

PRACTICE WORKSHEET + FULL ANSWER KEY

Economics: scarcity, demand and opportunity cost

Secondary economics: core concepts. Work through the sections in order, or choose the one that matches this week's topic.

QUESTIONS	SECTIONS	ANSWER KEY	WORKING SPACE
52	5	At the back	Ruled

Name _____ Class _____ Date _____

Before you start

State the assumptions behind an economic explanation. Distinguish a change in a good's own price from a change in another influence on demand, and explain the chain of reasoning rather than naming a diagram alone.

WORKED EXAMPLE

A student can spend an evening working for 30 currency units or attending a free concert. What is one opportunity cost of choosing the concert?

- 1 Time is scarce, so both activities cannot be chosen for that evening.
- 2 The next best alternative is the paid work.
- 3 The foregone earnings are 30 currency units, assuming that work was the next best alternative. The concert being free does not remove opportunity cost.

Use this method as your model. Set out your own working the same way.

Common mistakes to avoid

- Treating opportunity cost as every possible alternative added together
- Confusing a movement along demand with a shift of demand

There are 52 questions across 5 sections. Write in the ruled space, then mark your work against the answer key at the back. Topics covered: Opportunity cost, Demand and supply, Applying a model.

SECTION A Scarcity and choice

State the assumptions behind any economic explanation you give.

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| <p>1 Define opportunity cost.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>2 A student can work an evening for 30 currency units or attend a free concert. State one opportunity cost of the concert.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>3 Explain why opportunity cost is not the total of all alternatives.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>4 Define scarcity.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>5 Name the four factors of production.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>6 Explain the difference between a need and a want.</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>7 Explain what a production possibility curve shows.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>8 State what a point inside a production possibility curve indicates.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>9 Explain how economic growth appears on such a curve.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>10 Explain the difference between microeconomics and macroeconomics.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>11 Define ceteris paribus and explain why economists use it.</p> <p>_____</p> <p>_____</p> <p>_____</p> |
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SECTION B Demand and supply

Distinguish a change in a good's own price from a change in another influence.

- | | |
|--|--|
| <p>12 A café reduces its own coffee price, other things equal. Is this a movement along demand or a shift?</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>13 Consumer income rises and demand for a normal good increases. Describe the change.</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>14 Name two determinants of demand other than price.</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|--|

- 15 Name two determinants of supply other than price.
- 16 Explain why a higher production cost can reduce supply.
- 17 At a certain price, quantity demanded is 80 and quantity supplied is 50. Find the shortage.
- 18 At another price, quantity supplied is 120 and quantity demanded is 90. Find the surplus.
- 19 Explain what happens to price when there is a shortage.
- 20 Define equilibrium price.
- 21 Explain the difference between a substitute and a complement, with an example of each.
- 22 Explain the effect on the coffee market if the price of tea rises.

SECTION C Elasticity, costs and revenue

Calculate accurately, then say what the number means for the firm.

- 23 Define price elasticity of demand.
- 24 Price rises 10% and quantity demanded falls 20%. Calculate the elasticity and describe it.
- 25 Price rises 10% and quantity demanded falls 5%. Describe the elasticity.
- 26 State what happens to total revenue when price rises for an inelastic good.
- 27 Name two factors that make demand more elastic.

- 28 Find total revenue when 400 units sell at 12 currency units.

- 29 Fixed costs are 2,000 and variable cost is 6 per unit. Find total cost at 500 units.

- 30 For that firm selling at 12 per unit, find the profit at 500 units.

- 31 Find the break-even output for that firm.

- 32 Explain the difference between fixed and variable costs.

SECTION D Markets, government and market failure

Name the failure, then explain how the policy is meant to correct it.

- 33 Define a market economy.

- 34 Define a mixed economy.

- 35 Explain what a public good is and give an example.

- 36 Define an externality and give one negative example.

- 37 Explain how a tax can correct a negative externality.

- 38 Explain one purpose of a subsidy.

- 39 Explain what a price ceiling does and one consequence.

- 40 Explain what a minimum wage is intended to do and one risk.

- 41 Define market failure.

- 42 Explain why information failure can cause market failure.

SECTION E The wider economy and evaluating models

A model is a simplification. Say what it leaves out before you rely on it.

43 Define inflation.

44 Name one measure used to track inflation.

45 Explain one cost of high inflation for households.

46 Define unemployment.

47 Name two types of unemployment.

48 Define gross domestic product.

49 Explain one limitation of GDP as a measure of living standards.

50 Explain one reason a country trades internationally.

51 Why might a demand-and-supply model not predict an exact future price?

52 Write two sentences evaluating a policy, naming one benefit and one cost.

Answer key

Work each section before you check it. These are model answers: an equivalent method, or a different well-supported interpretation, can be just as correct.

SECTION A - SCARCITY AND CHOICE

1. The value of the next best alternative forgone when a choice is made.
2. The 30 units of foregone earnings, assuming that work was the next best alternative.
3. Only the next best alternative is given up; the others were never going to be chosen.
4. Wants exceed the resources available to satisfy them, so choices must be made.
5. Land, labour, capital and enterprise.
6. A need is essential for survival or basic functioning; a want is desired but not essential.
7. The maximum combinations of two goods an economy can produce with its current resources and technology.
8. Unemployed or inefficiently used resources.
9. The curve shifts outwards, showing that more of both goods can be produced.
10. Microeconomics studies individual markets and agents; macroeconomics studies the economy as a whole.
11. Other things held equal; it isolates the effect of one variable at a time.

SECTION B - DEMAND AND SUPPLY

12. A movement along the demand curve, showing a change in quantity demanded.
13. Demand shifts to the right, other things equal.
14. Income, tastes, prices of substitutes or complements, and expectations.
15. Production costs, technology, taxes and subsidies, and the number of producers.
16. At each price production is less profitable, so producers supply less; supply shifts left.
17. 30 units.
18. 30 units.
19. Price tends to rise, which reduces quantity demanded and raises quantity supplied towards equilibrium.
20. The price at which quantity demanded equals quantity supplied.
21. A substitute replaces a good, for example tea for coffee; a complement is used with it, for example milk with coffee.
22. Demand for coffee shifts right, so its equilibrium price and quantity rise.

SECTION C - ELASTICITY, COSTS AND REVENUE

23. The responsiveness of quantity demanded to a change in price.
24. -2, which is elastic.

25. -0.5, which is inelastic.
26. Total revenue rises, because quantity falls proportionately less than price rises.
27. Availability of close substitutes, and the good taking a large share of income.
28. 4,800 currency units.
29. 5,000 currency units.
30. 1,000 currency units.
31. 334 units, because 2,000 divided by a contribution of 6 is 333.3, rounded up.
32. Fixed costs do not change with output in the short run; variable costs rise as output rises.

SECTION D - MARKETS, GOVERNMENT AND MARKET FAILURE

33. One in which resources are allocated mainly by the price mechanism through private decisions.
34. One in which both the private sector and the government allocate resources.
35. A good that is non-excludable and non-rival, for example street lighting or national defence.
36. A cost or benefit affecting a third party, for example pollution from a factory.
37. It raises the private cost towards the social cost, reducing output towards the socially efficient level.
38. To lower costs and raise output of a good with external benefits, such as public transport.
39. It caps price below equilibrium; a shortage develops and queues or rationing may follow.
40. It sets a wage floor to raise low pay; a risk is reduced employment if firms cut hours or jobs.
41. When the free market allocates resources inefficiently from society's point of view.
42. Buyers or sellers choose on incomplete information, so the outcome is not efficient.

SECTION E - THE WIDER ECONOMY AND EVALUATING MODELS

43. A sustained rise in the general price level, which reduces the purchasing power of money.
44. A consumer price index.
45. Savings lose real value and planning is harder when prices are unpredictable.
46. People able and willing to work at current wages who cannot find a job.
47. Structural, frictional, cyclical and seasonal.
48. The total value of goods and services produced in an economy over a period.

- 49. It ignores distribution, unpaid work and environmental costs.
- 50. To obtain goods it cannot produce, or to specialise where it has a comparative advantage.
- 51. It abstracts from changing influences and rests on assumptions; demand, costs, expectations and market rules can all change.
- 52. A short evaluation naming a specific benefit and a specific cost, with the group affected by each.

Review and next steps

Mark your work against the answer key, record your score for each section, then answer the three questions below. Bring this page to your next lesson so your tutor can start from what actually blocked you.

Which question did you find hardest, and what exactly stopped you?

Rewrite the corrected working for that question here.

Which section do you want to practise again before your next lesson?

Score record

SECTION	QUESTIONS	NUMBER CORRECT	PRACTISE AGAIN?
A. Scarcity and choice	11		
B. Demand and supply	11		
C. Elasticity, costs and revenue	10		
D. Markets, government and market failure	10		
E. The wider economy and evaluating models	10		
Total	52		

Keep going with one-to-one support.

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