

- 1 One of the central themes of economics is that resources are scarce.

What is certain from this?

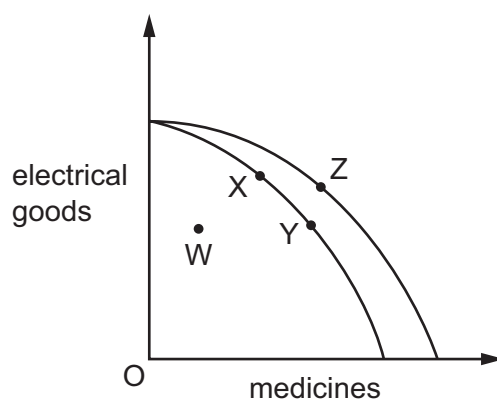
- A Difficult choices are unavoidable for economic agents.
 - B Food shortages will become more severe over time.
 - C Resource allocation cannot be left solely to the price mechanism.
 - D There will be a continuing upward trend in commodity prices.
- 2 In their transition to market economies some former command economies have adopted a gradual approach. This has meant continuing with some of the features of their command system.

What is **not** a valid, short-run reason for continuing with the feature shown?

	feature	reason for continuation
A	inconvertible currency	to attract foreign direct investment
B	price controls on foodstuffs	to protect the real value of workers' incomes
C	state ownership of banks	to avoid large-scale bankruptcies
D	tariffs on imported manufactures	to allow comparative advantage to develop

- 3 A country is producing electrical goods and medicines at full capacity. An innovation is developed that enables the country to produce a new medicine which becomes in great demand.

How would this be represented by its production possibility curves?



- A as a movement from W to X
- B as a movement from X to Y
- C as a movement from X to Z
- D as a movement from Y to X