

A: Microeconomics & Macroeconomics, Basic Economic Terms & Opportunity Cost

1. To an individual, the problem of scarcity is usually seen as
 - (a) limited income but unlimited wants
 - (b) unlimited income and unlimited wants
 - (c) limited income but limited wants
 - (d) unlimited income but limited wants

 2. The central problem of all economic societies is how to
 - (a) achieve an equitable distribution of income and wealth
 - (b) ensure that resources are fully utilized
 - (c) allocate resources between competing uses
 - (d) resolve the conflict between equity and efficiency

 3. In which of the following situations would most likely cause lemonade to cease being regarded as an economic good?
 - (a) Lemonade producers all decided to give their product away free.
 - (b) All lemonade drinkers started to prefer orangeade.
 - (c) The government banned the consumption of lemonade.
 - (d) The sky began to rain lemonade instead of water.

 4. The ceteris paribus, or everything else held constant, assumption is used in economics
 - (a) To make the theory more complicated
 - (b) To isolate the important variables when formulating the theory
 - (c) To indicate that no other assumptions are being made
 - (d) Because economic theory is an accurate reflection of the real world

 5. Which of the following statements is a positive economic statement?
 - (a) Smoking should be banned in public places
 - (b) Unemployment is more harmful than inflation
 - (c) Government subsidies for healthcare services need to be increased
 - (d) Higher interest rate will reduce consumption expenditure

 6. Which of the following are macroeconomic issues and which are microeconomic ones?
 - (a) The level of government spending
 - (b) A grant given by the government to the Singapore film industry
 - (c) The level of investment in the UK by overseas firms
 - (d) The price of cotton cloth
 - (e) The rate of inflation
 - (f) The average wage rate paid to textile workers
 - (g) The total amount spent by UK consumers on clothing and footwear
 - (h) The amount saved last year by households
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7. Which of the following is not classified as a factor of production?

- (a) Bricklayers working for a local construction firm
- (b) The cement mixer used by the bricklayers
- (c) The building site they are working on
- (d) Wages paid to the bricklayers at the end of the month



1. *Since only people can exhibit entrepreneurship, why is entrepreneurship not considered as a part of the labour economic resource?*
 2. *What determines whether a resource is scarce or not?*
 3. *Provide examples where opportunity costs are incurred.*
 4. *Can opportunity cost be measured in ways other than monetary terms?*
 5. *Explain how equilibrium reflects decision-making of economic agents.*
 6. *Will economic growth eventually be able to eliminate the problem of scarcity?*
 7. *Normative statements must always be followed by positive statements. Do you agree?*
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B. The Production Possibilities Curve

Learning Objectives:

Students will be able to:

- ✧ Construct a production possibility curve
- ✧ Associate the concepts of scarcity, choice and opportunity cost with the production possibilities curve
- ✧ Account for the shifts of the PPC curve.

Question 1

Consider two goods that most schools have need for—1) New math textbooks and 2) New computers. The following chart represents the amount of computers and math textbooks that could be produced using all the resources available in the economy.

- (a) Calculate the opportunity cost of an additional computer and fill up the last column in the table below.

Allocation	Computers	Math Text Books	O/C of an additional computer
A	0	190	
B	1	180	
C	2	168	
D	3	154	
E	4	138	
F	5	120	
G	6	100	
H	7	78	
I	8	54	
J	9	28	
K	10	0	

- (b) Use the table above to draw the production possibilities curve for computers and math textbooks. Place computers on the x-axis and Math textbooks on the y-axis.

- (c) How are the concepts of scarcity, choice and opportunity costs illustrated in this model?



(d) What is the opportunity cost of increasing the number of textbooks produced from 100 to 120?

(e) Explain the significance of the slope and the shape of the PPC.

(f) Assuming that there is an improvement in the level of technology, what will happen to the original production possibilities? Draw a new diagram to illustrate your answer. Explain why your new diagram is drawn this way.

Question 2

(a) What does a point inside a PPC imply?

(b) What does a point on a PPC imply?

(c) What does a point outside the PPC imply?



C. Challenging Questions

1. What role can a government play in trying to move from a point inside the PPC to a point on the PPC?

2. Other than having improvements in technology, how else can an economy consume outside of its PPC?

4. *Statement 1: At any point in time, with full employment prevailing, production of more of one good will result in less of another good being produced*

Statement 2: With the passage of time, with full employment prevailing, production of more of one good will be accompanied by an increase in the production of another good

Explain the difference between the two statements.




5. During the Second World War, an increase in the production of war weapons by Japan was followed by a fall in the production of consumer goods. On the other hand, an increase in the production of war weapons by the USA was accompanied by an increase in the production of consumer goods.

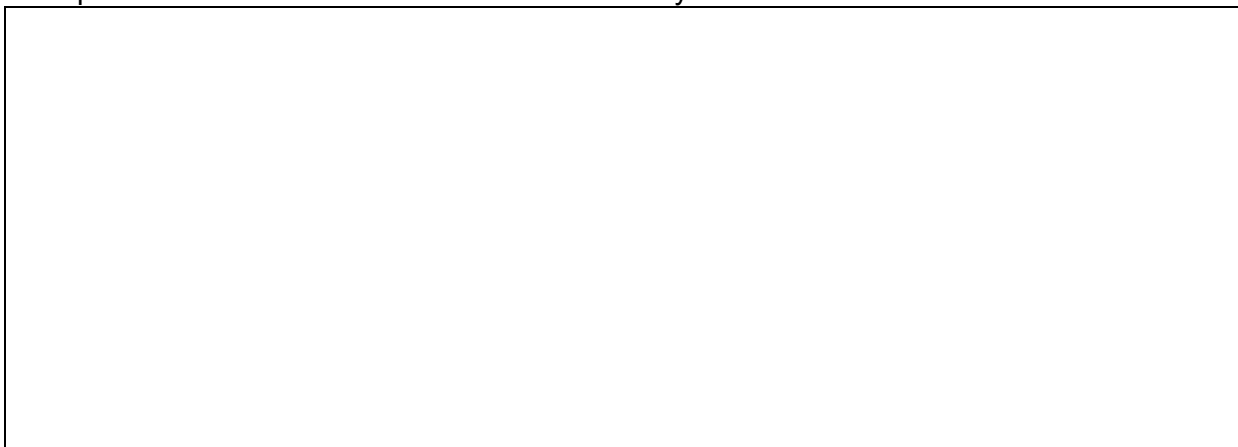
(a) Sketch the production possibility curves for Japan and USA to reflect the situation above.



(b) Explain the difference in behaviour of the 2 countries stating clearly any assumptions you made to arrive at the answer.



6. Suppose that an economy produces only 2 goods, wine and cars. At some point on its PPC, there was no way that the country could use its wine-producing resources to produce additional cars. Sketch out the country's PPC.



7. “Only poor countries experience the problem of scarcity and this problem will be eliminated once they have achieved substantial economic progress.”

Is the statement true or false? Explain.

