

Economics Workshop

Topic 1: Introduction

1. Define economic scarcity and outline the 3 main choices that must be made by a society in the face of scarcity.

Scarcity refers to the problem of having limited resources to meet unlimited wants and needs. This condition forces societies to make decisions regarding resource allocation: **What** to produce, **how** to produce, and **for whom**.

2. The problem of scarcity in economics:
 - a. Exists only in economies which rely on the market mechanism.
 - b. Could be eliminated if we force prices to fall.
 - c. Means that there are shortages of some goods.
 - d. Exists because there are insufficient resources to satisfy human wants.
3. What are your everyday examples of scarcity? Give three examples.
Money, time, petrol, clean air, housing, job opportunities, concert tickets, seasonal items (e.g. fruits)
4. Which of the following are macroeconomic issues, which are microeconomic ones and which could be either depending on the context?
 - a. Inflation. Macro
 - b. Low wages in certain service industries. Micro (industries specific)
 - c. The rate of exchange between the pound and the euro. Both (macro in a national scale and micro in a global scale)
 - d. Why the price of cabbages fluctuates more than that of cars. Both (macro in a national scale and micro in industries scale)
 - e. The rate of economic growth this year compared to last year. Macro
 - f. The decline of traditional manufacturing industries. Both (macro in a national scale and micro in industries scale)
5. An economy can produce either Good X or Good Y. The opportunity cost of producing an extra unit of Good X is:
 - a. The value of the capital and labour used to produce Good X.
 - b. The number of units of Good Y that must be given up in order to produce an extra unit of Good X.
 - c. The cost of producing Good X less the cost of producing Good Y.
 - d. The amount of Good X that would have been produced in the following year.
6. Make a list of three things you did yesterday. What was the opportunity cost of each?

- Studying or watching TV series: Studying will bring higher grades. The opportunity cost is enjoyment from watching TV.
 - Fast food or homecooked food: Homecooked food will bring health benefits and quality time with family. The opportunity cost is money saved and time lost at the fast-food restaurant.
 - Taxi or public transport: Public transport is cheaper. The opportunity cost is the comfort while travelling.
7. If a business invests in research and development instead of marketing, the potential increase in sales from marketing is the:
- a. Direct cost
 - b. Opportunity cost (The potential sales increase represents the opportunity cost of the decision to invest in research and development over marketing.)
 - c. Marginal cost
 - d. Fixed cost
8. If you choose to study instead of going to a movie, what is the opportunity cost?
- a. The cost of studying
 - b. The cost of the movie ticket
 - c. The enjoyment of the movie (The opportunity cost is the enjoyment of the movie, the next best alternative to studying.)
 - d. None of the above
9. What is the opportunity cost of investing in stock A instead of stock B?
- a. The return of stock A
 - b. The return of stock B (The opportunity cost is the return on stock B, the foregone alternative.)
 - c. The difference in returns
 - d. None of the above
10. Which of the following statements is true about macroeconomics trade?
- a. Always aim for trade surplus
 - b. Always avoid trade deficit at all costs
 - c. Keep the trade balance
 - d. All of the above
11. Which of the following statements is true about rational choice?
- a. If the marginal benefit exceeds the marginal cost, it is rational to do the activity (or to do more of it)
 - b. If the marginal benefit exceeds the marginal cost, it is rational not to do the activity (or to do less of it)
 - c. If the marginal cost exceeds the marginal benefit, it is rational to do the activity (or to do more of it)
 - d. If the marginal opportunity cost exceeds the marginal benefit, it is rational to do the activity (or to do more of it)