1 The economic problem – Part 2 — Answers

Answers

1.1 (a) all resources fully and efficiently used; (b) resources are wasted (e.g. unemployment) — the economy could do better; (c) impossible today, because resources are scarce.

1.2 Economic growth — more resources or better ones (new technology, a bigger/more skilled workforce).

1.3 In a market economy firms and people own resources and prices decide what is made; in a planned economy the government owns resources and decides. (Any clear difference.)

1.4 Non-rivalry (one person using it does not reduce the amount left for others) and non-excludability (you cannot stop non-payers using it).

1.5 (a) merit good; (b) demerit good.

1.6 Street lighting is *non-excludable* — once it is on, no one can be stopped from benefiting, even if they have not paid. So everyone "free-rides" and a private firm cannot charge for it or make a profit, meaning it will not supply it. The government must provide it instead (paying through taxes).