

THE NATURE OF ECONOMIC PROBLEM

1 A market approach to the basic economic problem has the advantage that prices act like an 'invisible hand' to allocate the resources in an economy. However, the market system also has some disadvantages.

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

MARKSCHEME:

(next) best alternative (1) forgone(1)

2 Explain what is meant by the economic problem and why opportunity cost is relevant to the allocation of resources. [6]

MARKSCHEME:

2 marks for an explanation of what is meant by the economic problem, i.e. limited/finite resources and unlimited/infinite wants (1) giving rise to a condition of scarcity/insufficient resources (1).

2 marks for an explanation of what is meant by opportunity cost, i.e. the benefit obtained from the (next) best alternative (1) foregone (1).

2 marks for an explanation of why opportunity cost is relevant to the allocation of resources

i.e. the condition of scarcity gives rise to the need to make a choice (1) opportunity cost indicates if resources are used for one purpose they cannot be used for another purpose/ consideration of opportunity cost can result in an efficient allocation of resources (1). [6]

- 3 It is not only the size of a country's population that concerns economists, but also its age distribution.

Discuss to what extent an ageing population is a serious economic problem.[8]

MARKSCHEME:

Up to 5 marks for why it might be a serious problem:

- increase need for health care (1) tax revenue used to provide health care could have been used for another purpose/opportunity cost (1)
- increase cost of pensions (1) place a tax burden on workers (1)
- increase the dependency ratio (1) proportionally more non-workers will have to be supported by proportionally fewer workers (1)
- reduce mobility of the labour force (1) older workers may be less geographically/ occupationally mobile (1)

Up to 5 marks for why it might not be a serious problem:

- a rise in the average age from a young age (1) may reduce dependency ratio (1)
- older workers may be more experienced (1) leading to higher productivity (1)
- ageing population may not increase dependency ratio/cost of pensions (1) if retirement age is raised (1)
- longer life expectancy (1) raise living standards (1)

- 4 All countries face the economic problem and so choices have to be made.

(a) Explain what is meant by the 'economic problem'. [2]

MARKSCHEME:

(a) Explain what is meant by the 'economic problem'. [2]

There are finite/limited/scarce resources (1) but unlimited/infinite wants (1) and so it is

necessary for a choice to be made (1)

Maximum of 2 marks