**Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

ECONOMICS AND BUSINESS

Topic Test 1

2020

THE ECONOMIC PROBLEM

## General instructions

* Working time – 1 Lesson
* Write using blue or black ink or pencil
* Answer all questions
* Write your name at the top

**A few tips**

* Remember to use economic terminology where you can

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**Q.1 Examples of recurring wants are:**

J. CD Player, Petrol, Car, sheep, wheat

K. roads, hospitals, petrol, food, coffee

L. eggs to make a cake, water, sheep petrol

M. Petrol, coffee, a pen, shoes

**Q.2 New technology or discovery of more resources results in:**

J. Greater efficiency in production

K. The PPF shifting out on 1 axis

L. The PPF shifting out on both axis

1. Smaller opportunity cost for capital intensive economies

**Q.3 Economics is the study of scarcity. Scarcity means:**

J. Not having enough money to buy goods and services

K. Not having enough food to keep the population healthy

L. Not having enough resources to satisfy all wants

M. Not having enough capital resources

**Q.4 The diagram below shows the PPF for an economy producing at point A. The opportunity cost of them moving to produce at point B is:**

50

40 A

Sheep

25 B

70 90 100 Fighter Jets

J. The opportunity cost of 40 sheep goods is 70 Fighter Jets

K. A movement from A to B would be the result of an improvement in the technology required for Fighter Jets

L. If 70 Fighter Jets were being produced, the opportunity cost of an extra 20 Fighter Jets would be 15 Sheep

M. The production possibility frontier (PPF) would move out to the right if the population decided it needed more Fighter Jets and Sheep

**Q.5 The following diagram represents a production possibility curve for an economy that produces only Police cars and toilet paper. What might cause a shift from point B to point A?**

Police cars

B

A

Toilet Paper

J. An decrease in demand for both police cars and toilet paper

K. The development of improved technology in the production of both police cars and toilet paper

L. The discovery of more resources for police cars

M. More efficient methods of production for toilet paper

**PART B**

1. **What is meant by "enterprise resources"? (2 marks)**

Labour resources that add more value to the economy than the normal worker. E.g. the CEO of a

Big company

1. **Explain what is meant by ‘opportunity cost’ and use a diagram to demonstrate it (5 marks)**

Opportunity cost is the alternatives that you forego in order to produce something else. E.g. the

Opportunity cost of producing 90 fighter jets is 15 sheep

50

40 A

Sheep

25 B

70 90 100 Fighter Jets

1. **Explain why we cannot produce outside the PPF (3 marks)**

The PPF shows the maximum amount that can be produced should all resources be used to

Maximum efficiency. Producing outside this is physically impossible and illustrates what scarcity is

1. **Why might what people want (or demand), not affect the position of the curve on a PPF? (3 marks)**

The PPF only shows resource use to maximum efficiency. Demand is how much people want things.

The PPF shows what businesses or economies can DO, while demand is what or how much people

want

1. **Two examples of complementary products would be (2 marks)**
2. Eggs to make a cake
3. Bike and helmet
4. **Using an example, explain why some wants will vary from person to person (2 marks)**

My likes are different to other peoples likes. I like roast lamb, whereas you might like fish.

**Use the story of the widow of Zarephath and Elijah to answer the following questions.**

*Then the word of the Lord came to him: “Go at once to Zarephath in the region of Sidon and stay there. I have directed a widow there to supply you with food.” So he went to Zarephath. When he came to the town gate, a widow was there gathering sticks. He called to her and asked, “Would you bring me a little water in a jar so I may have a drink?” As she was going to get it, he called, “And bring me, please, a piece of bread.”*

*“As surely as the Lord your God lives,” she replied, “I don’t have any bread—only a handful of flour in a jar and a little olive oil in a jug. I am gathering a few sticks to take home and make a meal for myself and my son, that we may eat it—and die.”*

*Elijah said to her, “Don’t be afraid. Go home and do as you have said. But first make a small loaf of bread for me from what you have and bring it to me, and then make something for yourself and your son. For this is what the Lord, the God of Israel, says: ‘The jar of flour will not be used up and the jug of oil will not run dry until the day the Lord sends rain on the land.’”*

*She went away and did as Elijah had told her. So there was food every day for Elijah and for the woman and her family. For the jar of flour was not used up and the jug of oil did not run dry, in keeping with the word of the Lord spoken by Elijah.*

1. **Using your skills of economic inquiry, analyse this story to determine at least 6 elements of the economic problem that are present (6 marks)**

*Resources – food (land), town gate (capital), widow gathering stick (labour), only a little flour*

*Scarcity – only a little flour and oil*

*Wants – water (Recurring), food (Recurring)*

*PPF – reducing because of the drought*

*PPF – increasing because of more resources*

*Choice – how she was going to use the flour and oil*