

The Basic Economic Problem

IGCSE Economics ■ Topic 1

IGCSE Economics



What we will cover

- 1 The economic problem
- 2 Factors of production
- 3 Opportunity cost
- 4 The production possibility curve
- 5 Shifting the PPC

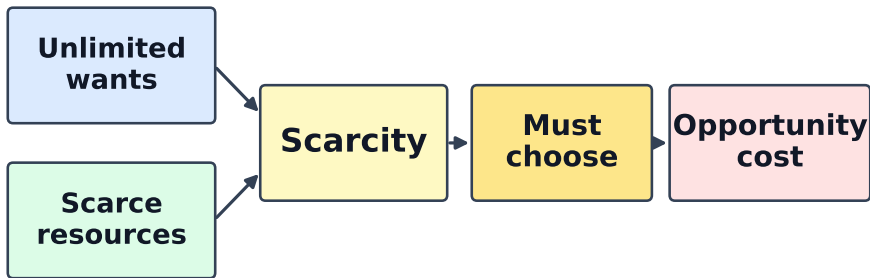


The economic problem

Resources are **finite** but **wants** are unlimited, so resources are **scarce** .

Scarcity forces **choice**, and every choice has an **opportunity cost** .

The economic problem, in detail



Exam: scarcity forces choice — opportunity cost is the next-best alternative forgone

The economic problem: scarcity forces choice, and every choice has an opportunity cost

Factors of production

Four **factors of production** , each earning a reward:

- **land** – rent
- **labour** – wages
- **capital** – interest
- **enterprise** – profit



Land is a scarce natural resource

Goods, services, and who makes the choices

goods

things you can **touch** – food, phones, clothes

services

things done *for* you – a haircut, a bus ride, a lesson

consumers choose

what to buy with a limited income

producers choose

what to make, and with which factors

governments

choose **what to provide and how to spend public money**

enterprise

organising the other three factors and **taking the risk**; the **entrepreneur** is the person who supplies it

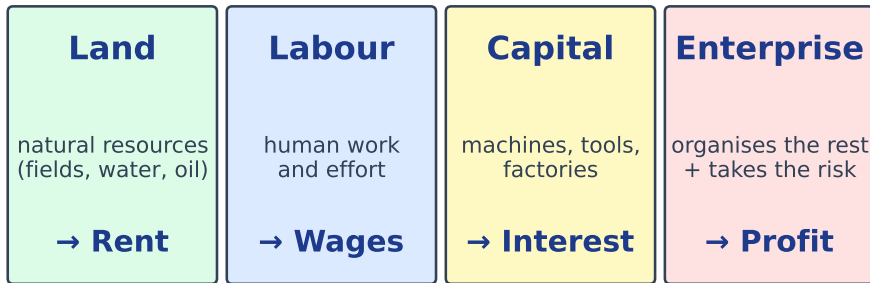
Free goods are unlimited and have no opportunity cost; **economic goods** are scarce, so every unit of one means giving up another.

Factors of production – the four rewards

To make goods and services, firms use four types of resource.

We call them the **factors of production** .

Factors of production – the four rewards, in detail



Exam: name factor + reward together (land→rent, labour→wages, capital→interest, enterprise→profit)

To make goods and services, firms use four types of resource.

The reward to each factor

Each factor earns a **reward** – the income it gets for being used:

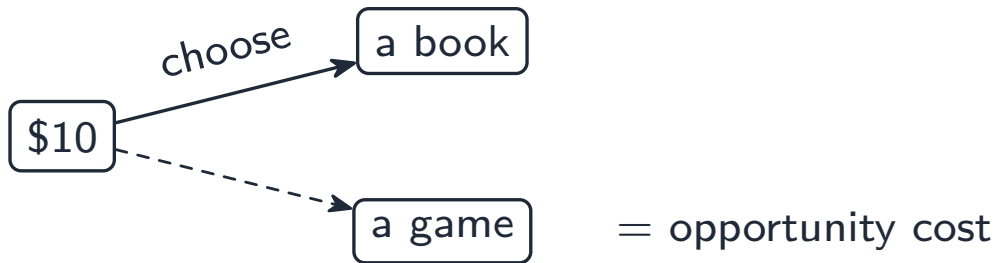
Mobility, quantity and quality

The **mobility** of a factor means how easily it can move to a different use or place.

- **Quantity** can rise or fall. The amount of labour grows if the birth rate rises or people move into the country to work. Land can be lost to the sea or gained by draining it.
- **Quality** can rise. Training and education make labour better. New technology makes capital better. Higher quality means each factor can produce more.

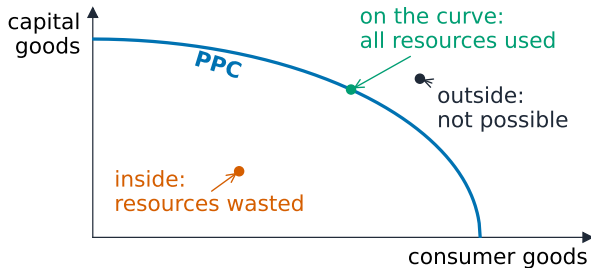
Opportunity cost

Opportunity cost is the **next best** choice you give up. An **economic good** is scarce (it has an opportunity cost); a **free good** (air) does not.





The production possibility curve



on = efficient · inside = inefficient · outside = unattainable

The **PPC** shows the most a country can make of two goods.

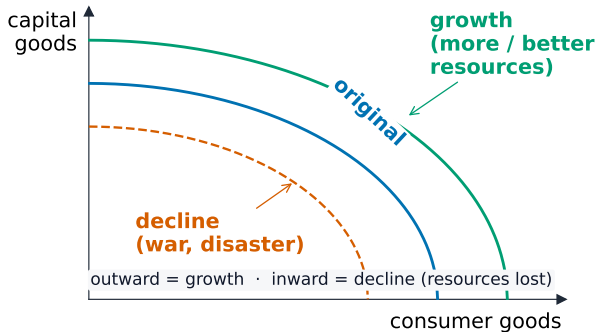
- on the curve – efficient
- inside – wasting resources
- outside – not yet possible

Reading the diagram

The PPC is a curve that bends from one axis down to the other (it usually bows outward, away from the corner):

- A point **on** the curve: all resources are used fully. The economy makes the most it can.
- A point **inside** the curve: resources are wasted or not all used – for example, there is **unemployment** . The economy could make more.
- A point **outside** the curve: this is impossible now. There are not enough resources to reach it.

Shifting the PPC



Economic growth shifts the whole curve **outward** (more or better resources). Decline (war, disaster) shifts it **inward**.

What moves the curve, and what it costs

Outward

More resources or better ones – new technology, more **workers** , better skills.

Inward

War, disaster or the exhaustion of a resource: **economic decline** .

Non-renewable resources

Non-renewable resources – oil, coal, minerals – can run out, so using them today moves tomorrow's curve inward.

Trade-off

Every point on the curve is a **trade-off** : more of one good *is* less of the other, and the slope says by how much.

Inside the curve is waste, not choice – unemployment or idle capacity, where more of both goods is available at no cost.

Opportunity cost, continued



Consumers choosing what to buy at a busy market – scarcity forces everyone to make choices

Mobility, and whose opportunity cost it is

mobility

how easily a factor can move to a different **use or place**

occupational mobility

a worker with **transferable skills** moves between jobs easily; a highly specialised one does not

geographical mobility

limited by housing cost, family ties and language

a consumer

buying a phone gives up the holiday that money could have paid for

a producer

who makes more cars uses factors that could have made trucks

a government

spending on hospitals gives up the schools that money could have built

Opportunity cost applies to **every** decision-maker, not just consumers. Naming which one the question is about is the first mark.

Exam tips

- **Scarcity** (unlimited wants, limited resources) forces **choice**, and every choice has an **opportunity cost** – the next best alternative you give up.
- Learn the four **factors of production** and the reward each earns: land–rent, labour–wages, capital–interest, enterprise–profit.
- On a **PPC**, a point *on* the curve uses all resources fully, *inside* wastes some (e.g. unemployment), and *outside* is impossible for now. Moving along the curve shows opportunity cost.
- Moving *to* the curve (using idle resources) is a short-term gain; shifting the whole curve *outward* is long-term economic growth from more or better resources.



Worked example – opportunity cost

A government has £10m and can build a hospital or a school. It builds the hospital. What is the opportunity cost?

- Wants are **unlimited** but resources are **scarce**, so every choice gives something up.
- The opportunity cost is the **next best alternative given up**.
- $\Rightarrow$ **the school**.
- It is **not** “the £10m” – it is what the money **would have bought**.

State the **one** next-best alternative, not a list of everything forgone. On a PPC, opportunity cost is why you must move **along** the curve to gain more of one good.

Topic 1 – key takeaways

1

Scarcity

finite resources, unlimited wants

2

Factors

land, labour, capital, enterprise

3

Opportunity cost

the next best choice given up

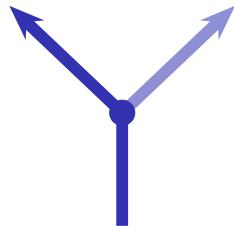
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PPC

on it efficient; growth shifts it outward

Check yourself

- 1 What causes scarcity?
- 2 Name the four factors of production.
- 3 What does a point inside the PPC show?
- 4 What shifts the PPC outward?



Answers 1. unlimited wants & finite resources 2. land, labour, capital, enterprise
3. resources are being wasted 4. economic growth