

THE NATURE OF ECONOMIC PROBLEM

1 (a) Explain the economic problem of scarcity. [3]

(b) Discuss whether a country should conserve or use its natural resources. [8]

MARKSCHEME:

(a)(a) Explanation could include:

- there are limited/finite resources (1)
- to satisfy unlimited/infinite wants (1)
- where choices have to be made/there is an opportunity cost (1). [3]

(b)

Discussion could include:

| Conservation of natural resources: | Use of natural resources: |
|--|--|
| <ul style="list-style-type: none">• this will avoid too rapid a depletion of resources• this is more sustainable as it takes into account the needs of future generations• a better long-term strategy | <ul style="list-style-type: none">• will raise output• will raise income and employment• but resources will be depleted/exhausted more quickly• more of a short-term strategy |

A one-sided answer, which focuses on the conservation or use of resources only, can gain no more than 5 marks. [8]

2 The economic problem exists in every country, but there are different ways to try to solve it.

(a) Describe the nature of the economic problem. [4]

(b) Explain how the market system attempts to solve the economic problem. [6]

MARKSCHEME:

(a) Candidates could mention:

- scarcity
- limited resources
- unlimited wants of consumers
- choices will need to be made (idea of opportunity cost)
- in terms of what to produce, how to produce and for whom to produce

Note: maximum of 4 marks. [4]

(b) Candidates could mention:

- goods and services are freely exchanged through a market
- without the need for government intervention
- an equilibrium price and quantity will be established in the market
- through the interaction of the buyers and sellers
- this will determine the allocation of the scarce resources
- price mechanism signals preferences
- profits encourage switching/reallocation of resources

Note: maximum of 6 marks. [6]

3 A number of economies are devoting more of their resources to the provision of health care. Due to the economic problem, this involves them having to make difficult choices.

(a) What is meant by the 'economic problem'? [2]

MARKSCHEME:

2 marks for wants exceeding resources or wants are unlimited/infinite whilst resources are limited/finite or 1 mark for limited resources or scarcity.

- 4 In 2013, an earthquake on the Iran/Pakistan border destroyed many factories and homes. Some officials wanted the Governments to rebuild the factories and homes, even though there would be an opportunity cost. Others suggested that some people should be encouraged to emigrate.

(a) Define 'opportunity cost'. [2]

(b) Explain why the economic problem can never be solved. [4]

MARKSCHEME:

Explain why the economic problem can never be solved. [4]

- the economic problem is scarcity (1)
- infinite wants (1) finite resources (1)
- wants exceed resources (1) as wants grow faster than resources/growth of resources will not exceed growth of wants (1)

- 5 Deposits in banks in Dubai rose by 40% in 2013. More financial companies are locating in Dubai. The growth in its financial sector is being accompanied by horizontal mergers between financial companies and workers becoming more specialised. The economy is becoming richer but the economic problem will never be solved here or elsewhere in the world.

(a) Why can the economic problem never be solved? [2]

MARKSCHEME:

Wants will grow more (1) than resources (1).

Or:

- Wants are infinite/unlimited (1) whilst resources are finite/limited (1).