

# IB Economics – Foundations of Economics

## Student Learning Activity: 0.1 Foundations of Economics



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### 0.1 FOUNDATIONS OF ECONOMICS: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

#### 1. DEFINITIONS

Define the following terms:

[10 marks]

- Needs
- Wants
- Resources
- Factors of production
- Scarcity
- Economics
- Scarcity
- Goods
- Services
- Opportunity cost
- Resource allocation

#### 2. SHORT-ANSWER QUESTIONS

1. Explain why economics is the study of 'choices'. [4 marks]
2. Explain why water is less expensive than diamonds, even though water is a necessity and we need it to survive. [4 marks]
3. Distinguish between goods **and** services. [2 marks]
4. Using the concept of scarcity, explain why we must avoid waste and inefficiency in the production and consumption of goods and services. [4 marks]

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5. Examine the relationship between scarcity, choice and opportunity cost. **[4 marks]**
6. Outline the three fundamental economic questions that need to be addressed by an economy. **[3 marks]**
7. Examine the relationship between the three fundamental economic questions, the allocation of resources and income (or output) distribution in an economy. **[4 marks]**
8. State the factors of production. **[2 marks]**
9. Contrast the two factors of production: entrepreneurship **and** labour. **[4 marks]**
10. Explain the meaning of the term 'sustainability'. **[4 marks]**

### 3. MULTICHOICE QUESTIONS

Choose the best answer to each question. **[46 marks]**

1. Economics is primarily concerned with the question of how:
  - A. Limited human wants may be satisfied through the use of limited resources
  - B. Unlimited factors of production can be allocated for different uses
  - C. Unlimited human wants can be satisfied using limited productive resources
  - D. Limited government funds should be used to achieve specific social and political goals
2. Which of the following define a free good?
  - A. It has zero price
  - B. Its production involves no opportunity cost
  - C. It is always provided by the government
  - D. It gives consumers no satisfaction
3. The statement that 'all economic goods are scarce' implies that these goods have
  - A. Opportunity costs
  - B. A limited demand
  - C. A low price
  - D. A high price
4. Choice is a central feature of economic behaviour because
  - A. Resources are scarce relative to human wants
  - B. Consumers find it difficult to choose between various alternatives
  - C. It is the main determinant of price
  - D. People always make rational choices
5. The amount of utility you obtain from goods and services depends on your
  - A. Opportunity costs

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- B. Income
  - C. Tastes and preferences
  - D. Wealth
6. The essential defining characteristic of an entrepreneur is that he or she
- A. Manages other people
  - B. Takes risks
  - C. Is paid a high salary
  - D. Is the head of an organisation
7. Unlike land, capital is
- A. Man-made
  - B. A factor of production
  - C. A non-human resource
  - D. Scarce
8. Which combination below describes the basic economic problem?
- | <b>Factors of production</b> | <b>Peoples' wants</b> |
|------------------------------|-----------------------|
| A. Limited                   | Limited               |
| B. Unlimited                 | Limited               |
| C. Limited                   | Unlimited             |
| D. Unlimited                 | Unlimited             |
9. Assume you bought a washing machine for \$300 a year ago, and that the same washing machine would now cost \$320 new. If your washing machine could now sell for \$150 on the second hand market, the current opportunity cost of owning your washing machine is
- A. \$320
  - B. \$300
  - C. \$170
  - D. \$150
10. The opportunity cost to society of constructing a new airport would be
- A. The cost of government borrowing to finance the new airport
  - B. The money spent on the airport
  - C. The goods and services that could otherwise have been produced had the airport not been constructed
  - D. The increased taxation needed to pay for the cost of the new airport
11. A company produces both mobile phones and calculators. A technological advance makes it possible to produce more mobile phones without increasing the amount of labour and capital inputs. There is no technological advance in making calculators. The company continues to produce both products. As a result of the technological advance, the company can
- A. Produce more mobile phones and calculators, and the opportunity cost of calculators is higher
  - B. Produce more mobile phones at a lower opportunity cost, but no more calculators
  - C. Produce more mobile phones at a higher opportunity cost, but no more calculators
  - D. Produce more mobile phones and calculators, and the opportunity cost of calculators is lower
12. A company decides to stop building houses and to build office blocks instead. What is the opportunity cost to the company?

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- A. The additional office blocks built
  - B. The cost of building houses
  - C. The cost of building office blocks
  - D. The loss of building houses
13. Assume you bought a new laptop for \$1000 but never use it. A similar computer would now cost \$1200 new, but yours would fetch only \$400 as a used model. The present opportunity cost of owning the computer is
- A. \$200
  - B. \$400
  - C. \$1000
  - D. \$1200
14. Balancing the marginal opportunity costs and marginal benefits of an activity is known as
- A. Satisficing
  - B. Utility
  - C. Profit maximising
  - D. Rational decision making
15. Which of these is not usually regarded as a factor of production?
- A. Land
  - B. Labour
  - C. Capital
  - D. Money
16. Which of the following advertised in an Australian tourist web promotion would be considered as 'land' by an economist?
- I. Modern hotels
  - II. Hours of sunshine
  - III. Sparkling sea
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
17. A mixed economy may be defined as one in which resources are allocated
- A. By the spending decisions of consumers
  - B. To meet the needs of both consumers and producers
  - C. Partly for the production of capital goods and partly for the production of consumer goods
  - D. Partly by market forces and partly by government
18. Which of the following nation states made least use of the market mechanism as a means of resource allocation?
- A. Poland
  - B. China
  - C. South Korea
  - D. North Korea

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19. Which system of resource allocation dominates the rural sectors of most African, Asian and Latin American countries?
- A. Capitalist
  - B. Planned
  - C. Market
  - D. Mixed
20. Which of the following would not be an accurate description of the economic system of the United States?
- A. Capitalist
  - B. Planned
  - C. Market
  - D. Mixed
21. A basic difference between a planned and a market economy is that in a planned economy
- A. Aggregate demand will always equal aggregate supply
  - B. All markets are perfectly competitive
  - C. Resources are allocated through the use of directives rather than prices
  - D. There is always an equal distribution of income and wealth
22. Which one of the following is not included in the scope of economics?
- A. Scarcity
  - B. Creating government policies
  - C. What should be produced
  - D. Resource allocation
23. All countries face the fundamental economic problem of
- A. Unemployment
  - B. Scarcity
  - C. Inflation
  - D. Economic recessions
24. A basic economic problem that economies attempt to solve does **not** include
- A. Deciding which goods and services to produce
  - B. Deciding on the most efficient production method
  - C. Deciding whom to produce for
  - D. Deciding the most appropriate government policy
25. Which is not a fundamental question in economics?
- A. For whom production should take place
  - B. What production should take place
  - C. Why production should take place
  - D. How production should take place
26. Paul bought an Xbox for \$400 and has never used it. Its second-hand value is \$100. Paul's opportunity cost of owning the Xbox is
- A. \$100
  - B. \$300
  - C. \$400
  - D. \$500

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27. A bakery can produce two products. They can produce 6000 kg of bread and 3000 kg of cake, or they can produce 5000 kg of bread and 4000 kg of cake. What is the opportunity cost of producing of producing the extra 1000 kg of bread?
- A. 1000 kg of cake
  - B. 2000 kg of cake
  - C. 3000 kg of cake
  - D. There is no opportunity cost in this decision
28. The real costs to the country of building a \$40 million cultural centre on a pristine lakeside are the
- A. Actual dollars spent on design and construction
  - B. Expenditure of taxpayers' money
  - C. Other goods that could be produced with the same resources
  - D. Other bank services charges and borrowing costs
29. A key idea expressed in the definition of economics is
- A. The price and quantity demanded of an economic good are positively related
  - B. Scarce resources have alternative uses
  - C. A market system is necessary to distribute goods and services efficiently to members of society
  - D. Equal distribution of economic goods and services is a goal of all economic systems
30. The basic economic problem facing all economies is
- A. Unemployment
  - B. Inflation
  - C. Scarcity of resources
  - D. The balance of payments
31. The opportunity cost of building a new motorway extension would be the
- A. Cost of constructing the motorway
  - B. Goods and services that could otherwise have been produced if the motorway had not been extended
  - C. Cost to the transport agency of borrowing to finance the extension
  - D. Increased road-user charges to fund the cost of the extension
32. The fact that peoples' needs and wants cannot be fully satisfied with available resources is called the problem of
- A. Opportunity cost
  - B. Scarcity
  - C. Production
  - D. Capitalism
33. There would be no economic problem if
- A. Scarcity was eliminated
  - B. Everyone had a \$200 000 annual income
  - C. Unemployment was eliminated
  - D. Inflation was controlled
34. 'All economic goods are scarce', means that
- A. Only a small quantity of the goods exists

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- B. Levels of production are falling
  - C. The supply of the goods has decreased
  - D. Goods are scarce in relation to wants
35. Scarcity means that resources are
- A. Under severe restrictions
  - B. Fewer than peoples' wants for them
  - C. Less able to be fulfilled
  - D. Unlimited despite restrictions on wants
36. Economics is basically concerned with
- A. Scarcity
  - B. Money
  - C. Business
  - D. Government
37. Pauline's demand for sports drinks depends on
- A. Making choices based on her limited means
  - B. Making choices based on her unlimited means
  - C. The market demand for sports drinks
  - D. Her scarce resources and the level of technology
38. Yoko can buy a chocolate bar, a can of drink or a packet of crisps. She finds the chocolate bar the most desirable and the packet of crisps least desirable. The opportunity cost of her decision to buy the chocolate bar is
- A. Chocolate bar
  - B. Packet of crisps
  - C. Can of drink
  - D. Can of drink and packet of crisps
39. Economics is the study of
- A. How scarce resources are allocated to unlimited wants
  - B. Choice between producing goods and services
  - C. The opportunity cost of consumer purchases
  - D. Unlimited wants compared to unlimited resources
40. The basic economic problem is to
- A. Control the growth of unemployment
  - B. Protect the market system
  - C. Reduce the rate of inflation
  - D. Allocate resources to satisfy wants
41. Choice is a major element in the study of economics. It always means
- A. Scarce resources will be limited
  - B. Deciding what, how and for whom
  - C. Limited wants cannot be satisfied
  - D. There will be an opportunity cost
42. Annabel's demand for shampoo depends on her

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- A. Choices based on unlimited means
  - B. Making choices based on limited means
  - C. Scarce resources and level of technology
  - D. Budgeting based on impulse buying
43. Consumers must make economic decisions because of
- A. The values that they bring to decision-making
  - B. The effect of market equilibrium on their choices
  - C. Their wants exceeding the resources available to satisfy them
  - D. The diversity of goods and services supplied by producers
44. Scarcity is in relationship to people's
- A. Demands
  - B. Wants
  - C. Money
  - D. Wants and demands
45. Most goods and services have a price because
- A. Consumers demand products
  - B. Nothing is ever free
  - C. Resources are scarce in relation to people's demands
  - D. Resources are scarce in relation to people's wants
46. All decisions have an opportunity cost because
- A. There are always scarce resources
  - B. When one alternative is decided on there is more scarcity of resources
  - C. When a decision is made in favour of one alternative there is always a second best alternative foregone
  - D. The chosen alternative of all choices is the opportunity cost

### 4. TRUE OR FALSE QUESTIONS

State whether the following statements are true or false.

**[7 marks]**

47. How much the good is worth to the owner is the true opportunity cost of the good
- True
  - False
48. In economics, income is referred to as salaries and wages received by labour
- True
  - False
49. Over time, the resources in an economy will inevitably increase
- True
  - False



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50. Scarcity and choice is the basic problem every economy faces

- True
- False

51. Economists examine how much governments should intervene in economic activity and resource allocation

- True
- False

52. For the future development of our world's economies, sustainable growth is important

- True
- False

53. Economics assumes that people, businesses and governments make rational decisions

- True
- False

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