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Question 1 (Answer: **C**)

- The economic problem is that wants are unlimited while resources are scarce.
- So wants can never all be satisfied, no matter how much is produced.
- It is the *limited resources* against *unlimited wants* that causes it.

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Question 10 (Answer: **B**)

- A central bank is the government's bank and the banks' bank.
- It issues notes and coins, sets interest rates and acts as lender of last resort.
- It does *not* hold deposits from the general public – commercial banks do that.

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Question 2 (Answer: **B**)

- Opportunity cost measures the value of the next best alternative given up.
- It is not the money price and not the output produced.
- Every choice has one, because choosing means forgoing the alternatives.

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Question 17 (Answer: **C**)

- Macroeconomic aims cover the whole economy: growth, low unemployment, price stability and a balanced current account.
- Low unemployment is one of the four standard aims.
- High external costs, high taxes and low wages are not aims – they are outcomes or instruments.

Question 18 (Answer: **B**)

- The canons of taxation are equity, certainty, convenience and economy.
- Equity means the burden should be fair between taxpayers.
- Profit maximisation is a firm's objective, not a principle of taxation.

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Question 9 (Answer: **B**)

- A demerit good is more harmful than the consumer realises, so it is over-consumed.
- The consumer's private benefit is *less* than they think.
- A merit good is the opposite – more beneficial than realised, and under-consumed.

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Question 2 (Answer: **C**)

- Opportunity cost is the value of the *next best* alternative given up.
- The graduate gave up teaching economics, which the question names as the next best option.
- So the opportunity cost is the teaching job forgone – not the bank salary earned.

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Question 9 (Answer: **C**)

- External benefit is the benefit received by third parties.
- It is the amount by which social benefit exceeds private benefit.
- So external benefit = social benefit − private benefit.

Question 9 (Answer: **C**)

- A demerit good is more harmful than the consumer realises.
- So it is over-consumed in a free market and has external costs.
- A good generating external *benefits* is a merit good – the opposite case.