Basic Economic Problem

Definitions

This exercise is based on some of the key terms used in economics. Match the following terms with their appropriate definitions. For instance, if you think an ‘inability of workers to change jobs and location’ defines ‘scarcity’, match 1 with c. Each term has an appropriate definition. If you find that you are left with a term and a definition which does not appear to match, you should review your other matches.

1. Scarcity
2. The economic problem
3. Wants
4. Land
5. Capital
6. Labour immobility
7. Factors of production
8. Opportunity cost
9. Economic goods
10. Free goods

   a. Natural resources
   b. Economic resources
   c. Inability of workers to change jobs and location
   d. Inability to produce everything that people want
   e. Products that have an opportunity cost
   f. Products that do not have an opportunity cost
   g. Products people desire to have
   h. Human made resources
   i. An insufficient quantity to satisfy everyone’s wants
   j. Best alternative forgone

Missing words

One way to become familiar with key economic words and terms is to use them. This exercise is designed to test your understanding of some economic words and terms in context. So complete the following sentences by filling in the missing word or words:

1. It is not possible to eliminate ......................... as ................................ grow faster than economic resources.
2. The economic problem means that people have to make

3. Most land is ......................... mobile but geographically .........................

4. If gross investment exceeds depreciation there is ................................. investment.

5. ................................. is the payment labour receives whilst .................................
   is the payment entrepreneurs receive.

6. A country’s labour force can be increased by ................................. the retirement
   age and ................................. the school leaving age.

7. ................................. is output whereas ................................. is output per worker
   hour.

8. A key role of entrepreneurs is to bear ................................. risks.

9. Another name for a production possibility curve is an ................................. cost
   curve.

10. A production possibility curve shows the maximum output of
    ................................. products with existing resources and ..................................
Differences

Identify one way in which each of the following pairs is different:

1. Capital goods and consumer goods
2. Economic goods and free goods
3. Capital and land
4. Geographical immobility and occupational immobility
5. Opportunity cost and financial cost

Data exercise

The first question on the structured question papers of both the IGCSE and O level and the questions on Paper 3 of the IGCSE examination, test candidates’ ability to interpret and analyse economic data.

The use of data puts economics in a real world context. In answering data-based questions, you should first read through the questions so that you know what you are looking for. Then read through the data. You may wish to highlight key words. Having read through the data, return to the questions. Again you may find it useful to highlight key words in the questions. For instance, in the case of question b, you may wish to highlight the words ‘opportunity cost’. In deciding how much time to devote to each answer, take into account the marks awarded. You would obviously be expected to spend twice as long on a question with 8 marks than one with 4 marks.

A new Indian car

On 11 January 2008, Tata, an Indian producer, launched a new model, the Nano. On this day it became the cheapest car available, selling for half the price of the next cheapest car. For the price of 100,000 rupees, a brand new Nano could be bought or, for instance, a second hand 1993 Land Rover.

The car is intended initially for the home market. It is thought that millions could be sold in India. The firm also plans to export the car to Latin America, South-east Asia and Africa.

Although selling the car at such a low price will make car ownership more affordable for more people, there are still many millions of people who would like a car but do not have the income to buy one.

a. Using examples, identify three factors of production used in making cars. (6)

b. Give an example of opportunity cost from the passage. (2)

c. What evidence is there of the economic problem from the passage? (2)
Structured questions

Structured questions are divided into a number of different parts. In selecting a structured question to answer in an examination, it is important to ensure that you can answer all the question parts. It is best to answer the question parts in order as they may build on each other. As with data exercise questions, take into account the number of marks awarded to each question part.

1. a. What is the basic economic problem? (2)
   b. Explain three causes of an increase in the supply of labour in a country. (6)
   c. Discuss the relevance of opportunity cost in the following cases:
      (i) a worker deciding whether to accept a new job (3)
      (ii) a family deciding where to go for holiday (3)
      (iii) an entrepreneur selecting which new product to launch (3)
      (iv) the production of economic goods. (3)

2. Pakistan is a major producer of cotton garments, knitwear and rice. To increase its output of a range of products, the Pakistani government is seeking to improve the quality and mobility of its economic resources.
   a. What is an economic resource? (2)
   b. Explain what is meant by the mobility of economic resources. (8)
   c. Analyse three causes of an increase in the quality of economic resources. (6)
   d. Discuss a possible opportunity cost of Pakistan devoting more of its resources to producing cotton garments. (4)

Homework assignment

Review the work in this section and then answer the following question:

A German travel company considers its future

A German travel company decides to stop selling holidays in Italy and instead to offer holidays in a new destination. This is the Maldives, a group of islands in the Indian Ocean, famous for their long hours of sunshine and sandy beaches.

Tourism is a fast growing industry. Not all families, however, are able to go on holiday whether at home or abroad. Most of those who take holidays would like to have more holiday breaks.
a. What evidence is there in the passage of scarcity? (3)
b. Using examples, identify three factors of production involved in providing holidays in the Maldives. (6)
c. (i) Explain the difference between an economic good and a free good. (4)  
   (ii) Identify a free good from the passage. (1)
d. Explain the relevance of opportunity cost for a travel firm in deciding how to use its resources. (6)