Question 1 (Answer: **B**)

- The university cannot expand to take everyone, so something limits it.
- The buildings and lecture rooms are man-made aids to production – capital.
- Scarcity of capital is what forces the choice, which is the fundamental economic problem.

5(d)	**Discuss whether or not an increase in government spending will benefit an economy**. In assessing each answer, use the table opposite. Why it might: • increase total demand • some forms of government spending e.g. education / healthcare may increase productivity • reduce unemployment • increase economic growth • reduce inequality • increase access to merit goods • provide public goods Why it might not: • increased inflation • increase a current account deficit if spent on e.g. imported capital goods • increased taxation to pay for increased spending • increase government debt • government spending may be inefficient – the private sector may be more efficient	**8**	**Level** / **Description** 3 – A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sided of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. 2 – A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.
5(d)		**8**	**Level** / **Description** 1 – There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. 0 – A mark of zero should be awarded for no creditable content.

2(a)	**Identify a difference between economic goods and free goods.** Economic goods use up resources / need factors of production to produce them (1) free goods do not (1) Economic goods are scarce / in limited supply (1) free goods are in unlimited supply (1). Economic goods have an opportunity cost (1) free goods do not (1).
2(b)	**Explain how opportunity cost will influence a government's decision on whether to spend tax revenue on a large infrastructure project.** Logical explanation which might include: Opportunity cost is the (next) best alternative (1) forgone / given up (1). Tax revenue is limited (1) if a government spends some of it on an infrastructure project, it will not be able to spend on something else / could use the money to spend on something else (1) an example (1). Governments have to decide on their priorities / consider which form of spending will provide the greatest benefit (1) reason why spending on infrastructure may be the best option / may not be the best option (1).

2(c)	**Analyse the influences on whether supply of a product is elastic or inelastic.** Coherent analysis which might include: Elasticity of supply is a measure of the responsiveness of supply to a change in price / formula / elastic supply is when pes is > 1/ inelastic supply is when pes <1 (1). Elastic supply occurs when supply changes by a greater percentage than the change in price / inelastic supply is when supply changes by a smaller percentage than the change in price (1). Whether the product can be stored / non-perishable (1) if it can be, it will be elastic (1) able to adjust supply quickly to changes in price (1) as if price rises, goods can be taken out of storage (1). Whether the production time is short (1) if so, output can be increased quickly to take advantage of higher prices (1). Cost of altering supply (1) if it is costly to alter the supply, supply is likely to be inelastic (1). Whether there are unemployed resources / level of capacity (1) if there are, supply can be adjusted by taking on more resources (1). Whether resources / factors of production are mobile (1) if they can change use / location (1). Time (1) supply usually becomes more elastic, the longer the time period (1). Level of competition (1) supply is likely to be more elastic in a competitive than in a monopoly market (1).

2(d)	**Discuss whether or not a government should ban the burning of wood to heat homes.** In assessing each answer, use the table opposite. Why it should: • reduce external costs / pollution • correct market failure / information failure • improve people's health • protect forests • replace wood with a more environmentally-friendly fuel • wood could be used for other purposes Why it should not: • wood may be bought mainly by the poor, increase poverty • other sources of fuel may be more expensive • may be difficult to enforce • may cause unemployment • may be better to tax wood as a fuel, could use revenue to subsidise more environmentally-friendly sources of fuel • some alternative fuels may be more polluting.

2(b)	

Question 1 (Answer: **B**)

- A good has an opportunity cost only if it is scarce – using it means giving something up.
- Air, sea water and sunlight are free goods, available without sacrifice.
- Food has to be produced with scarce resources, so consuming it has an opportunity cost.

Question 1 (Answer: **D**)

- Scarcity forces the three basic questions: what, how, and for whom to produce.
- Each is about allocating limited resources between unlimited wants.
- A question that would still arise even with unlimited resources is not caused by scarcity.

Question 1 (Answer: **B**)

- The economic problem is unlimited wants against limited resources.
- Gold is scarce – there is only a finite amount of it.
- Wants for it are not limited, so scarcity is what creates the problem.

Question 1 (Answer: **D**)

- A free good has no opportunity cost – using it means giving up nothing.
- That requires it to be genuinely unlimited relative to wants.
- Sunlight is the standard example; anything produced or provided by the state uses scarce resources.