

THE NATURE OF ECONOMIC PROBLEM

1 More people are becoming billionaires at the same time that other people are living in poverty.

While some people enjoy luxuries others lack even basic essentials. To enable more people to achieve a minimum living standard some economists support the redistribution of income. Analyse why the elimination of absolute poverty would not solve the economic problem. [6]

MARKSCHEME:

Absolute poverty is lack of access to basic necessities (1) example e.g. food/living below a certain income level e.g. \$1.25 (1)

- The economic problem is unlimited wants (1) exceeding finite resources/scarcity (1)
- Even if everyone had access to basic necessities, people would still want more products (1) e.g. better quality food (1) there would not be enough resources to meet people's increasing wants (1) relative poverty will still exist/rich will still be able to spend more than the poor (1)
- Over time what is considered to be absolute poverty is likely to change (1)

2 The global water crisis

In 2015, the World Economic Forum identified the water crisis as the world's biggest risk. Across many Asian and African nations the water supply was at critically low levels, insufficient to meet the rising demand. Demand has risen because of the expansion of cities and population growth requiring much more agricultural production.

Water scarcity is a problem shared by many developing countries which have a low life expectancy. A third of all their healthcare facilities are estimated to lack access to safe water and basic sanitation. Water shortages harm public health – 80% of all illnesses in developing countries are caused by poor water and sanitation conditions. Water shortages also restrict the amount of food production. Table 1 shows the risk of water shortage (highest risk is 5) and Gross Domestic Product (GDP) per head measured in US\$.

Table 1 Risk of water shortage and GDP per head for countries/regions in 2015

Country/region	Risk of Water Shortage (highest risk = 5)	GDP per head (US\$)
Algeria	3.4	4 318
Canada	1.2	43 332
Germany	1.9	40 997
Pakistan	4.3	1 450
Saudi Arabia	5.0	20 813
Western Sahara	5.0	2 500

The shortage of water has led various countries and regions to experiment with privatising their supply. However, because water is a necessity, private supply has in some cases resulted in consumers suffering from significant price increases. A 10% increase in the price of water is estimated to result in only a 0.7% decrease in quantity demanded. This means that governments have to regulate water markets to protect consumers.

Some economists argue that consistent undervaluing of water has led to it being used inefficiently. This is because prices fail to take into account the long-run consequences of not conserving this valuable resource. With much of the world facing a hotter and drier future as a result of climate change, water will become increasingly scarce.

More than 663 million people are estimated to live without access to clean water. The World Bank funds a range of projects designed to tackle this and in doing so reduce levels of absolute poverty. Improving access to natural resources is seen as essential in promoting economic development in some of the world's poorest nations.

3 Explain, using information from the extract, how the water shortage is an example of the economic problem.

(ii) Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future. [4]

MARKSCHEME:

The economic problem consists of the allocation of scarce resources amongst competing ends (1).

Water supply is at critically low levels (1) showing resources are scarce / limited (1). Rising demand from growth of cities (1) and rising agricultural production (1) wants are unlimited (1).

4

1(b)(ii) Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future.

Water is being undervalued (1) this has led to it being wasted (1) and the prices do not reflect scarcity that will arise in the future (1) this means that as demand continues to rise (1) the gap between wants and the amount of the resource will increase (1).

Climate change (1) will cause water supplies to become increasingly scarce (1). Population will continue to rise / cities will expand (1) increasing demand (1) and exceeding the ability of supply to match demand (1).

- 4 The economic problem exists everywhere in the world, whatever type of economic system a country may have.

Explain the nature of the economic problem.[4]

MARKSCHEME:

The nature of the economic problem:

- at any moment in time in an economy, output is limited by the resources and technology available; there is, therefore, a basic condition of scarcity
 - the wants of consumers are unlimited or infinite
 - the ability of the resources to satisfy those wants, however, are limited or finite
 - there is, therefore, a need to make a choice as a result of this scarcity
 - this choice will be in terms of what to produce, how to produce and for whom to produce.
- Candidates can gain all 4 marks for addressing any four of these five points. [4]

- 5 All countries face the basic economic problem in relation to the factors of production. One country might allocate more resources to education and health care than another, but there will always be an opportunity cost involved in such decisions.

(a) (a) Why do all countries face the basic economic problem?[4]

[4]

MARKSCHEME:

0455/22/O/N/11

Explanation:

- there are finite/limited resources
- so there is a basic situation of scarcity
- there are unlimited wants
- so there is a need to exercise choice. [4]