

1. A new dam is built in India to provide hydroelectric power. What is the opportunity cost to the Indian economy of the dam?
 - a) The construction and running costs of the hydroelectric dam
 - b) The cost to consumers of using the electricity
 - c) Other goods and services the resources used for the dam could have produced instead
 - d) The cost of loans used to finance the building of the dam

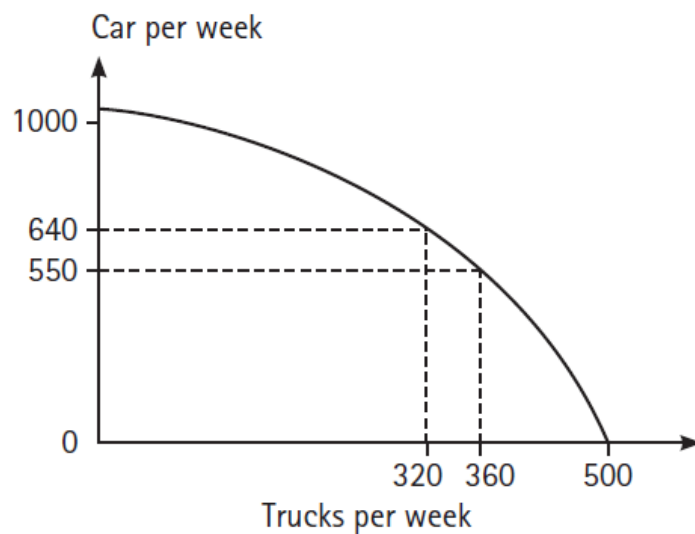
2. The basic economic problem faced by all economies is:
 - a) Market failure
 - b) Scarcity of resources
 - c) Inflation
 - d) Unemployment

3. A firm currently produces 800 units of a good X and 600 of a good Y using its resources. In the following week it decides to produce 900 units of X and 520 of Y. What is the opportunity cost of the decision to produce 100 more units of X?
 - a) 100 Y
 - b) 80 Y
 - c) 800 Y
 - d) 0

4. Which of the following is an example of a capital good?
 - a) A skilled machine operator in a textile plant
 - b) A pair of fashionable trousers
 - c) Raw cotton
 - d) A textile factory

5. Increasing numbers of trees in tropical rainforests are being cut down by private firms to supply hardwood timber. What is the opportunity cost of this activity?
 - a) The natural environment that is destroyed
 - b) The cost of the cutting and logging machinery
 - c) The wages paid to workers to cut the timber
 - d) The tax revenue from the sale of the timber

6. A boat owner employs a crew to catch fish to sell on the market. Which factors of production are involved in this activity?
- a) Labour, capital and enterprise only
 - b) Land, labour, capital and enterprise
 - c) Land and labour only
 - d) Labour and capital only
7. In the diagram below what is the opportunity cost of increasing the output of cars from 550 per week to 640 per week?



- a) 0 trucks
 - b) 40 trucks
 - c) 320 trucks
 - d) 360 trucks
8. The total amount of goods and services that can be produced in the world economy will be:
- a) Determined by the amount of natural resources
 - b) Unlimited
 - c) Just enough to satisfy all consumer wants
 - d) Less than what consumers want
9. A mixed economy has
- a) An agricultural and an industrial sector
 - b) Consumer goods and capital goods
 - c) A financial sector and an industrial sector
 - d) A private sector and a public sector

10. What makes choice an important element in the basic economic problem?

- a) Increased demand leads to higher market prices.
- b) Limited resources have many alternative uses.
- c) Reaching a market equilibrium may take a long time.
- d) Scarce economic resources are distributed equally.

Free Response Questions

1. Many governments have increased their spending on police and armed forces but there is an opportunity cost of this policy.

Explain the term opportunity cost and discuss why an increase in spending on police and armed forces may result in an opportunity cost. (4)

Because resources are scarce compared to human needs and wants, all societies must choose how best to allocate their resources to the production of different goods and services. Making a choice between alternative uses of scarce resources therefore always involves a cost in terms of what we have to give up in return. The benefit of the next best alternative foregone is the opportunity cost of that decision. Therefore, when a government increases spending on police and the armed forces there is an opportunity cost in terms of what the same amount of money could be spent on instead and the benefits it could create. For example, the same government could have increased spending on education, health or infrastructure instead. The potential benefits of increased education, health care or infrastructure to society and the economy are foregone. Alternatively, governments could lower taxes on people and firms instead of increasing spending.

2. In the UK the Royal Society for the Protection of Birds (RSPB) has recently bought land around the coast to prevent building on the area where rare birds breed. It has received donations from the public towards the cost. The RSPB plans to set up special visitor centres in the area.

Explain which factors of production are involved in the above action by the RSPB. [4]

Factors of production are used to produce goods and services. Economists classify factors of production as land (natural resources), labour (human effort), capital (man-made resources) and enterprise (business skills).

In the example of the RSPB, the organization has purchased land near the coast to provide a sanctuary for rare birds. It will also have used capital, such as construction equipment and machinery, and labour, to build the special visitor centres. In addition, labour and capital, such as computer equipment, will be needed to run the centres. Senior members with enterprise skills in the RSPB have combined and organized these resources to operate the organization

2 (a) What is a 'monopoly'? (2 marks)

Any two from:

- control of market (1);
- at least 25% legally (1);
- sole provider (1);
- high market share (1).

Max 2 marks

2 (b) Explain two advantages to Sky TV of having an 'exclusive deal'. (4 marks)

Relevant points – monopoly power re prices/output, excess profits, no competition.

2 marks for basic knowledge and 2 marks for application.
One very well developed point can secure full marks.

2 (c) Suggest two reasons why consumers might be unhappy when there is a monopoly. (4 marks)

Relevant points:

- no choice;
- price rises;
- lack of quality.

2 marks for basic knowledge and 2 marks for application.
One very well explained argument can gain full marks.

2 (d) (i) What is meant by the term 'market failure'? (2 marks)

Failure to allocate resources effectively.

Market not competitive, with imperfections. Government interference, ie tax/subsidy.

Credit 1 point developed for 2 marks.

2 (d) (ii) How might Government intervention in a market lead to market failure? (4 marks)

Intervention via taxes/subsidies (1) distorts prices leading to (1) misallocation of resources (1).
Expansion of either of these explanations (1).