Economics

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Preface

About

These notes review the Singapore-Cambridge GCE A-Level H1 Economics (8843) syllabus.

Candidates taking this subject sit for the H1 Economics Paper 1, which comprises of 2 case studies, each consisting of 2 to 3 pages of data presented in textual, numerical or graphical form. Each case study will present contemporary multifaceted economic issues or policies, which may be from one or more themes in the syllabus. The data for each case study will be followed by 7 to 8 part-questions, including sub-parts. These questions will require candidates to apply relevant economic concepts, theories and principles in analysing, synthesising and evaluating economic issues, perspectives or policies, with reference to the data provided. About 16 marks of each set of case study questions will be allocated to data response questions, and about 24 marks will be for higher-order questions.

Acknowledgements

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Part I.

The Central Economic Problem

1. Scarcity, Choice and Resource Allocation

1.1. Scarcity

Definition 1.1. ***Scarcity*** is the situation of limited resources in relation to unlimited wants.

Definition 1.2. ***Resources*** are the inputs used in the production of the things we want. The resources used in production are called **factors of production**.

The total quantity of all resources an economy has at any one point determines the maximum possible output that economy can produce. Resources are limited because the quantity of factors of production are always fixed at any given period of time.

Factors of production can broadly be classified into 4 types:

- **Capital**
  - Man-made factors used in the production of other goods and services.
  - Types
    - Fixed capital – machinery and buildings
    - Infrastructure AKA social overhead capital – roads & rail network, telecommunication network, air & sea ports, etc.
- **Entrepreneurship**
  - The factor of production that assumes the risk and faces the uncertainty of combining the other 3 resources and engaging in production.
- **Land**
  - Encompasses all the natural resources that are available from nature, and can be renewable or non-renewable. (e.g. minerals, trees, resources that can be harvested from oceans and even the climate that is favourable to grow certain crops in)
- **Labour**
  - Includes all the productive contributions made by the physical and mental human effort.
  - The quantity of labour available for an economy consists of all those who are willing and able to work.

Definition 1.3. ***Goods*** are defined as all things from which individuals derive satisfaction. ***Economic goods*** are scarce goods for which the quantity demanded exceeds the quantity supplied at zero price.

> **Definition 1.4.** ***Services*** are tasks that are performed for someone else. (e.g. laundry, internet access, teaching)

1.2. Resource Allocation

In a world of scarcity, the society, as a whole, is limited by the amount of resources it has to produce the goods and services to satisfy all these wants. Choices are hence inevitable, and must be made in the allocation of resources between different uses.

Fundamental questions of resource allocation:

- **What** and **how much** to produce?
- **How** to produce?
- **For whom** to produce?

1.3. Opportunity Cost

> **Definition 1.5.** The ***opportunity cost*** of any activity is the value of the next-best alternative forgone.

The scarcity of resources puts a limit on how much goods and services the economy can produce to satisfy wants and contribute to the people's standard of living. Every time we make a choice, we are trading off the use of that resource for one or more alternative uses. The extent of the trade off is represented by the opportunity cost.

1.4. Production Possibility Curve (PPC)

> **Definition 1.6.** The ***production possibility curve (PPC)*** of the production possibility frontier is a graph that shows the maximum possible output combinations that the economy can produce in a given period of time (e.g. a year).

The PPC is a boundary or frontier because it shows the maximum production possible.

Assumptions

The relevant assumptions of the PPC model include:

- 2 goods
- Resources are fully and efficiently employed
- Within a given period of time, the quantity and quality of the resources remain fixed. Technology also remains constant.

Graphical Illustration

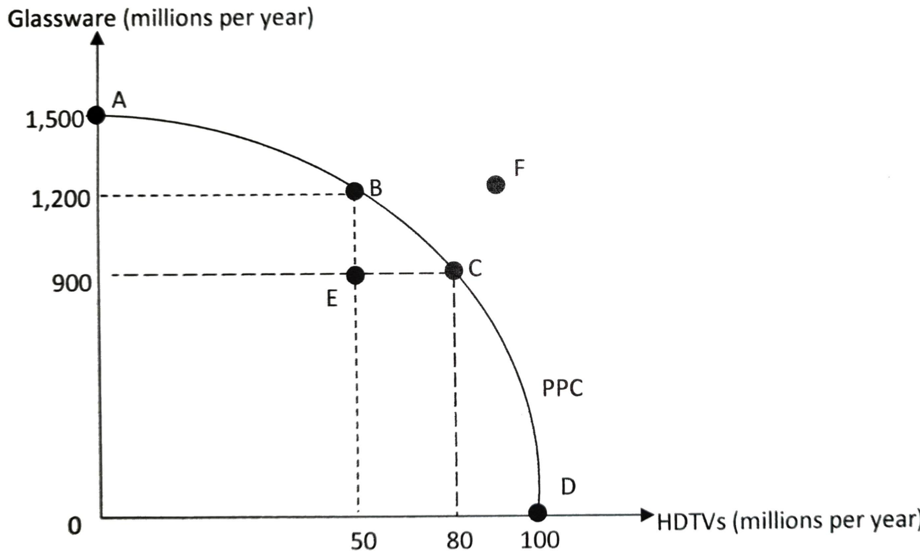

Figure 1.1.: Production Possibility Curve