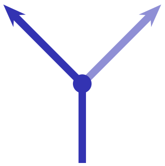
The Basic Economic Problem

IGCSE Economics ▪ Topic 1

IGCSE Economics



What we will cover

1

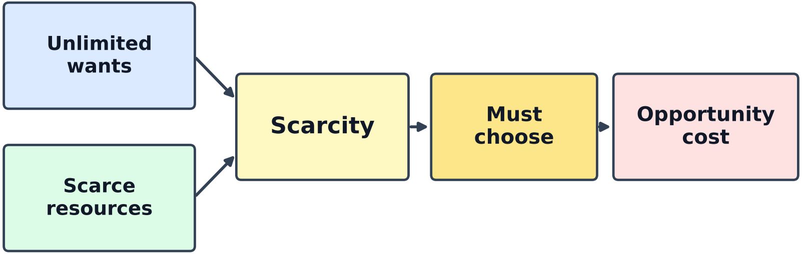
Scarcity

The economic problem

Resources 资源 are **finite** 有限的 but **wants** 欲望 are unlimited, so resources are **scarce** 稀缺.

> **Scarcity** 稀缺性 forces choice, and every choice has an **opportunity cost** 机会成本.

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** 生产要素, each earning a reward:

- **land** 土地 – rent
- **labour** 劳动 – wages
- **capital** 资本 – interest
- **enterprise** 企业家才能 – profit

Land is a scarce natural resource

Goods, services, and who makes the choices

goods 物品	things you can touch – food, phones, clothes
services 服务	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 政府	choose what to provide and how to spend public money
enterprise 企业家才能	organising the other three factors and taking the risk; the **entrepreneur** 企业家 is the person who supplies it

Free goods 自由物品 are unlimited and have no opportunity cost; **economic goods** 经济物品 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** 生产要素.

Factors of production – the four rewards, in detail

Land	Labour	Capital	Enterprise
natural resources (fields, water, oil)	human work and effort	machines, tools, factories	organises the rest + takes the risk
→ **Rent**	→ **Wages**	→ **Interest**	→ **Profit**

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 报酬** – the income it gets for being used:

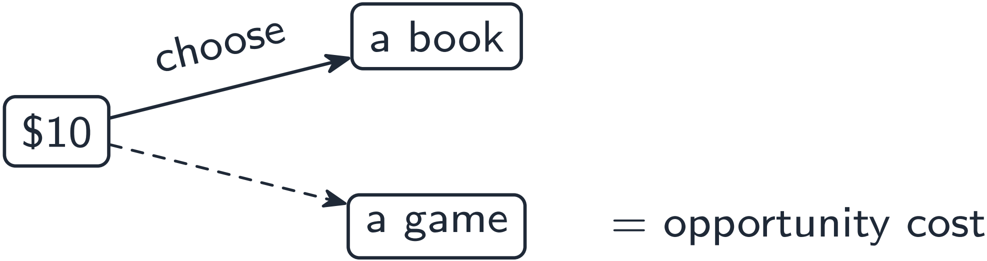
Mobility, quantity and quality

The **mobility 流动性** 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.

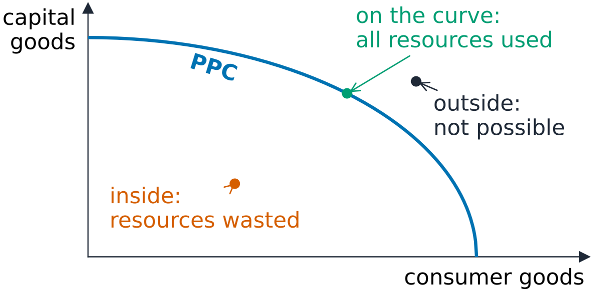
Opportunity cost

Opportunity cost 机会成本 is the next best choice you give up. An **economic good** 经济物品 is scarce (it has an opportunity cost); a **free good** 免费物品 (air) does not.



2 The PPC

The production possibility curve



on = efficient · inside = inefficient · outside = unattainable

The **PPC** 生产可能性曲线 shows the most a country can make of two goods.

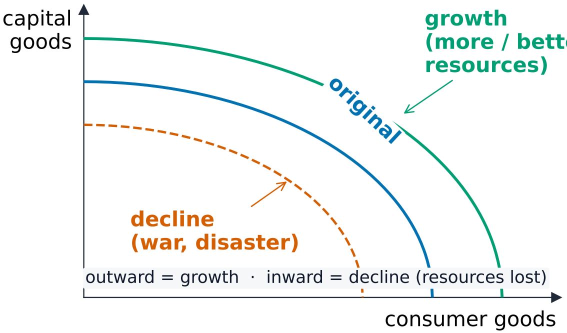
- on the curve – efficient
- inside – wasting resources
- outside – not yet possible

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 失业**. 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 经济增长 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** 工人, better skills.
Inward	War, disaster or the exhaustion of a resource: **economic decline** 经济衰退.
Non-renewable resources	**Non-renewable resources** 不可再生资源 – 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** 取舍: 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 流动性	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.

3 Recap

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**

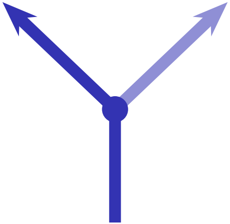
the next best choice given up

4 **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