

About

ECONOMICS

(TOPICAL)

About **Thinking Process**

When solving problems, we first analyse the questions and then gather relevant information until we are able to determine the answers. But for presentation reason, we need to organise, rearrange and then present ONLY the required workings and solutions.

Thinking process reveals the extra but relevant information which is not required as part of the solutions.

About **MCQ with HELPs**

Explanations are given so that students know exactly why the answer is the right one.

 **Period****2010 to 2022** **Contents****June & November,
Paper 1 & 2, Worked Solutions** **Form****Topic By Topic** **compiled****O Levels** **special
features****Thinking Process,
MCQ with HELPs**

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Cambridge O Level Economics 2281 (Topical)

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Compulsory Question 1

REVISION

June / November **2021** Paper 1 & 2

June / November **2022** Paper 1 & 2



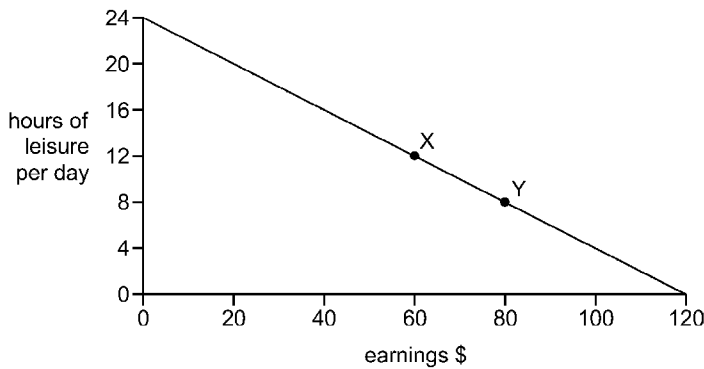
TOPIC 1.3

Production Possibility Curve

PAPER 1

Multiple Choice Questions

1. The diagram shows the choices for an individual between leisure and earnings.



What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

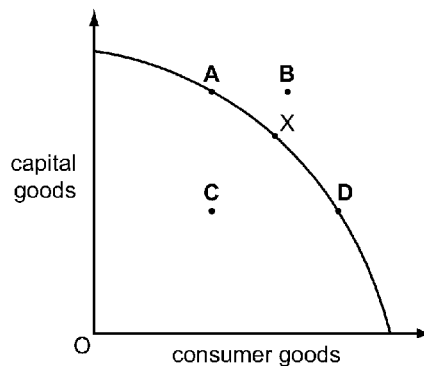
- A \$20
 - B \$80
 - C 4 hours of leisure per day
 - D 8 hours of leisure per day
- [N11/P1/Q1]
2. How does a production possibility curve show that scarcity exists?

- A It shows that a rise in demand for one of the products increases its price.
 - B It shows that as more resources are used to produce a product, its price rises.
 - C It shows that at any point outside the production possibility curve an economy is wasting resources.
 - D It shows that there is a limit to the quantity of products that can be produced with existing resources and technology.
- [N13/P1/Q2]

3. A country is producing at point X on its production possibility curve which shows how it can allocate its production between capital goods and consumer goods.

A period of recession then causes some of its factories to close.

Which point could represent the country's new position?



[J13/P1/Q2]

1. C Opportunity cost is defined as the next best alternative forgone. If the individual moves from X to Y, he benefits in terms of extra \$20 income (\$80 – \$60). However, his hours of leisure per day fall from 12 to 8. Hence a loss of 4 hours of leisure per day.

2. D A typical PPC slopes downward from left to right, it therefore suggests that more of one good can be obtained by sacrificing the other because resources are scarce.

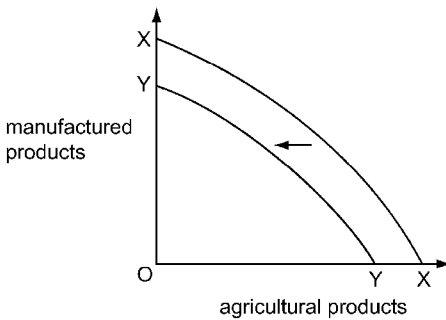
3. C A recession causes some of the businesses to close, therefore, causes unemployment to increase that makes the economy to operate inside its PPC.

4. B A PPC illustrates the production possibilities of an economy i.e. the alternative combinations of two goods that an economy can produce with given resources and technology. Producing on the curve means resources are fully employed, while producing inside the curve means resources are unemployed. An increase in employment will be shown by a movement further inside the curve.

4. How is an immediate effect of an increase in unemployment illustrated on a production possibility curve diagram?
- A a movement of the production point closer to the curve
 - B a movement of the production point further inside the curve
 - C a shift of the production possibility curve inwards
 - D a shift of the production possibility curve outwards

[J14/P1/Q2]

5. The diagram shows two production possibility curves for an economy.

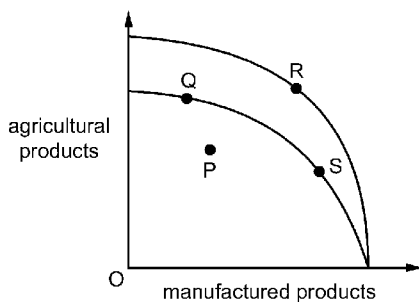


What could have caused the change in the economy's production possibility curve from XX to YY?

- A a decrease in the price level
- B a large number of industrial disputes
- C a major earthquake
- D an increase in unemployment

[N14/P1/Q3]

6. The diagram shows production possibility curves (PPC) for a country that can produce agricultural products or manufactured products. Its current PPC passes through points Q and S but the country is currently experiencing unemployment.



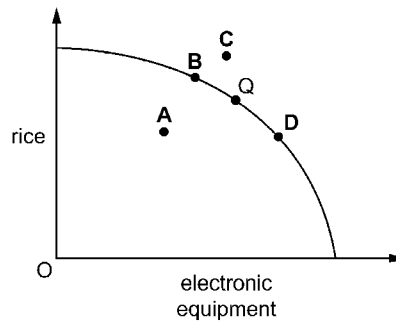
If there is now full employment at the same time as new agricultural techniques enable an increase in productivity, what would be the movement on the PPC diagram?

- A P to R
- B P to S
- C Q to R
- D S to Q

[J15/P1/Q3]

7. The diagram shows a production possibility curve for an economy that can produce rice or electronic equipment. The economy is at point Q. A recession causes unemployment in the electronics industries.

At which point will the economy be in the diagram?



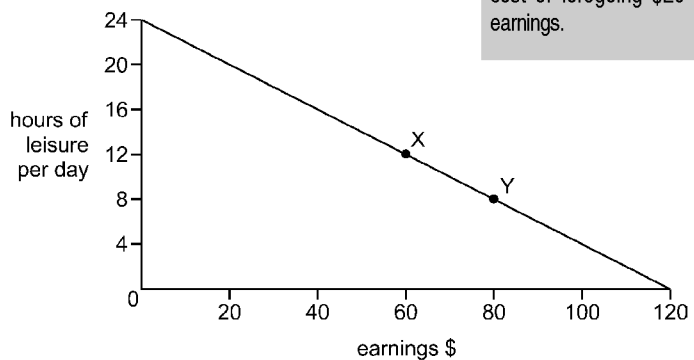
[N15/P1/Q3]

8. What economic concept must be at work when there is movement by a country along its production possibility curve?

- A economies of scale
- B equilibrium price
- C maximum profit
- D opportunity cost

[J16/P1/Q1]

9. The diagram shows the choices for an individual between leisure and earnings.



5. C A shift in the PPC is caused by a change in the productive capacity of the economy i.e. in the quantity or the quality of resources. A major earthquake will destroy some of the resources within the economy shifting the PPC curve inward.

6. A If some resources in the economy are unemployed, the economy would be producing at a point inside the curve such as P. The economy moves from point P to R because of an increase in productivity.

7. A All points on the PPC means resources are fully employed. Only the combination of the two goods varies for points B, Q and D. Since a recession causes unemployment in the electronics industries, the economy would be at point A inside the PPC curve.

8. D A movement along the curve illustrates opportunity cost where to produce more of one good means sacrificing the production of the other good.

9. A Movement from Y to X represents a gain of 4 hours of leisure per day with the opportunity cost of foregoing \$20 of earnings.



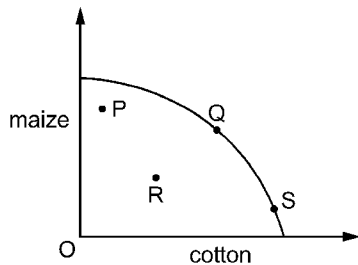
The person decides to take a job that gives more leisure time.

What is the opportunity cost to the individual of moving from position Y to position X?

- A \$20
- B \$80
- C 4 hours of leisure per day
- D 12 hours of leisure per day

[J16/P1/Q2]

10. The diagram shows a production possibility curve for maize and cotton.



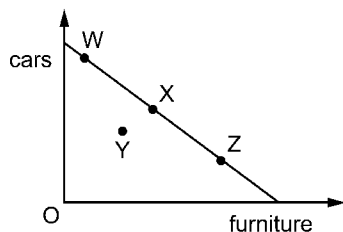
Bad weather causes a poor harvest for both crops.

Which movement could be used to represent this change?

- A P to R
- B Q to R
- C S to Q
- D S to R

[N16/P1/Q3]

11. The diagram shows a production possibility curve for cars and furniture.



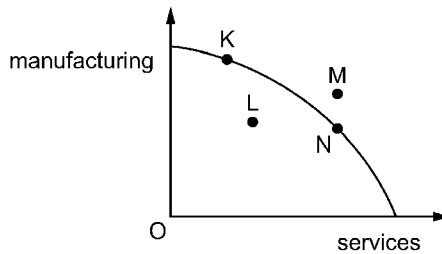
A recession causes a decrease in production in both cars and furniture.

Which movement would represent this change?

- A X to W
- B X to Y
- C Z to W
- D Z to Y

[J17/P1/Q3]

12. The diagram shows a production possibility curve. The country is using all its resources to produce both manufactured goods and services.



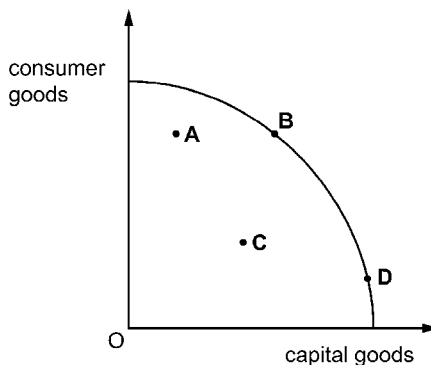
What movement would represent an improvement of technology in manufacturing?

- A K to N
- B L to K
- C N to K
- D N to M

[N17/P1/Q3]

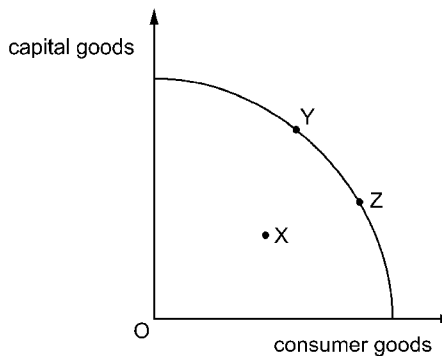
13. The diagram shows a production possibility curve (PPC).

Which position is **most** likely to lead to the greatest outward shift of the PPC?



[J18/P1/Q3]

14. The diagram shows a country's production possibility curve (PPC).



10. B Movement from Q to R is the only option that shows a decline of output for both crops.

11. B Movement from X to Y, a point inside the PPC, is the only option where production of both cars and furniture declined.

12. D Improvement in technology means that more can be produced using the same amount of resources. Hence more manufacturing goods can be produced without shifting resources from services. Thus a movement from N to M.

13. D Investment in capital goods increases the productive potential of the economy and is shown by the shift of the PPC curve outwards. The maximum amount of capital goods will be produced at point D.

14. C A movement from X to Y is an increase in efficiency as more resources are being utilized. Discovery of new resources should have caused a shift of PPC curve. Movement from Z to Y only shows a different combination of goods produced. Only option C is correct with more consumer goods produced at the cost of less capital goods.

TOPIC 1.3

Production Possibility Curve

P A P E R 2

Structured Questions

Question 1

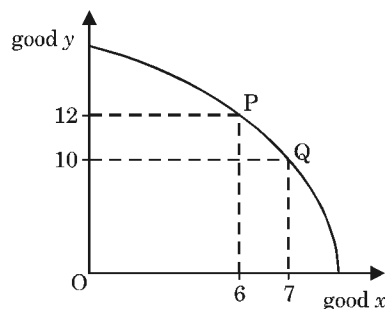
Production involves the use of the four factors of production. The use of these resources involves an opportunity cost.

Using a production possibility curve, explain what is meant by opportunity cost. [6]

[J13 / P2 / Q2(b)]

Suggested Solution

Opportunity cost is the next best alternative forgone while making a decision.



The idea of production possibility curve involves the idea of opportunity cost are inter-related. The production of one good will incur an opportunity cost which will cause the units of the second good to be reduced because of the idea of specialization, allocation of resources and comparative advantage in the international market. Also, shown in the diagram, the moving along axis has a reciprocating effect along the other axis.

COMMENT on ANSWER

“ Correct labeling of a production possibility curve diagram with the axes accurately labeled and a curve bowing out or a straight downward sloping curve. ”

Question 2

A number of economies are devoting more of their resources to the provision of health care. Due to the economic problem, this involves them having to make difficult choices.

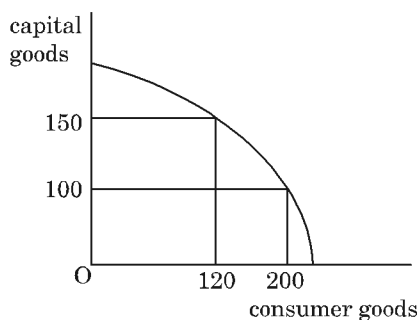
(a) What is meant by the ‘economic problem’? [2]

(b) Using a production possibility curve diagram, explain why choices have to be made as to how to allocate resources. [6]

[J14 / P2 / Q2(a,b)]

Suggested Solution

- (a) The economic problem is due to scarcity. It is when unlimited wants exceeds limited and scarce resources.
- (b) A production possibility curve illustrates the concept of choice and opportunity cost. Opportunity cost is the next best alternative foregone. A PPC shows the maximum output of two products and combinations of these products that can be produced with existing resources and technology.



From the above diagram, if an economy produces e.g., 200 units of consumer goods, it cannot produce 150 units of capital goods. Thus if an economy chooses to allocate more resources to making consumer goods, it has to allocate fewer resources to capital goods. In another words, economy has to choose one over the other.

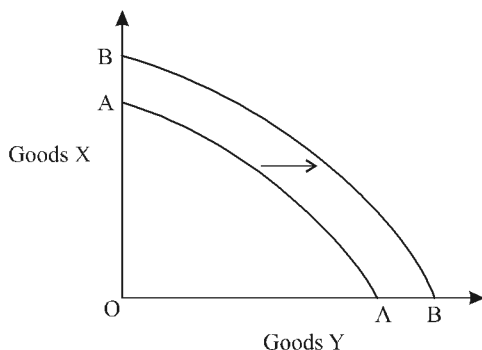
Question 3

Students have to consider the opportunity cost of going to university. University graduates usually earn more than people who have not gone to university. Having more graduates influences a country's production possibility curve. Some economists suggest that students should pay the full cost of their university courses and accommodation. Others say that the government should pay some or all of the cost.

Using a production possibility curve diagram, analyse what effect an increase in the number of graduates will have on an economy. [6]

[J15 / P2 / Q2(c)]

Suggested Solution



An increase in the number of graduates will increase the productivity of the workers. With a higher quality of labour, a country will be capable of producing more and there will be potential economic growth. This can be illustrated

COMMENT on ANSWER

“ Diagrams should be correctly labelled and explained in the context of the question. ”

by a production possibility curve. The increase in the productive potential of the economy due to an increase in the number of graduates will shift the production possibility curve from AA to BB. This would allow the economy to produce more and achieve economic growth.

Question 4

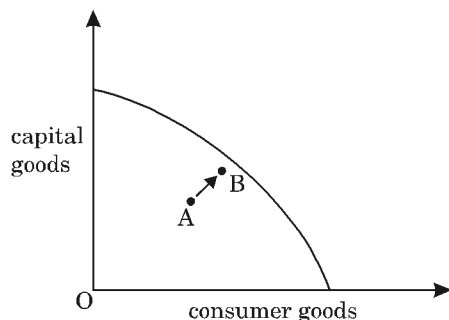
The unemployment rate in Wales fell from 8.2% in March 2013 to 6.8% in March 2014. One in four workers in Wales is employed in the public sector. A high proportion of workers are employed in multinational companies, including a Japanese car producer and a South Korean electronics firm.

Using a production possibility curve diagram, analyse the effect of a decrease in unemployment on an economy's output. [6]

[N16 / P2 / Q5(c)]

Suggested Solution

Since there is unemployment, the economy would be producing at a point inside the curve. Decrease in unemployment means that more resources are now employed. This would move the economy closer to the production possibility curve, point A to B, as more output is now being produced.



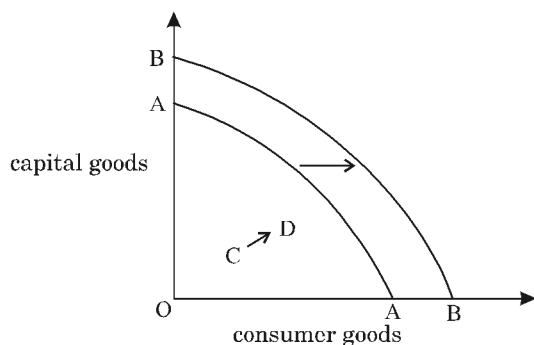
Question 5

Explain **two** economic concepts shown by a production possibility curve diagram. [4]

[J17 / P2 / Q2(b)]

Suggested Solution

The **production possibilities curve (or frontier)** represents all combinations of the maximum amounts of two goods that can be produced by an economy, given its resources and technology, when there is full employment of resources and productive efficiency. The curve illustrates the economic problem which means the scarcity of resources involve choices to be made. If the economy were at any point on the PPC, it would be impossible to increase the quantity produced of one good without reducing the quantity produced of the other good. This involves opportunity cost as it is the value of the next best alternative forgone to obtain something else.



COMMENT on ANSWER

“ A diagram would support candidates answer. ”

Economic growth is another concept that can be illustrated using a PPC curve. An economy's actual output or the quantity of output actually produced is a point inside the curve. So a movement from point A to B represents an increase in actual economic growth in the short run. Economic growth in the long run is caused by an increase in the productive potential of the economy that is shown by an outward shift of the PPC from P_1 to P_2 .

Question 6

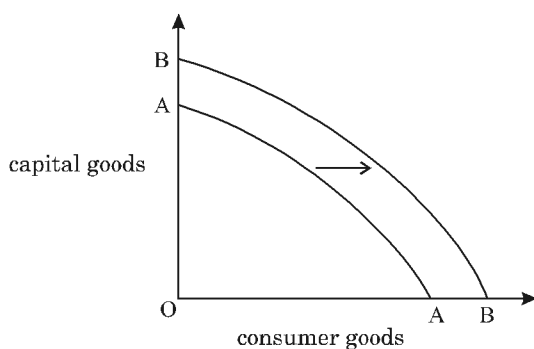
Rich people in some countries are now working for more hours on average than poor people. One reason for this is thought to be that well-paid jobs provide more job satisfaction. Gaining enjoyment from work can lead to high labour productivity.

Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy. [6]

[N17 / P2 / Q3(c)]

Suggested Solution

An increase in the labour productivity will shift the production possibility curve as it leads to an increase in the productive potential of the economy and causes economic growth.



COMMENT on ANSWER

“ It is important to draw an accurately labeled diagram of PPC to get maximum marks. ”

Question 7

In 2016, the Indonesian government increased its spending on healthcare and education and considered raising the school leaving age. The government also planned to increase taxation. Such a move might conflict with its aim of reducing unemployment at a time when a number of countries were at risk of entering a recession.

Analyse, using a production possibility curve (PPC) diagram, the effects of high unemployment in a country. [6]

[N18 / P2 / Q3(c)]

Suggested Solution

A production possibility curve (PPC) shows the maximum possible output combinations of two goods or services an economy can achieve when all resources are fully and efficiently employed.

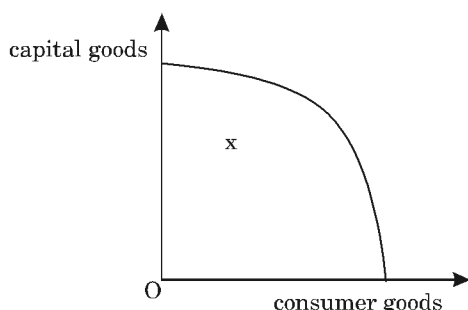


Figure 1 is a PPC curve that shows a tradeoff between capital goods and consumer goods meaning that it would be impossible to produce more of one good without decreasing production of the other good. In contrast, if the economy is operating below the curve, point X, it is said to be operating inefficiently because it could reallocate resources in order to produce more of both goods or some resources such as labor or capital are sitting idle and could be fully employed to produce more of both goods. Thus at point X resources are unemployed and less output is produced. This would lead to a fall in the actual growth rate or a recessionary gap in the economy. Due to lower economic growth country's living standards may also decline.

COMMENT on ANSWER

“ Diagram should be correctly labeled and explained to get maximum marks..”

Question 8

In March 2017, Peru was hit by floods and the strongest winds in decades. Roads, bridges, houses and capital goods were destroyed. It is expected that the damage caused will affect Peru's Human Development Index (HDI) and economic growth rate. In 2016, Peru experienced a 4% economic growth rate which was higher than the growth rate of the USA.

Analyse, using a production possibility curve (PPC) diagram, the effect of damaging weather on an economy. [6]

[J19 / P2 / Q4(c)]