

Issued On:		Past Paper Questions [PPQs]	14 [10 – 24]
Deadline:	23 <sup>rd</sup> Dec. 2020	Model Questions [MQs]	3 [12 – 14]
Marks : Time	1 mark = 1 ½ Mnt	Units - Essentials Covered	Unit 1

**Structured Essay Type Question Answers:**

**[01]** 2016 A/Ls (ECON-II): Q1 (I)

What are the **four** categories of **economic resources**? Give an **example** of a resource for **each category**

**[04 marks]**

**Land** Example: Fisheries resources, mineral or gem deposit  
**Capital** Example: Fishing boats, nets, gem mine, mining equipment

**Labour** Example: Time spent on fishing vessels engaging in fishing  
 Time spent engaged in mining for gems/minerals

**Entrepreneurship** Examples: Starting a restaurant selling seafood specialities  
 Starting a jewellery store or exporting finished gems  
 Starting a factory to produce mineral based fertilizer

**[01 mark each, total 04 marks]**

**[02]** 2016 A/Ls (ECON –II): Q1 (III)

Why is money **not** considered to be a capital resource in economics?

**[04 marks]**

2010 A/Ls (ECON-I-II): Q1 (I)

Why **money** is **not** considered **capital** in economics **[02 marks]**

Capital in economics refers to **manmade** production aids. Such capital items **‘directly contribute’** in the process of producing goods and services. On the other hand **‘money’ cannot be directly used to produce any good or service**. Accordingly money in economics, is not considered as capital nor a factor of production.

**[03 marks]**

- Capital in economics is considered as a ‘real asset’, on the contrary money, is not a real asset rather a financial asset
- Money (or financial assets) can be used to purchase or acquire capital goods. Therefore money can be viewed as a means or medium of obtaining capital.

**[01 mark for one of the above points, total 04 marks]**

➔ [03] 2013 A/Ls (ECON-II): Q1 (I)  
 What is the **difference** between ‘**Capital**’ and ‘**Human Capital**’  
 [04 marks]

**Capital** in economics refers to **manmade** production aids. Such capital items ‘**directly contribute**’ in the process of producing goods and services. Capital consist of **real assets** such as factories, machinery and equipment, raw material stock etc.

**Human capital** refers to **competencies, skills, knowledge** and **interpersonal skills** acquired and developed by a given individual through investments on **education, receiving training** and **experience**.

[03 marks]

- Human capital is a competency which is **intangible** unlike physical capital
- Human capital is a combination of **attributes** from both **labour** and **capital** resources.
- Unlike the investments done on other assets, the **investments** on human capital is **specific** to the **particular individual**.

[01 mark for one of the above points, total 04 marks]

[04] 2008 A/Ls (ECON-I-II): Q1 (I)  
**Define** the term ‘**Entrepreneurship**’ [02 marks]

2016 A/Ls (ECON –II): Q1 (IV)

What is an **entrepreneur**? Why entrepreneurs play a **key role** in a market economy?

[04 marks]

2012 A/Ls (ECON-II): Q1 (I)

What are the **major function** of the **entrepreneur**? [02 marks]

2010 A/Ls (ECON-I-II): Q1 (IV)

What are the **major function** of the **entrepreneur**? [03 marks]

Entrepreneurship is the **special human resource** which **organizes** the process of **producing** goods and services, by **mobilising land, labour and capital resources**.

[01 mark]

In addition to organizing the production process, an entrepreneur shall also engage in activities such as making basic policy level and **strategic business decisions**, introducing **innovations** on a commercial basis and **facing risk**.

[02 marks, total 03 marks]

**If the question expects to outline the 'Major Functions' of an Entrepreneur**

- The entrepreneur shall **mobilize production factors** and initially **organizing** and engaging in the process of producing goods and services.
- The entrepreneur shall **introduce innovation** from a business perspective, i.e. he or she shall introduce new goods, new equipment, new production methodology, and business organizations.
- The entrepreneur provides **risk capital**, i.e. he or she shall combine resources and engage in producing an innovative good or service which may or may not be successful in the market place. The entrepreneur shall receive **profits** if the product is successful and also faces the risk of incurring **losses**.
- The entrepreneur is expected to make basic **strategic business decisions** and formulate **policies** upon which business activities shall be conducted.

[01 mark each, total 04 marks]

[05] 2018 A/Ls (ECON-II): Q1 (I)

What **distinguishes entrepreneurship** from **labour** as a factor of production?

[04 marks]

**Learning Note:**

An **alternative** answer approach, when the verb '**Distinguish**' is used in a question [this approach has been explained in Progressive Assessment (PA) Paper 1]

Entrepreneurship is the **special ability** held by an individual (special type of human resource) to **organize** and **lead** the process of **producing** goods and services, by **mobilising land, labour and capital resources**.

[01 mark]

**Labour** refers to the **physical** and **mental efforts** of **humans** used in the process of **producing goods** and **services**.

[01 mark]

[Sub-total 02 marks]

- The **benefit** in return for **entrepreneurship** efforts is termed as '**profits**' or '**profit share**', **while the** return or **reward** for **labour** is termed as '**salary**' or '**wages**'.
- An entrepreneur persistently attempts **introduce commercially viable innovations**: innovative products, production methods and business models, while **labour units** generally **do not represent such motivation**.

- **Entrepreneurs** tend to be **highly risk prone** (have a high risk appetite or willing take risk) and are able to attain prosperity by successfully taking and facing risk. On the contrary (opposite to which) **labour units** are **risk averse** and attempt avoid risk at all times.
- The **entrepreneur** does not make day to day (routine) business decisions, rather **strategic and policy level decisions** which decide the direction of the business. **Entrepreneurs higher or employ labour units** as managers and workers to carry out their strategic decisions.

[01 mark for any two of the above points, indicating distinctions]

[Total 04 marks]

**[06] Model Question**

Label the following **items**, as per the appropriate **resource category**

- (A) A crude oil deposit
- (B) An hour of counselling from an education consultant
- (C) An industrial dump-truck
- (D) A stock of inventory
- (E) A personal health tracking App for smart phones

[01 mark each]

- (A) Land
- (B) Labour
- (C) Capital
- (D) Capital
- (E) Capital

[01 mark each]

**[07] Model Question**

State the main **characteristics** of the following **factors of production**:

- (A) Land
- (B) Labour
- (C) Capital

[04 marks each]

**(A) The main Characteristics (Features) of Land Resources**

- A gift of nature (a natural resource)
- The supply is inelastic
- Exists in the form of renewable and non-renewable
- Immobile in nature (geographical immobility)
- The productivity can be enhanced (improved)
- Non homogeneous in nature (disparities in quality)
- All payments on and income from land resources are termed as '**rent**'

[01 mark each, total 04 marks]

**(B) The main Characteristics (Features) of Labour Resources**

- Labour is a live resources or factor
- Labour is a mobile resource (occupational and geographical)
- Labour is not person or the labourer, rather only the physical or mental efforts of the labour unit.
- Quality of labour is different from one person to another (non homogeneous).
- The productivity of labour, can be improved through education, training and technology.
- Demonstrates ability to make decisions and organize
  
- The level of labour supplied for a specific job can be affected by factors such: wages paid, working hours, working conditions.
- Labour is inherent to the humans (labour and labourer cannot be separated)
- There is an interrelationship between time and labour (with time, labour is also foregone)

[01 mark each, total 04 marks]

**(C) The main Characteristics (Features) of Capital Resources**

- A human creation (manmade/produced inputs)
- A real concept (i.e. not a financial or money is not capital)
- A stock concept (a value that exist at a given point of time)
- Consists of productivity
- Repetitively used in production (fixed capital)
- Subject to depreciation
- All payment on and income from capital is termed as 'Interest'

[01 mark each, total 04 marks]

**[08] 2018 A/Ls (ECON – II): Q1 (I)**

**What distinguishes entrepreneurship from labour as a factor of production?**

[04 marks]

Entrepreneurship refers to the particular talent or skill some people have for organizing the resources of land, labour, and capital to produce goods and services. Labour refers to physical and mental effort of humans that could be used in the production of goods and services.

(01 mark)

- Reward for entrepreneurship is termed as profits or dividends. Reward of labour is known as wage or salary.
- The entrepreneur is an innovator who attempts to introduce on a commercial basis new products, new productive techniques, or even new forms of business organizations. A labourer is not a person who is involved in introducing innovations on commercial basis.

- Entrepreneurs are risk bearers and they thrive on risk. On the other hand, workers or labour units avoid risk.
- The entrepreneurs make basic business policy decisions that is those non routine decisions which set the course of a business enterprise. Entrepreneurs hire labour to carry out the decisions

**(01 mark each for any two differences; Sub-total 02 mark)  
(Total 04 marks)**

**[09] 2017 A/Ls (ECON-II): Q1 (II)**

**State three reasons that explain why the division of labour increases an economy's level of point? Explain**

**[04 marks]**

- Division of labour tends to facilitate and promote specialization, since the production process is divided or broken down in to smaller sections or tasks and then can be assign each task to an individual or group of employees.
- Labour productivity tends to increase with division of labour, since individual with the best or ideal skills, ability and association for the specific task can be assigned to the job or task. On the other hand if a given individual is to engage in multiple tasks within a production process, since the given individual may not have equal level of skill and ability in performing all tasks, the labour productivity may decrease.
- Labour units specializing in a given production activity learn to complete the given task faster and better (with improved quality), than in a situation without the practice of specialization. An individual practicing specialization at an optimum level, may even develop or suggest innovative production techniques, which may further reduce production time.
- The ability for business to attain benefits of economies of scale, resulting from specialization related to the practice of division of labour. Since large volume of output is produced within each production process, unit cost of production (average total cost) tends to decrease.
- The ability to used specialised machinery and equipment, for each stage of the production process in which division labour is practiced, thereby increase productivity.
- Since workers' are specialising in a specific task or section of the production process, due to the practice of division of labour, minimum number of labour hours will be wasted by not having to move or shift from one task to another.

**(01 mark for each point/argument, for a total of 03 marks)**

[10] 2016 A/Ls (ECON-II): Q2 (I)

What is production possibilities frontier (PPF) ? List the assumptions you make when you draw a production possibilities frontier.

[04 marks]

2010 A/Ls (ECON-I -II): Q2 (I)

What are the assumption on which the production possibilities curve is based?

[03 marks]

A production possibilities curve represents a line drawn by connecting the **maximum alternative output combination** of **two products** (or product categories) which can be produced at a **given point of time**, when a given economy's total **resource endowment** is **utilised** at **productive efficiency**, under the **existing technology**.

**Alternatively:**

A production possibilities frontier is a curve (*linear or non-linear in nature*) drawn by combining or linking **alternative output combinations** of **two particular goods or services** a given country is **able to achieve** on a **maximum sustainable basis**, during a **given period of time** using its **stock of resources** with **productive efficiency** (i.e. using resources at full employment and full production), under a **given state of technology**.

[02 marks]

A production possibilities frontier is constructed or drawn based on the following **principal assumptions**:

- ✓ The **stock of resources** available within the economy during the **given period of time** is expected to **remain fixed**, both in terms of **quality** and **quantity**
- ✓ The **technology** which is used to produce goods and services is **held constant** during the **given period of time** under consideration.
- ✓ The economy shall function at '**productive efficiency**' (a combination of **full employment** of resources and **full production**)
- ✓ The economy shall produce **alternative combinations** of **only two goods** (two types or categories of goods), within a **given period of time**.

[01 mark each, maximum 03 marks]

➔ [11] 2011 A/Ls (ECON – II): Q1 (IV)

2018 A/Ls (ECON-II): Q1 (II)

What is meant by the ‘**Law of Increasing Opportunity Cost**’? How do you explain the **reasons** for this Law?

[06 marks]

2016 A/Ls (ECON-II): Q2 (III)

What does **increasing opportunity cost mean**? What are the implications of this concept for the **shape** of the **production possibilities frontier**?

[04 marks]

The **law** of increasing opportunity cost refers to a **consistent behavior** (or an **identity** or **inherent behavior**), where when **gradually increasing** the output of one product category by an **equal number of units along (or on)** a given economy’s **Production Possibilities Curve**, the quantity of output with regards to the other product category which has to be **foregone** or the **opportunity cost** trends, to **gradually increase**.

**Alternative Answer:**

The law of increasing opportunity cost refers to the gradual increase opportunity cost or number of units foregone in terms of another product, when increasing the output of a given product, in a situation where resources are fully employed.

[02 marks]

The law of increasing opportunity cost is based on **three principal reasons**:

- ✓ The **Non-homogeneous** nature of **production factors** used within both industries  
[Job specific nature of resources among industries, therefore one factor cannot be used as a perfect substitute to another]
- ✓ The **differences** in **production methodology (or technology)** and techniques used in each industry
- ✓ The **resources efficient for one industry are not efficient for the other Industry**  
[The productivity (efficiency) of production factors used in both industries is inconsistent or different, leading to an increasing resource combination rate, among the production of the two product categories under consideration].

[Stating each reason is sufficient, explaining is not expected]

[01 mark each, maximum 03 marks]

[Total 06 marks]



**Law of increasing opportunity cost and implications on the shape and slope of the production possibilities frontier:**

- ✓ **Increasing opportunity cost** behaviour is **implied** on the production possibilities frontier (PPF), by the PPF being **concave** to the origin or **outward bowed** in nature (Shape)
- ✓ In a situation of **increasing opportunity cost**, when **increasing** the output of the **product** represented in the **horizontal axis** by an **equal number of units**, the **'slope'** of the curve (or the **Marginal Opportunity Cost**), **gradually increases**.

[01 mark each, sub-total 02 marks]

[02 marks for defining law of increasing opp. Cost, making it total 04 marks for the question]

➔ [12] 2012 A/Ls (ECON – II): Q1 (III)

**Distinguish** between productive efficiency and allocative efficiency

2016 A/Ls (ECON – II): Q2 (V)

**State** the difference between productive efficiency and allocative efficiency of resources

[04 marks]

Productive efficiency refers to the process of using limited resources of an economy to produce the required combination of goods and services at the **'Lowest Production (or Resources) Cost'**.

Accordingly at productive efficiency an economy should be either, utilising their endowment of resources in order to generate the **maximum** level of **output** possible **OR** producing a given level of output, utilising the **minimum** possible level of resource **inputs**, under normal conditions.

[01 mark]

Since productive efficiency, essentially requires the attainment of **full employment** and **full production**, in such a situation the economy will **always operate** (produce) at a **point located on its production possibilities frontier**.

[01 mark] [Sub- total 02 marks]

**Alternative Definition:**

Productive efficiency is said to be created in a situation where, an economy is unable to increase the output of a given product category, without decreasing or foregoing the output of another product category. Such a situation infers the economy is operating on its PPC.

[02 marks]

Allocative efficiency is the process allocating limited resources of a society, towards the production of a combination of goods and services, **most required or needed** by the given **society**.

[01 mark]

It **implies** the given economy is **operating on a specific optimum point of output on its production possibilities curve** (i.e. at the 'Optimum Product Mix'). Such an optimum product combination is arrived at when the **Marginal Cost (MC)** of producing an incremental unit of output is **equal** to the **Marginal Benefit (MB) or Price (P)** of consuming an incremental unit [**MB = MC or P = MC**].

[01 mark]

[Total 04 marks]

**[13] Model Question**

**Briefly discuss** the is implied by a '**Linear PPC**', especially on the behaviour of '**Opportunity Cost**' along such a PPC

Fixed opportunity cost behaviour is a situation when moving along a PPC, increasing the output of one of the product categories by an equal number of units, the output of the other product is foregone or decreased by a fixed or consistent number of units.

A linear (or Straight-line) PPC implies fixed marginal opportunity cost, downwards and upwards along the curve.

[02 marks]

The fixed marginal opportunity cost behaviour along a linear PPC is mainly explained based on the following reasons

- ✓ The Homogeneous nature of production factors used within both industries [Perfect mobility or perfectly substitutable resources among industries]
- ✓ The similarity in production methodology and techniques used in both industries
- ✓ The productivity of production factors used in both industries is consistent or similar, leading to a constant resource combination rate, among the production of the two product categories under consideration.

[03 marks, Total 05 marks]

[05 marks]

[14] 2010 A/Ls (ECON – I - II): Q2 (II)

What factors or events could cause an **inward shift** of the production possibilities curve?

[03 marks]

- A **decrease** in the **resource endowment** of the economy
- A **reduction** in the **productivity** of the economy's resources
- A **deterioration** or obsolescence of **technology**

[01 mark each, total 03 marks]

[15] 2016 A/Ls (ECON – II): Q2 (II)

What causes production possibilities frontier to **shift outwards** [02 marks]

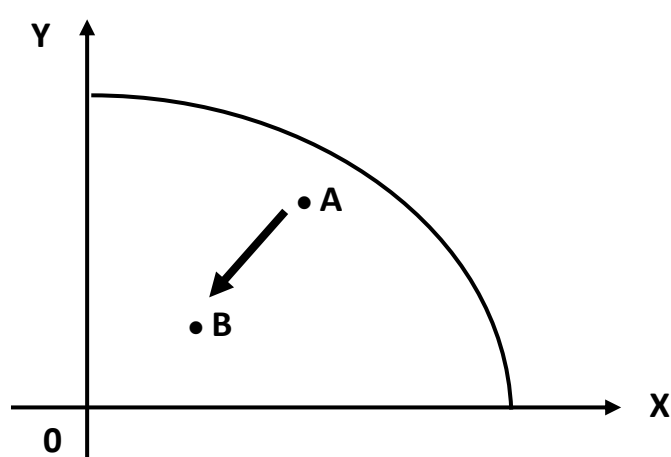
- An **increase** in the **resource endowment** of the economy
- An **improvement** in the **productivity** of the economy's resources
- An **advancement** or improvement in **technology**

[01 mark each, maximum 02 marks]

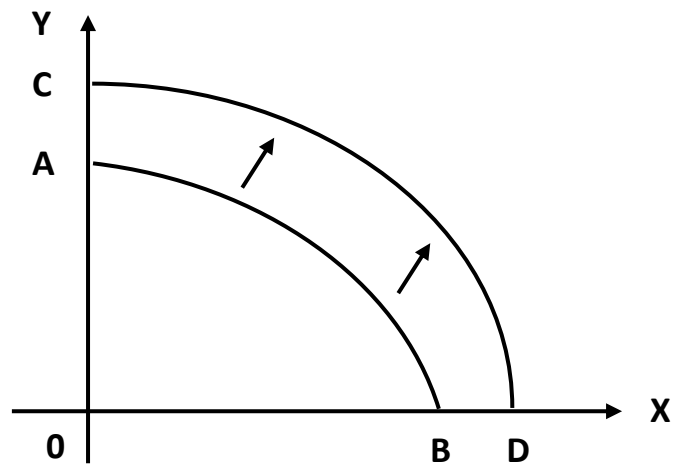
[16] 2018 A/Ls (ECON – II): Q1 (IV)

Using production possibilities curves, explain separately the impact on the economy of the rise in the unemployment rate and an increase in the working age population

[04 marks]



A **contraction** of **real output** occurs due to the resulting **underutilization of resources**, when the unemployment rate rises in an economy, which is **already experiencing unemployment**. The combination representing actual output moves from point (A) to (B).



There will be **increase** in the economy's **resource endowment**, due to the increase in working age population. Accordingly the **production capacity** or **potential output** of the economy shall **increase**. This is indicated by a rightwards shift of the economy's PPC, in the diagram: from AB curve to CD curve.

[01 mark for the correct diagrammatic illustration, provided axis are marked]

[01 mark for the correct explanation, Total 04 marks]

[17] 2010 A/Ls (ECON – I - II): Q2 (IV)

Using economic analysis examine the implications of a reallocation of resources from consumer goods to capital goods in an economy

[04 marks]

If resources of an economy are redistributed from the production of consumer goods towards producing capital goods, the **potential output** or **capacity** of the economy shall **expand** and the economy enters an **economic growth** process.

[02 marks]

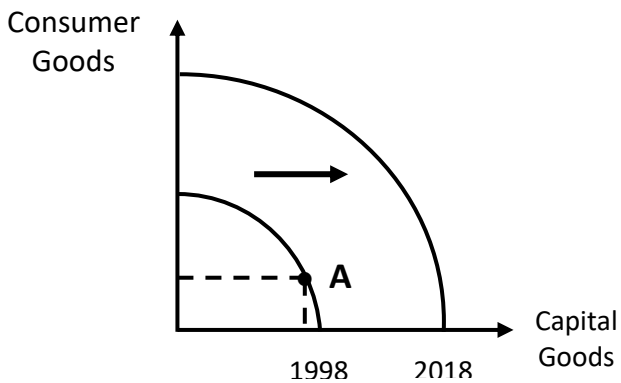
There will be a **reduction** in the **production of consumer goods**, during the present period of time [a lowering of present living standards].

[01 mark]

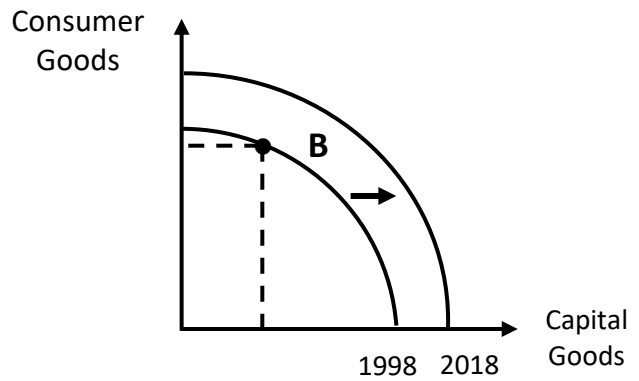
Due to the expansion in the economy's production capacity, the ability to **produce consumer goods** in the **future shall increase** [improvement in future living standards].

[01 mark] [Total 04 marks]

**Also Relevant:**



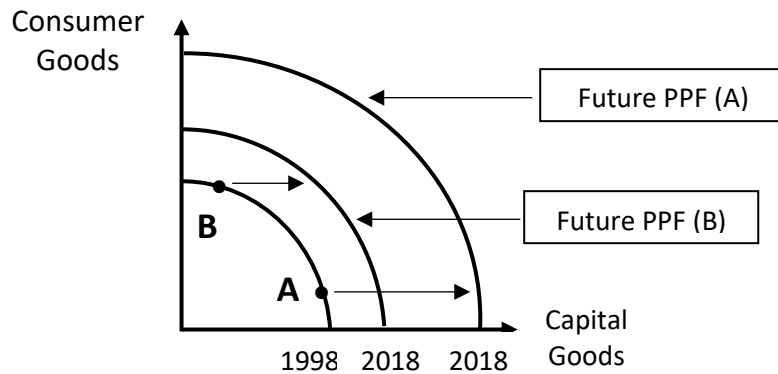
(A) An economy allocating relatively less resources towards the production of consumer goods during the present period of time. Is able to achieve relatively higher degree of economic growth in the future.



(B) An economy allocating relatively less resources towards the production of capital goods during the present period of time. Is expected to achieve relatively lower degree of economic growth in the future.

[01 mark for each diagram and 01 mark for the explaining, total 04 marks]

Alternative, representation approach



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