IGCSE ECONOMICS · 1.1 THE MARKET SYSTEM · CHAPTER 1 · PAPER 1

# The Economic Problem

**Topic question sheet L01** | **Total: 33 marks** | **Time: 35 minutes** | **Student Book pp. 4–11**

**Instructions:** answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

## Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

**1** Which of the following questions is part of the basic economic problem? **(1)**

**A** When to produce? **B** Who should produce?
**C** What to produce? **D** Where should production take place?

**2** Which of the following is a need rather than a want? **(1)**

**A** Shelter **B** A holiday
**C** A smartphone **D** A pet dog

**3** A point inside a production possibility curve shows that: **(1)**

**A** the combination is unattainable **B** there are unemployed resources
**C** resources are fully employed **D** the economy is growing

**4** Which of the following would most likely shift a country's PPC outwards? **(1)**

**A** A natural disaster **B** Skilled workers emigrating
**C** Better education and training **D** A country running out of oil

## Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

**5** What is meant by **opportunity cost**? **(2)**

**6** Define the term **scarcity**. **(1)**

**7** Farland moves from producing 12 million agricultural goods and 4 million manufactured goods to 8 million agricultural goods and 6 million manufactured goods. Calculate the opportunity cost of the extra manufactured goods. You are advised to show your working. **(2)**

**8** Draw a PPC for Farland, labelling the axes and marking its current position. **(3)**

**9** Explain **one** reason why every economy has to make choices. **(3)**


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## Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

### Extract: A country's production choices

Farland can produce agricultural goods and manufactured goods. If all its resources are used it can produce either 16 million units of agricultural goods or 8 million units of manufactured goods, or combinations in between. It currently produces 12 million units of agricultural goods and 4 million units of manufactured goods.

In 2025 large reserves of natural gas were discovered off Farland's coast. However, many young doctors and engineers have been leaving to work abroad, where wages are higher.

Fictional case, written for this sheet.

**10** With reference to the extract, analyse the likely effect of the discovery of natural gas on Farland's production possibility curve. Use a diagram in your answer. **(6)**

**11** With reference to the extract, evaluate whether Farland's productive potential is likely to rise in the future. **(12)**


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# Mark scheme: The Economic Problem

**How to mark: Multiple choice, Define, State**: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

## Section A

**1** *Which of the following questions is part of the basic economic problem? (1 mark)*

**Answer: C** (What to produce?). The three questions are what, how and for whom to produce.

**2** *Which of the following is a need rather than a want? (1 mark)*

**Answer: A** (Shelter). Needs are basic requirements for survival.

**3** *A point inside a production possibility curve shows that: (1 mark)*

**Answer: B** (there are unemployed resources). Inside the PPC, resources are not all being used.

**4** *Which of the following would most likely shift a country's PPC outwards? (1 mark)*

**Answer: C** (Better education and training). Education raises productive potential; the others shift the PPC inwards.

## Section B

**5** *What is meant by opportunity cost? (2 marks)*

The cost of the next best alternative (1) given up when making a choice (1).

**6** *Define the term scarcity. (1 mark)*

When resources are finite/limited relative to infinite wants (1).

**7** *Farland moves from producing 12 million agricultural goods and 4 million manufactured goods to 8 million agricultural goods and 6 million manufactured goods. Calculate the opportunity cost of the extra manufactured goods. You are advised to show your working. (2 marks)*

**Working:** 12m − 8m = 4m agricultural goods given up for 2m more manufactured goods (1).

**Answer:** 4 million units of agricultural goods (or 2 agricultural goods per manufactured good) (1).

**8** *Draw a PPC for Farland, labelling the axes and marking its current position. (3 marks)*

**Diagram:** axes labelled agricultural goods and manufactured goods (1); concave PPC from 16m to 8m (1); current point (12m, 4m) marked, on or inside the curve as appropriate (1).


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**9** *Explain one reason why every economy has to make choices. (3 marks)*

**Point:** resources are scarce/finite (1).

**Development:** wants are infinite, so not everything can be produced (1); so the economy must decide what, how and for whom to produce (1).

## Section C

**10** *With reference to the extract, analyse the likely effect of the discovery of natural gas on Farland's production possibility curve. Use a diagram in your answer. (6 marks · K2 · Ap2 · An2)*

**Knowledge (2):** new resources increase productive potential; the PPC shifts outwards (diagram).

**Application (2):** large gas reserves discovered off Farland's coast in 2025.

**Analysis (2):** more energy and export revenue allow more of both goods to be produced, so combinations that were unattainable become possible; growth.

Knowledge 2 · Application 2 · Analysis 2.

**11** *With reference to the extract, evaluate whether Farland's productive potential is likely to rise in the future. (12 marks · levels)*

**For:** natural gas reserves are a new resource: PPC shifts outwards; gas revenue could fund investment in capital goods and education.

**Against:** doctors and engineers emigrating reduces the quantity and quality of labour, shifting the PPC inwards; gas takes years to extract and needs investment; gas reserves are finite and will be depleted.

**Judgement:** depends on the size of the gas reserves vs the scale of emigration, and on whether gas revenue is invested; likely to rise overall if gas revenue is used to raise wages and keep skilled workers.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.


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