

Economics-0455

CHAPTER -1

THE BASIC ECONOMIC PROBLEM

1. What is meant by the economic problem? (2)

The economic problem is that we cannot have everything we want. This shortage arises because while there are unlimited wants, there are finite resources.

2. Explain why a car is an economic good. (4)

- A car is an economic good as it takes resources to produce it. Among the resources that are used to produce cars are, for example, machines and workers.
- The amount of cars produced depends on the quantity and quality of resources that are used. These resources could be used to produce other goods and services.

3. Identify two non-human factors of production. (2)

Land and capital.

4. Explain two causes of an increase in the quantity of labour. (4)

- An increase in the retirement age would increase the quantity of labour.
- More people would be in the labour force if they have to work to, for example, up to the age of 70 rather than 65 is disfigured.
- The working age range would be expanded. There might also be an increase in the number of people within the existing working age group.
- This could be because of a rise in the birth rate that occurred 16 or more years earlier, more people of working age coming to live in the country than working age people leaving to live in other countries or a fall in the death rate.

5. Analyse why the mobility of labour may increase over time. (6)

- The occupational mobility of labour may increase over time due to better education, appropriate training and the provision of information about job vacancies.
- If workers are better educated, they will gain more qualifications and skills. This will enable them to apply for a greater range of jobs and will make them more attractive to employers.

- Unemployed agricultural workers, for example, could be trained in the skills needed to work in the tourism industry if there are vacancies in the tourism industry, enabling labour to move from a declining to an expanding industry.
- Providing information about job vacancies can make workers aware of job opportunities more suited to their skills and offering them better pay and working conditions.
- This may encourage workers to move from one occupation to another occupation.

6. Define opportunity cost. (2)

Opportunity cost is the best alternative forgone.

7. Explain why opportunity cost is an important concept for producers. (4)

Opportunity cost is an important concept for producers because they have to decide how to use the resources they employ. For instance, a soft drinks manufacturer may produce lemonade or cola. In the short run, if it decides to produce more lemonade, it will have to switch some workers, machinery and ingredients away from producing cola. In the long run, if the firm employs more resources and devotes the extra resources to producing more lemonade, it will be giving up the opportunity to produce more cola.

8. Analyse what effect the building of an airport may have on the decision of how to use an area of land nearby. (6)

The area near where an airport is being built may currently be farms or houses. The prospect of the construction of the airport may reduce the value of the farmland and the houses due to the expected noise and air pollution. At the same time, it may make the area more valuable to, for example, firms wanting to operate hotels, firms producing goods for export and for the air travel and freight industry. If it decides, for example, to demolish the farms or houses and build a hotel on the site, the opportunity cost may now be using the site for a factory producing airline meals.

9. What is the difference between a point inside and a point on a PPC? (2)

A point inside a PPC shows that there are unemployed resources. It is not an efficient point. A point on a PPC shows that full use is being made of resources. It is an efficient point.

10. Explain two causes of a shift in a PPC. (4)

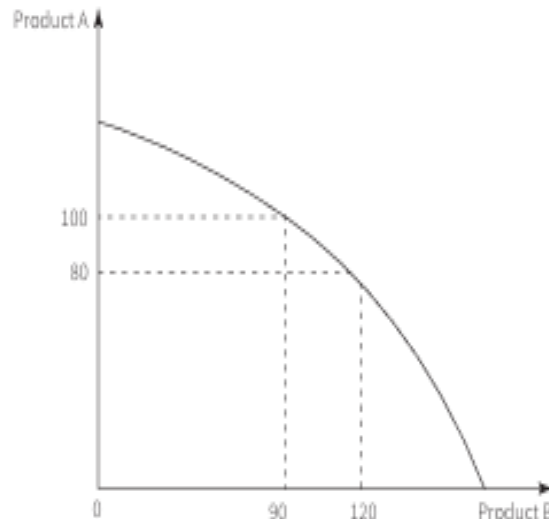
A PPC may change its position if there is a change in the quantity of resources. It may shift to the right due to an increase in the labour force resulting from more workers coming into the country to live and work.

A PPC may also shift to the right if there is an increase in the quality of resources. Labour may be of a higher quality if it has been better trained. This would enable it to produce more goods and services.

11. Analyse how a PPC illustrates scarcity, opportunity cost and efficiency. (6)

A PPC shows scarcity as it indicates that there is a limit to what can be produced with given resources. People would like a combination of the products far to the right of the curve but there are not enough resources to produce the combination.

A PPC can illustrate opportunity cost as it shows how much of one product has to be given up in order to produce more of another product. The diagram below shows that the opportunity cost of producing 20 more units of Product A is 30 units of Product B.



A PPC illustrates efficiency by the relationship between production points and the curve. Any point inside the curve is inefficient. Potential output is being lost as existing resources are capable of producing more. Any point on the curve is efficient as maximum use is being made of the resources and the maximum output is being produced.

SECTION B QUESTION

In late 2016 an Australian firm announced that it would be starting a project to use the power of waves off the coast in Cornwall in the UK to generate electricity. More entrepreneurs are becoming interested in making use of wave power which is a free good. More labour is likely to be employed in the industry. The quantity of labour has increased in recent years.

1. Define an entrepreneur. (2)

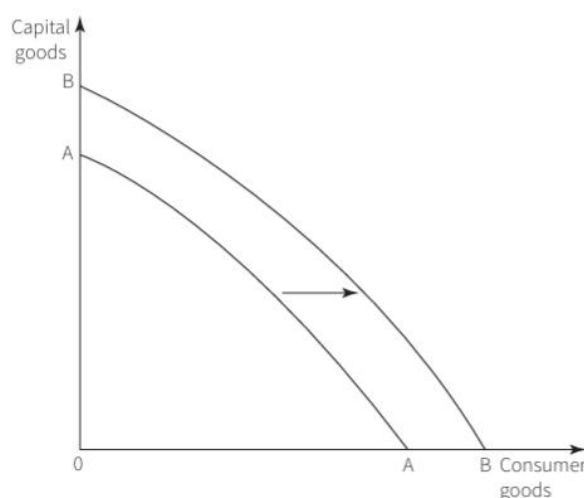
An entrepreneur is one of the four factors of production. She or he makes business decisions, including which other factors of production to employ, and bears the risks of the business in the hope of making a profit.

2. Explain the difference between a free good and an economic good. (4)

A free good, such as air, does not take any resources to produce it. Such a good exists naturally without limit and has no opportunity cost. In contrast, an economic good, such as healthcare, takes resources to produce it. This means that it has an opportunity cost. The resources that are used to produce it could be used to make other economic goods. Economic goods are scarce as there are not enough resources to produce all of these goods we would like.

3. Analyse, using a PPC, the effect on an economy of an increase in the supply of labour. (6)

An increase in the supply of labour will result in a rise in the quantity of resources. This will cause an increase in productive potential and will shift the PPC to the right as shown in the diagram, where it has moved from AA to BB.



4. Discuss whether or not the quantity of labour in the UK is likely to increase in the future. (8)

The quantity of labour may increase in the UK in the future. This is because the size of the population is increasing.

This is partly due to more people being born than dying but more significantly due to more people of working age coming from countries such as India and Poland to live and work in the UK.

The retirement age has also been increased and is likely to rise again in the future. More women now enter the labour force. All of these changes have resulted in an increase in the number of workers in the UK and may continue to do so in the future.

The labour force has also become healthier and this has resulted in fewer working days being lost through sickness. There are, however, reasons to think that the quantity of labour may decrease in the future.

The school leaving age may be raised in a bid to increase the quality of the labour force by increasing workers' skills. A higher school leaving age will reduce the working age range.

It is also possible that in the future, more workers may leave the UK to live and work elsewhere and the UK may experience a net loss of workers to other countries. The quantity of labour, in terms of the number of hours that people work, may be reduced if workers have longer holidays or shorter working hours.

There are a number of influences on the quantity of labour that any country has. It is difficult to forecast exactly what will happen to the UK's labour force but the likely continuing growth in its population for at least the next decade or so and further increases in the retirement age mean it is likely to continue to grow.