

Issued On:		Past Paper Questions [PPQs]	9 [1 – 9]
Deadline:	29 th Nov 2020	Model Questions [MQs]	11 [1 – 11]
Marks : Time	1 mark = 1 ½ Mnt	Units - Essentials Covered	Unit 1

Structured Essay Type Question Answers:

[01] Human needs refer **essential or necessary requirements** to live one’s life in a socially acceptable manner, as a human being. Needs tend to be **material or physical** in nature such as food, clothes, transportation, as well as **psychological (Emotional)** such as self-esteem, respect, love, recognition.


[01 mark]

Wants refer to the **different ways and means of fulfilling needs**, and improving the satisfaction received in the process of fulfilling such needs. Unlike needs wants are tend to be **unlimited and diverse in nature**.

[01 mark]

Limited human needs tend to derive unlimited human wants. As an example the if the need is clothes, wants tends to be different types of clothes such as shirts, T-shirts, denims, long pants, and shorts pants etc.

[01 mark] [Total 03 marks]

 **[02]** Productive resources (or production resources) which are scarce or **limited in supply in relation to unlimited** (infinite) **wants** of the society are termed as economic resources.

Opportunity cost is positive (or there is an opportunity cost involved) with regards to economic resources. The use of an economic resource for one purpose or activity, shall essentially (always) result in a foregoing or trade off another activity or potential use.

[02 marks]

In the study of economics, such economic resources are generally classified in to four main categories:

Land, Capital, Labour and Entrepreneurship

Alternatively: Property Resources [natural resources, capital]

Human Resource [labour, entrepreneurship]

[02 marks, total 04 marks]

[03] **Economic goods refer** to goods which are **limited in supply**. Economic goods are a result of a purposeful **human involved production process**, which combines **limited resources**, alternative uses. Therefore economic goods represent a **resource cost (opportunity cost, positive marginal cost), price**, problem of choice and **specific ownership**.

Examples: clothes, food, vehicles, furniture etc

[02 marks]


Non-economic or free goods refer to goods available in **abundance** (infinite in supply) at **zero price**, when the supply is available. These goods do not represent a deliberate human involved production process or use of limited resources, therefore **do not represent a resource cost** (zero opportunity cost, zero marginal cost).

Examples: fresh air, rain or river water, sunlight etc..

[02 marks, total 04 marks]

Additional:

Economic goods will not become non-economic goods under any circumstance, but free or non-economic goods can become economic goods in certain situations [bottled **water**, **oxygen** used by diver or provided to a patient...]

 **[04]** A non-economic or **free good** is a good created without any deliberate human effort or production process, which is able to satisfy human wants. The consumption of free goods (non-economic goods) **do not create an opportunity cost**.

The use of free goods by one person, will not make the good less available to another person. This is because non-economic goods are available in abundance, when the supply is available.

[02 marks, complete definition of free goods]

A good is decided to be a good with scarcity (i.e. economic good) or non-economic goods (a free good), not based whether or not a price is charged, i.e. offered at a price or offered free of charge).

While in most situations certain goods and services are given free of charge to consumers, either based on a welfare motive or promotional purposes, in order to produce such goods and services, limited resources with alternative uses have been used. The production of such good has created an opportunity cost (resource cost). Accordingly such goods are not truly free or non-economic goods, rather economic goods (or goods with scarcity).

[02 marks, total 04 marks]

[05]

Human needs consist of the following features:

- [1] Basic in nature** (biological, uncomplicated)
- Generally straightforward, thus easy to identify
 - Common (i.e. every person and every society)
 - Cannot be artificially created (i.e. needs are intrinsic in nature)
- [2] Relatively limited in nature**
- Restricted to a small number of basic and other needs, unlike human wants.
 - Fulfilling such limited needs at a minimum socially acceptable level is sufficient.

[02 marks each, total 04 marks]

Human wants consist of the following features:

[1] Unlimited in nature

- At a given point of time, there are many unattained (unsatisfied) human wants, when considering the society of any country as whole.
- When one want is fulfilled, immediately another want(s) is created, generally related to the formerly fulfilled want.

[2] Diversity of wants

Human wants tend to change from person to person, as well as society to society, with respect to the same need. Such complicating, diversity of wants is influenced by disparities: geographic, demographic (personal) cultural values, religion, political ideologies and personal preferences.

[02 marks each, total 04 marks]

[3] Wants tend to change with time (Dynamic in nature)

[4] Wants can be induced or artificially created

[06]

1) **Resources received from nature, available in abundance (unlimited) to all in society**
[an ideal example is the fresh air we breathe]

2) **Resources created as a joint or byproduct from the production process**
[E.g. polythene, cardboard packaging materials and other refuse/leftovers from factories and trade centers]

3) **Ideas and creations subject to duplication and reproduction at zero cost**
[E.g. computer software/programs and web pages]. Intellectual property laws can be used to convert, some of these products into economic goods.

[01 mark each, total 03 marks]

➔ [07]

- A good refers to anything (tangible) which provides a **positive satisfaction** or **utility**.
- An economic bad is anything which provides a **negative utility** or **dissatisfaction** (disutility). Examples for economic bads may include: **garbage, wild weeds, and pollution**.
- An economic good is a good which is **finite or limited in supply**. Economic goods represent a resource cost and an **opportunity cost**, since its production uses limited resources.
- Non-economic or free goods are goods **available in abundance** (infinite or unlimited in supply) at zero price, when the supply is available. There is **no** resource cost or **opportunity cost** involved with free goods. Examples include **warmth from the sun, rain water, and fresh air**

[01 mark each, Total 04 marks]

[08]

- **Consumer Goods**
 - **Goods which are not used to produce other goods, rather for final use of (personal) consumption**
 - Can be both durables and non-durable in nature
 - General examples include:
Food items, medicine, clothes, consumer electronics, personal accessories

[1 marks]

 - **Capital Goods**
 - **Goods used to produce other goods**
 - Capital goods are produced, and are used in the process of producing consumer goods
 - Capital good tend to be durable assets, subject to depreciation
 - Generally examples:
Commercial buildings, machinery, equipment, commercial vehicles ...]

[1 mark]

 - **A certain good can be both a capital and consumer goods, this is because the capital or consumer nature of a good essentially depends on the 'usage' of the good.**
- [01 mark, total 03 marks]

[10] (A)

Public Goods refer to goods which are '**Non rival in Consumption**' and '**Non-excludable**'.

[01 mark]

*Since public goods are non-rival in consumption, there is **zero marginal cost** and due to non-excludability, **free riders exist**.*

E.g. Street lights, National defence, flood protection etc.

[½ mark, subtotal 1 ½ marks]

Private Goods refer to goods which are '**Rival in Consumption**' and '**Excludable**'.

[01 mark]

*Since private goods rival in consumption, there is a **marginal cost** and due to excludability, **free riders can be eliminated**.*

E.g. Mobile phones, pens, computers, education, medicine

[½ mark, subtotal 1 ½ marks]

[Total 03 marks]

- (B) Merit Goods refer to an economic good, which tends to create an **external benefit or positive externality of consumption**.

[01 marks]

Benefits the broader society, in addition to the consumer of the product

E.g. Health, Education...

[½ mark, subtotal 1 ½ marks]

Demerit Goods refer to an economic good which tends to create an **external cost or negative externality of consumption**

[01 mark]

Burdens the broader society, beyond the benefit to the consumer of the product.

E.g. Alcohol, Tobacco, Gambling

[½ mark, subtotal 1 ½ marks]

[Total 03 marks]

[11]

- Public goods are good which non-excludable and non-rival in consumption are, and free or non-economic goods are goods available in abundance at zero price or cost, when the supply is available.
- Non-economic or free goods are created without any human effort or not as a result of a production process, while public goods tend to be a result of a human involved production process which uses limited resources (or economic resources).
- The production of a public good involves an opportunity (or resource) cost, while both a public and free or non-economic good have **zero marginal opportunity cost**. There is no cost incurred to provide an additional unit of a non-economic and a public good.

[01 mark each, total 03 marks]

[12]

- (A) Basic Needs: E.g. Food, clothes, shelter, health. [01 mark]

The needs which are essential to be fulfilled for the purpose of subsistence or survival.

Other Needs: E.g. Communication, transportation, safety and security, self-esteem, respect, achieving life goals

[01 mark]

The psychological and social needs, other than the basic needs.

[Total 02 marks]

- (B) Material Needs: E.g. Food, Clothes, Shelter, Transportation, Health care and Education.

[01 mark]

The needs which are fulfilled using goods and services.

Psychological (Emotional) Needs:

E.g. Self-esteem, respect, love, recognition, achieving life goals.

[01 mark]

The needs cannot be fulfilled using products and only fulfilled by society and another human being.

[Total 02 marks]

- [13]** Productivity is the **ability or potential** of a factor of production to **produce an output**. Productivity can be measured in real terms, by estimating the **average output** of a **unit of input** [Formula: Output units divided by inputs units]. Productivity is generally used as an index (benchmark) by which the efficiency of a production factors is measured or indicated.

[02 marks]

Factors Deciding Labour Productivity:

- Physical Capital
- **Human Capital**
- Natural Capital
- Social Capital

[01 mark]

- **Technological** knowledge
- **Management methods**
- **Division of Labour**
- Attitudes and incentives

[01 mark each, maximum 03 marks]

[Total 06 marks]



- [14]** ‘Specialization’, ‘Division of Labour’ and ‘Trade’ are highly interconnected processes.

If a given individual is engaged in producing only one given good or services, i.e. practicing specialization, the individual will have to sell the excess output of the chosen good, in order attain other goods and services required (i.e. creating the need for trade or exchange).

[01 mark]

In the past, with in a direct exchange system (or barter system) exchanging such excess output to attain other goods (non-specialized goods) becomes extremely difficult, time consuming and overall costly, especially due to the requirement to achieve a double coincidence of wants for each transaction. Accordingly the practice of specialization is discouraged.

The introduction of money as a commonly accepted medium of exchange, shall eliminate such difficulties faced within the barter system and rapidly increase the volume of trade, while creating a highly encouraging situation for the practice of specialization within the production processes.

A complicated process such as Division Labour will only be effective and derive efficiency, if businesses are engaging in large scale production with the intention of supplying to a large market with high volume of trade. Accordingly the use of money shall expand markets and trade volumes, which creates the ideal environment for the practice of division of labour (division of labour shall also complement specialization).

[01 mark each, Sub-total 03 marks]



[15] Cannot agree [01 mark]

- The process of economizing, shall ensure highly efficient utilization of limited resources, while such an action will not solve the problem of scarcity.
- This is because the problem of scarcity is not created as a result of uneconomic or inefficient use of resources, rather it is a relative problem, caused by the limitedness of the existing stock of resources in comparison to unlimited nature of human wants.
- As long as human wants remain unlimited in nature, and resources required to fulfil such wants remain limited, scarcity shall continue to be an unsolved problem.

[01 mark each, sub-total 03 marks] [Total 04 marks]

[16] A **resource** is anything used as an input in the process of producing goods and services, required to satisfy human wants. Such production resources shall consist:

- | | |
|---------------------------------|--------------------------|
| ✓ Economic Resources | Alt: Land, Labour |
| ✓ Non-economic (free) Resources | Capital, Enterprise |

[02 marks]

Production resources which are **limited in supply, in comparison to unlimited wants** of society are termed as 'Economic Resources' or 'Scarce Resources'.

The use of economic resources shall result in the creation of opportunity cost, due to its **relative scarcity** and **alternative uses**. Economic resources are classified in to **land, labour, capital and enterprise**.

[02 marks]

Production resources which are **infinite in supply, in comparison to unlimited wants** of society, when the supply is available are termed as 'Free or Non-economic Resources'.

These are essentially resources which can be used in production received free of charge from nature, and resources on which an **opportunity cost is not incurred**. Common examples: Sunlight, air, rain water etc.

[02 marks]

[Total 06 marks]

[17] Financial cost refers to the monetary (money) payment made or agreed to be paid by a certain individual or firm to suppliers of goods, services and factors in the process of producing and consuming goods and services. This is a direct cost item.


[01 mark]

Opportunity cost refers to the value of the next or second best alternative foregone on which resources could have been allocated in the process of producing or consuming a good or service.

[01 mark]

Money (or financial) cost only consists of direct (explicit) cost, while opportunity cost consists of both direct and indirect (implicit) cost components.

[01 mark, total 03 marks]

 **[18]** Opportunity cost refers to the value of the next or second best alternative foregone on which resources could have been allocated in the process of producing or consuming a good or service.

[01 mark for definition]

- Opportunity cost is subjective, i.e. only the individual can estimate the expected value of the best alternative forgone.
- Opportunity cost consists of both direct and indirect (implicit) cost components.
- Opportunity cost is measured in physical units, not monetary units, therefore it is sometimes called real opportunity cost to distinguish it from money cost.

[01 mark for including at least one of the above features]

The fact of scarcity and alternative use of resources, implies that we must make choices. One of the most important results of this fact is that whenever you make a choice, we must sacrifice or forgo other opportunities. The next best opportunity not taken (i.e. foregone) in making the decision is called the opportunity cost of the decision.

[02 marks, Total 04 marks]

[19] Cannot agree.

Scarcity refers to a relative concept; therefore Relative Scarcity refers to the limitedness of resources in comparison to the unlimited nature of human wants.

[01 mark]

Alternative definition:

The problem of scarcity is created due to two main properties or features existing within all societies namely, unlimited nature of human wants and limited nature of resources required to produce goods and services to fulfil such wants at a given point of time.

A shortage (which may be alternatively termed as a deficiency, insufficiency or in a certain context a deficit) is a temporary situation of disequilibrium which occurs within markets.

Generally a shortage occurs when, an output or supply is not formulated, sufficient to meet the existing demand in the market (i.e. a situation of excess demand). In such a situation the market price tends to increase.

[02 marks]

Therefore scarcity is different from a market shortage and relative scarcity of resources is permeant and centralized problem faced by all societies on a common basis.

[01 mark, total 04 marks]

[20] The main characteristics of 'Opportunity Cost' can be stated as follows:

- Opportunity cost is subjective [i.e. only the individual making the decision can estimate the expected value of the next best alternative forgone by him or her].
- Opportunity cost is measured in physical, not monetary, units [therefore, it is sometimes called real cost to distinguish it from money cost].
- Opportunity cost normally involves giving up some positive amount of one commodity in order to get more of another. Therefore, we describe this cost as being positive.
- There are few specific and important exceptions where the opportunity cost becomes zero.
- Cost in economics is opportunity cost and external cost is a part of opportunity cost
- Goods that generate an opportunity cost are known as "Economic goods".

[01 mark each, total 05 marks]

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