# S1 Economics Practice Paper: The Basic Economic Problem, Opportunity Cost and Choice, Factors of Production and Division of Labour, Demand, Supply and Price, Money and Banking, Consumers and Public Finance

S1 | Economics | Time: 60 minutes | Total: 100 marks | 24 questions

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## Part A - The Basic Economic Problem (16 marks)

**Show working in question 2; answer the other questions in full sentences.**

**1. State the three basic economic questions and explain why scarcity of resources raises them.** [4]

**Answer:** Answer: what to produce, how to produce and for whom to produce. Resources (land, labour, capital and entrepreneurship) are limited while wants are unlimited, so society must choose, which creates these three questions. Marks: 3 for the questions, 1 for the explanation.

**2. A village can produce at most 100 garments or 500 kg of rice in one hour. If the villagers choose to produce 20 more garments, how much rice must they give up, and what is the opportunity cost of one garment?** [5]

**Answer:** Answer: opportunity cost of one garment = 500 / 100 = 5 kg of rice; 20 more garments cost 20 x 5 = 100 kg of rice. Marks: 3 for the opportunity cost, 2 for the rice given up.

**3. What is the difference between a free good and an economic good? Give one example of each.** [4]

**Answer:** Answer: a free good is plentiful enough to satisfy all wants at zero cost and has no opportunity cost, such as sunlight or fresh air; an economic good is scarce, must be produced and has a positive opportunity cost, such as bread or a mobile phone. Marks: 2 for the definitions, 2 for the examples.

**4. Why do unlimited wants and limited resources force every society to make choices?** [3]

**Answer:** Answer: resources cannot satisfy all wants at once, so every choice means giving up an alternative; resources must be ranked and allocated, and the opportunity cost must be accepted. Marks: 2 for scarcity, 1 for choice and trade-off.

## Part B - Opportunity Cost and Choice (17 marks)

**Show your working in questions 1 and 2; answer questions 3 and 4 in words.**

**5. Ming has 3 free hours and may either work ($60 per hour) or study. He chooses to study. Find the opportunity cost of studying and explain why it is not zero.** [5]

**Answer:** Answer: opportunity cost = forgone earnings = 3 x $60 = $180. Studying costs nothing in cash but gives up $180 of income, so the opportunity cost is not zero. Marks: 3 for the amount, 2 for the explanation.

**6. May can watch a film (she values it at $250), go shopping ($200), revise at home ($120) or sleep ($80). She chooses the film. Find the opportunity cost of her choice.** [4]

**Answer:** Answer: the opportunity cost is the highest-valued alternative forgone, which is shopping at $200, not the sum of all options. The net benefit of the film = 250 - 200 = $50. Marks: 3 for the opportunity cost, 1 for the net benefit.

**7. Does opportunity cost include money already paid that cannot be recovered (a sunk cost)? Explain with an example.** [4]

**Answer:** Answer: no. A sunk cost has already been paid whatever is chosen, so it is not the cost of a forgone alternative. For example, a ticket already bought is paid whether or not the film is watched; the opportunity cost of skipping it is the best use of that time, not the ticket price. Marks: 2 for the judgement, 2 for the example.

**8. What is diminishing marginal benefit? Explain it with an all-you-can-eat buffet example.** [4]

**Answer:** Answer: the extra benefit from each additional unit consumed falls. At a buffet the first plate gives the greatest satisfaction and later plates add less as one gets full, so a rational eater stops where marginal benefit equals marginal cost. Marks: 2 for the definition, 2 for the example.

## Part C - Factors of Production and Division of Labour (17 marks)

**Answer questions 1 and 2 in words; calculate or compare in questions 3 and 4.**

**9. Name the four factors of production and give one factory example of each.** [4]

**Answer:** Answer: land (factory site and raw materials), labour (workers), capital (machines and equipment) and entrepreneurship (the owner decides what to produce and bears the risk). 1 mark each.

**10. What are the benefits of division of labour and specialisation? State two benefits and one limitation.** [4]

**Answer:** Answer: benefits - workers become skilful so output rises, time is saved switching tasks and machines can be matched to specialised steps; limitation - tasks become repetitive and boring, and a stoppage in one step halts the whole line. Marks: 2 for benefits, 2 for a limitation.

**11. Worker A can make 2 chairs or 4 tables in one hour; worker B can make 1 chair or 3 tables. Find each worker's opportunity cost of one chair and say who should specialise in chairs.** [5]

**Answer:** Answer: A gives up 4 / 2 = 2 tables per chair; B gives up 3 / 1 = 3 tables per chair. A has the lower opportunity cost ($2 < 3$), so A should specialise in chairs and B in tables. Marks: 3 for the two costs, 2 for the conclusion.

**12. A toy factory has 5 workers producing 200 toys a day. Find the average output per worker; if a sixth worker raises output only to 220 toys, how does the average change?** [4]

**Answer:** Answer: originally 200 / 5 = 40 toys per worker; with six workers it is 220 / 6 = 36.67, so the average falls, showing diminishing marginal returns. Marks: 2 for the first average, 2 for the comparison.

## Part D - Demand, Supply and Price (17 marks)

**Show working in questions 2 and 3; answer questions 1 and 4 in words.**

**13. State the law of demand and give one exception.** [4]

**Answer:** Answer: other things being equal, a rise in price reduces the quantity demanded and a fall raises it, so the demand curve slopes downward. Exception: a Veblen good such as a luxury handbag may be demanded more when its price rises. Marks: 3 for the law, 1 for the exception.

**14. The price of a drink rises from $20 to $25 and the quantity demanded falls from 300 to 250 units. Find the price elasticity of demand (absolute value) and say whether demand is elastic or inelastic.** [5]

**Answer:** Answer: change in quantity = (250 - 300) / 300 = -0.1667; change in price = (25 - 20) / 20 = 0.25; elasticity = -0.6667, and its absolute value 0.6667 is below 1, so demand is inelastic (total revenue rises from $6000 to $6250). Marks: 3 for the calculation, 2 for the conclusion.

**15. A market has an equilibrium price of $30 and quantity of 400. The government sets a price ceiling of $20, at which supply is 200 units and demand is 400 units. Find the shortage and explain the effect of the ceiling.** [5]

**Answer:** Answer: shortage = 400 - 200 = 200 units. A ceiling below the equilibrium price creates excess demand, so queues, rationing and possibly black-market trading appear. Marks: 3 for the shortage, 2 for the effects.

**16. What is the main difference between a perfectly competitive market and a monopoly in how price is set?** [3]

**Answer:** Answer: in perfect competition there are many buyers and sellers with identical products, so each firm is a price taker; a monopoly has a single seller with no close substitute, so the firm is a price maker. Marks: 1 for each market, 1 for the contrast.

## Part E - Money and Banking (17 marks)

**Show working in questions 2 and 3; answer questions 1 and 4 in words.**

**17. State three functions of money and give one example of each.** [4]

**Answer:** Answer: medium of exchange (paying cash for stationery), unit of account (a price tag of $20) and store of value (keeping money in a bank for later). 1 mark per function, 1 for the examples.

**18. Wah deposits $5000 at 2% simple interest a year. Find the interest after one year and the total interest after two years.** [5]

**Answer:** Answer: one year = $5000 x 2% = $100; two years = $100 x 2 = $200, since simple interest is paid on the principal only. Marks: 2 for one year, 3 for two years.

**19. The consumer price index rises from 100 to 108 while wages rise 5%. Find the inflation rate and say what happens to real purchasing power.** [5]

**Answer:** Answer: inflation = (108 - 100) / 100 x 100% = 8%; wages rose only 5%, so real purchasing power falls by about 3%. Marks: 3 for the inflation rate, 2 for the real change.

**20. What role do banks play in an economy? State two main functions.** [3]

**Answer:** Answer: banks take deposits and lend the funds to borrowers, moving money from savers to investors; they also provide payment and transfer services and keep deposits safe. Marks: 1.5 each, 3 in total for two functions.

## Part F - Consumers and Public Finance (16 marks)

**Show working in questions 2 and 4; answer questions 1 and 3 in words.**

**21. State two consumer rights or points to check when shopping, with reasons.** [4]

**Answer:** Answer: for example keep an official receipt so that a return or complaint is possible, and check that the marked price matches the amount charged to avoid overcharging; goods should also meet safety standards. Marks: 2 each.

**22. Ling gets $400 pocket money a month, saves 25% of it and spends the rest. Find her monthly saving and spending, and the months needed to save $1,200.** [4]

**Answer:** Answer: saving = $400 x 25% = $100; spending = $400 - $100 = $300; months needed = 1200 / 100 = 12. Marks: 1 for saving, 1 for spending, 2 for the months.

**23. What are the main sources of government revenue? State two with an example of each.** [4]

**Answer:** Answer: taxes (for example salaries tax, profits tax and stamp duty) and non-tax revenue (for example land sales, fees and fines). Marks: 2 each.

**24. A government has revenue of $12000 and spending of $14000 in a year. Find the surplus or deficit and state one way to deal with it.** [4]

**Answer:** Answer: spending exceeds revenue by $14000 - $12000 = $2000, a deficit of $2000. It can be met by issuing bonds, drawing on reserves, or by cutting spending and adjusting tax rates. Marks: 2 for the deficit, 2 for the measure.

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