

Basic economic ideas and resource allocation (AS level)

Multiple choice questions by topic [with answers](#)

Table of contents

- Scarcity choice and opportunity cost
- Economic systems
- Normative and positive statements
- Factors of production
- Money
- Classification of goods and services
- PPC curve

Scarcity choice and opportunity cost

A farmer is able to grow three crops, X, Y and Z, on his land.
The farmer decides to grow at most two crops in any year.
The table shows six possible combinations of units of output of the three crops.

| | output | | | | | |
|---|--------|----|----|----|----|----|
| X | 0 | 0 | 80 | 40 | 40 | 0 |
| Y | 0 | 60 | 0 | 30 | 0 | 30 |
| Z | 40 | 0 | 0 | 0 | 20 | 20 |

What is the opportunity cost of 1 unit of X?

- A 1.33 units of Y
- B 1.5 units of Y
- C 0.5 units of Z
- D 2.0 units of Z

Answer c

The diagram is from a chapter on 'The Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the economic problem.



What is the correct order for the terms to appear in the diagram?

- A choice → opportunity cost → scarcity
- B choice → scarcity → opportunity cost
- C scarcity → choice → opportunity cost
- D scarcity → opportunity cost → choice

Answer C

1 What is correct about scarcity?

- A Scarcity affects low income earners only.
- B Scarcity forces individuals to make choices.
- C Scarcity is removed by periods of falling prices.
- D Scarcity will be abolished by advances in technology.

Answer B

3 From 1995 to 2000 each of the countries listed below moved towards a market economy through privatisation programmes.

Which country made the slowest rate of transition?

| | | private sector share of GDP (ratio of private enterprise earnings to GDP) | |
|---|----------|--|------|
| | | 1995 | 2000 |
| A | Czechia | 70 | 80 |
| B | Hungary | 60 | 70 |
| C | Romania | 45 | 60 |
| D | Slovakia | 60 | 80 |

Answer A

What is generally considered to be one of the advantages of using the price mechanism as a rationing device?

- A It ensures that goods are allocated in accordance with the wants of consumers.
- B It ensures that suppliers cannot make excessive profits.
- C No one can be prevented from consuming a good if they are willing and able to pay the market price.
- D The allocation of goods is determined by consumers' wealth.

Answer C

What is **not** a function of the price mechanism?

- A to act as a signal to firms when allocating resources
- B to maximise consumer surplus
- C to provide an incentive to firms to produce goods
- D to ration scarce resources

Answer B

- 1 To overcome the problem of scarcity, countries with few natural resources need to concentrate on the quality of human resources.

Which set of policies would be most appropriate?

| | natural resources policy | human resources policy |
|---|-----------------------------------|-------------------------------------|
| A | develop renewable energy supplies | improve education and training |
| B | plan the allocation of resources | discourage automation |
| C | protect land resources | protect jobs in manufacturing |
| D | restrict imports of raw materials | restrict influx of skilled migrants |

Answer A

Scarcity means that goods need to be rationed between competing consumers.

Which basis for rationing is the most likely to result in the most equal distribution of goods?

- A consumer preference
- B market price
- C political decision
- D seller preference

Answer C

A student buys a flute for \$80 but then is unable to learn to play it. It has a resale value of \$50, while the shop retail price of the same type of flute has risen to \$95. What is the present opportunity cost to the student of keeping the flute?

- A \$30
- B \$50
- C \$80
- D \$95

Answer B

Economic systems

In which aspect is the planned economy likely to offer more than the market economy?

- A competition
- B incentive
- C innovation
- D security

Answer D

What is likely to be introduced in the market for bus travel if an economy moved from a mixed economy to a market economy?

- A allowing companies to bid for bus routes
- B free bus travel for school children
- C maximum prices for bus travel
- D subsidies to bus operators

Answer A

From 1990 to 2000 each of the countries listed below changed towards a market economy through privatisation programmes.

| private sector share (% of GDP) (ratio of private enterprise earnings to GDP) | | | |
|--|------|------|------|
| | 1990 | 1995 | 2000 |
| Czechia | 10 | 70 | 80 |
| Hungary | 20 | 60 | 80 |
| Romania | 15 | 45 | 60 |
| Slovakia | 10 | 60 | 80 |

What can be concluded about the rates of privatisation?

- A Czechia initially made the fastest change.
- B Hungary made the least overall change.
- C Romania made the greatest overall change.
- D Slovakia made the steadiest change.

Answer A

Normative and positive statement

Which is a normative economic statement?

- A Money is the least liquid form of wealth.
- B Some firms are subsidised by the government.
- C Some workers earn more than others.
- D Taxes are the best way to discourage smoking.

ANSWER D

Which statement by a company is normative?

- A In the past three years we have carried out the biggest merger acquisition in the group's history.
- B The business has fallen behind competitors and needs to improve its ethical standards.
- C The growth of the business has been in retail and financial services.
- D The structure of the business has been simplified

ANSWER B

What is always true of a positive statement?

- A It is based on statistical data.
- B It is possible to test its validity.
- C It is the only basis for economic policy.
- D It overrides any normative statement.

Answer B

A teacher asks four students to fill in the gaps in the following sentence.

'A positive economic statement is1..... statement that2..... be tested using factual evidence, whereas a normative economic statement is3..... statement that4..... be tested using factual evidence.'

The students' answers are shown in the table.

Which student is correct?

| | 1 | 2 | 3 | 4 |
|----------|--------------|--------|--------------|--------|
| A | an objective | can | a subjective | cannot |
| B | an objective | cannot | a subjective | can |
| C | a subjective | can | an objective | cannot |
| D | a subjective | cannot | an objective | can |

Answer A

What is correct for a normative statement?

- A It is objective and based on fact.
- B It is objective and can be proved correct.
- C It is subjective and based on opinion.
- D It is subjective and can be reliably tested.

ANSWER C

Factors of production

Which outcome depends upon the division of labour?

- A. a decrease in boredom at work
- B. a decrease in comparative advantage
- C. a decrease in efficiency
- D. a decrease in opportunity cost

Answer D

A production possibility curve for a country is shown

What would cause the shift from PP to P1P1?

- A application of more machinery used in manufacturing
- B productivity decreases
- C scientific methods applied to farming
- D switch from production of consumer goods to capital goods

Answer B

What would be a determinant of a country's production possibility curve boundary?

- A the capital invested in infrastructure
- B the level of price and wage inflation
- C the level of unemployed labour
- D the volume of imports and exports

Answer A

What is most important for the effective operation of the division of labour in a modern economy?

- A. a supply of money
- B. finance from the government
- C. highly qualified entrepreneurs
- D. integrated transport systems

Answer A

Money

What is most likely to severely affect the ability of money to act as a medium of exchange?

- A a devaluation of a country's rate of exchange for foreign currency
- B an increase in the money supply
- C a very high rate of inflation
- D a very high rate of interest

Answer C

Four students are given the following list of assets.

- a three bedroom house
- banknotes and coins in a purse
- money in a bank savings account
- shares in a public limited company

The students are asked to order the assets from the most liquid to the least liquid and the table shows their choices.

Which student is correct?

| | most liquid | | → | least liquid | |
|---|-----------------|-----------------|---|-----------------|--------|
| A | notes and coins | savings account | | shares | house |
| B | notes and coins | savings account | | house | shares |
| C | notes and coins | shares | | savings account | house |
| D | savings account | notes and coins | | shares | house |

Answer A

In Zimbabwe there was hyperinflation.

Which two functions of money might the Zimbabwe dollar be **most** likely to have still performed during this hyperinflation?

- A medium of exchange and store of value
- B standard for deferred payments and unit of account
- C store of value and standard for deferred payments
- D unit of account and medium of exchange

Answer D

Classification of goods and services

PPC curve

What justifies government intervention in the provision of a merit good such as education?

- A People who pay for education value it more than those who cannot pay.
- B Private schools have more merit than state schools.
- C Social costs of providing education outweigh social benefits of education.
- D Some consumers do not fully recognise the value of education.

Answer D

'An increase in consumption by one person leaves the benefits available to others undiminished'. Which good does this statement define?

- A a demerit good
- B a merit good
- C a private good
- D a public good

Answer D

The Bureau of Alcohol, Tobacco, Firearms and Explosives is a branch of the United States Government which regulates markets. What does its name imply is most likely to be its main responsibility?

- A to prevent harm from demerit goods
- B to provide subsidies for essential goods
- C to raise revenue from goods in elastic demand
- D to safeguard employment in manufacturing industry

Answer A

Despite much opposition, the local government in a popular tourist resort built a leisure centre and swimming pool which is open to everyone. Many tourists visit the centre. Local residents are charged a lower entry fee than the fee charged to the tourists. How would economists classify this service?

- A It is a demerit good because some people objected to the development.
- B It is a merit good because the entry fee is reduced for local residents.
- C It is a private good because there is an entry fee for all users.
- D It is a public good because it is open to everyone and provided by the local government.

Answer C

A good's defining quality is that its consumption by one person prevents its consumption by someone else. How is this good classified?

- A a free good
- B a non-excludable good
- C a non-rival good
- D a private good

Answer D

A businesswoman sets up a charity to provide toys for young children of low income families. Which term most accurately describes these toys?

- A free goods
- B merit goods
- C private goods
- D public goods

ANSWER C

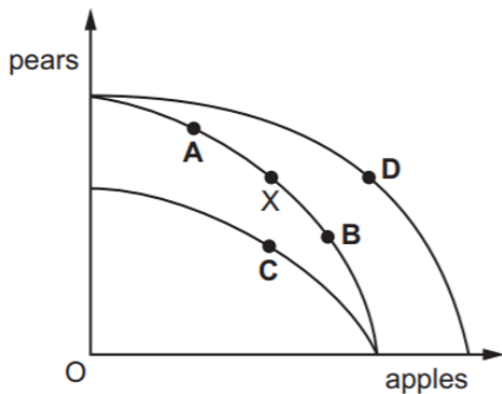
Why might governments provide free education for children aged 4 to 16 years old?

- A Consumers are not fully aware of the benefits of education.
- B Education in a free market system would be over consumed.
- C Education is a public good and there would be many free riders.
- D The private costs of education exceed the private benefits in a free market.

Answer A

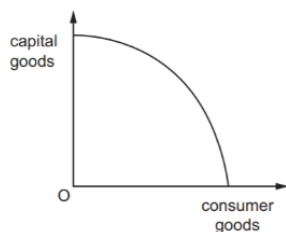
PPC curve

The diagram shows a production possibility curve for a farmer. The original position farmer switches some of his land from producing pears to producing apples, which represents his new position?



Answer B

The diagram shows a production possibility curve for an economy that produces capital goods and consumer goods.

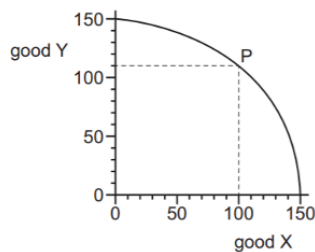


Why is the production possibility curve drawn concave to the origin?

- A Capital goods are a more labour intensive output than consumer goods.
- B Consumers always seek to maximise their satisfaction from consumption.
- C Profit maximisation for firms always ensures efficiency in production.
- D Some resources are more efficient in production of some goods than others.

Answer D

The diagram shows a production possibility curve for an economy that is producing at point P.



Which quantity of X is given up to produce the quantity of Y shown?

- A 40
- B 50
- C 100
- D 110

Answer B

Which labels might be used on a production possibility curve diagram?

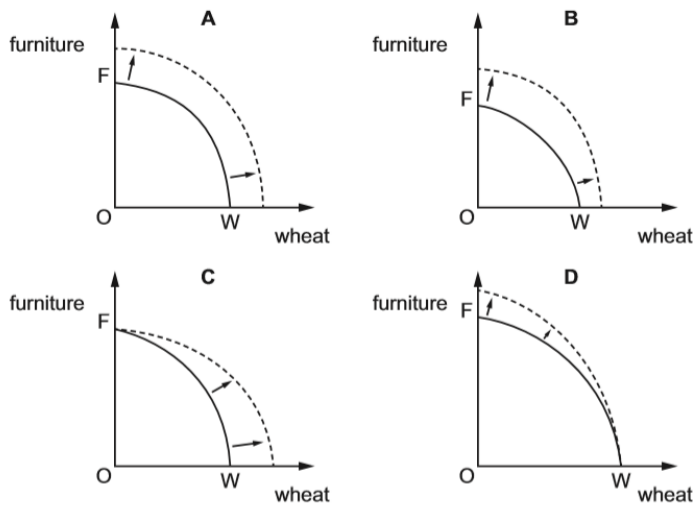
| | Y (vertical) axis | X (horizontal) axis |
|----------|--------------------|---------------------|
| A | capital input | labour input |
| B | cost of production | quantity produced |
| C | output of rice | labour input |
| D | output of rice | output of sugar |

ANSWER D

Economy X uses its resources in the labour-intensive production of wheat and wooden furniture as shown by the production possibility curve FW.

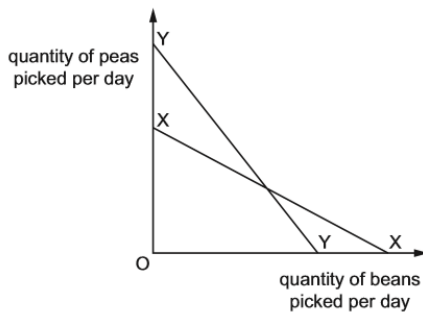
With the help of new strains of wheat seeds, X increased yields and shifted to a new production possibility curve.

Which diagram depicts this change?



ANSWER C

Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.



What would cause the worker's PPC to shift to the line YY?

- A** a machine that increases the worker's pea picking productivity only
- B** a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans
- C** a reduction in working hours to 8 per day and a machine that increases the worker's pea picking productivity
- D** a reduction in working hours to 8 per day only

ANSWER C