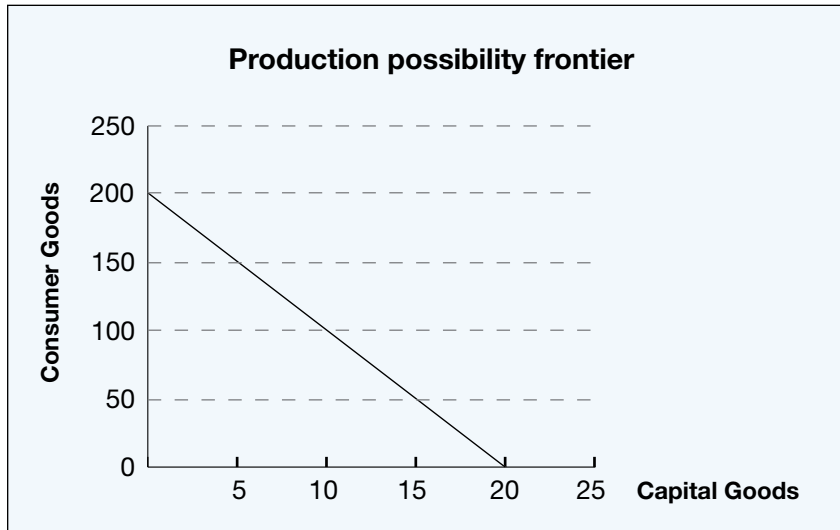
Question 2

(a).

Consumer Goods	200	150	100	50	0
Capital Goods	0	5	10	15	20

Horizontal axis = capital goods

Vertical axis = consumer goods



- (b). The opportunity cost of producing one consumer good is 0.1 capital goods. For each 50 consumer goods that are produced, the economy is foregoing 5 capital goods. Dividing both by 50: for each consumer good produced, the economy forgoes 0.1 capital goods.
- (c). Consumer goods are goods that satisfy consumer demand such as a haircut or an iPod. Capital goods are used by businesses to produce other goods, such as a print press or a tractor, and they increase the economy's productive capacity in the future.
- (d). By shifting from producing consumer goods to producing capital goods, an economy foregoes the production of goods that can satisfy consumer demand immediately. In the short term, this means that less consumer wants can be satisfied. However, capital goods enable the economy to better satisfy consumer wants in the future by expanding the economy's ability to produce. In the long run, this should result in greater productive capacity and higher economic growth.
- (e). An improvement in the skills of workers in the economy is likely to result in an outward shift of the production possibility frontier. This is because higher skilled workers are likely to be more productive – produce a higher quantity of goods and services from the same amount of time spent working. This means that for the same amount of resources or inputs in the production process, higher quantities can be produced. However, in the short term, an improvement in the skills of existing workers could potentially result in an increase in unemployment, as firms may no longer require as many workers to produce the same volume of goods and services which satisfy the economy's demands. Higher unemployment would mean that the economy is operating below its production possibility frontier.

Question 3

- (a). The opportunity cost of producing 160,000 tonnes of zinc is 200,000 tonnes of nickel. This is because if 160,000 tonnes of zinc were produced, the economy could no longer produce any zinc whatsoever.

- (b). Point A lies underneath the economy's production possibility frontier. This means that the economy's resources are not being full employed. This means that the economy is forgoing the production of potential goods and is therefore not maximising its satisfaction of wants.
- (c). An economy will decide what combination of nickel and zinc to produce by determining the combination which best maximises the satisfaction of wants in the economy. Other factors aside, if demand is greater for goods with nickel, the economy will produce more nickel, but if demand is greater for goods with zinc, it will produce more zinc.
- (d). An economy might see its production possibility frontier shift outwards due to the discovery of a new deposit of nickel and zinc resources, which increases the amount that can be produced. Other possible reasons include an increase in the skills and productivity of its workers or new technology, which may enable a greater quantity of goods and services to be produced.
- (e). If accessible zinc quantities available each year halved, the production possibility frontier would pivot inwards on the horizontal axis. The maximum production quantities would be 200,000 tonnes of nickel and 80,000 tonnes of zinc. The opportunity cost of producing zinc would double, as for each 80,000 of zinc produced, the economy is foregoing 200,000 tonnes of nickel. Previously, it would require 160,000 tonnes of zinc being produced to forego 200,000 tonnes of nickel.

Skills Revision – Economic Terms

(In order of appearance of definitions from top to bottom)

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

Skills Revision – Production Possibility Frontiers

1. The production possibility frontier has shifted outwards, meaning that the economy is able to produce more of both commercial property and residential property. This may have occurred as a result of new construction techniques that increase the amount of production for a given number of workers.
2. The economy is operating underneath its production possibility frontier, meaning that the economy's resources are not being fully utilised. This may have been caused by reduced government spending on transport and electricity services, and hence more unemployment of workers.
3. The production possibility frontier has pivoted upwards, meaning that more solar panels can now be produced from the same amount of resources used in the production process. This may have occurred as a result of the discovery of new solar technologies that have enabled solar panels to be produced more easily and cheaper.
4. The economy has shifted towards more education services at public schools, forgoing some services at public hospitals in the process. This may have occurred as a result of a shift in government resources towards schools in response to community demands.