THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]** Suggested **'Answers'**	FNR: **03**	**Issued on:**
	AL - 2023	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part [A]

Question	Answer	Question	Answer
01	1	16	3
02	1	17	4
03	3	18	3
04	4	19	2
05	3	20	5
06	4		
07	4	(I)	False
08	2	(II)	True
09	1	(III)	True
10	2	(IV)	True
11	3	(V)	True
12	2	(VI)	False
13	1	(VII)	False
14	3	(VIII)	False
15	3	(IX)	True
		(X)	False

Part [B]

<u>Question (01)</u> **Fill in the blanks**

A. Opportunity Cost, Consumer goods

B. Increases, Law of increasing costs or Increasing opportunity cost

C. Consumer goods, Capital goods

D. Underemployed or Unemployed resources

E. Decreasing, Increasing.

[02 marks each, total 10 marks]
All terms/blanks should be correctly filled in each part

Question (02)

- The **resource endowment** of the economy during the period under consideration shall **remain constant** in terms of both **quality and quantity.**
- All resources will be utilized in a manner which ensures **Productive efficiency**, i.e maintaining **Full Employment** of resources and **Full Production.**
- **Technology** shall remain **constant** during the period.
- Its assumed **only two goods** shall be produced with in the economy.

[01 mark each, total 04 marks]

Question (03)

- The **value** of the **next best alternative sacrificed or foregone** when we make a choice in production or consumption is termed opportunity cost.
- Opportunity cost is **subjective**
  [I.e., only the individual making the decision can estimate the expected value of the best alternative forgone by him or her].
- Opportunity cost is a **real concept or value**
  [This is because it is measured in **physical, not monetary, units and needs to be** distinguish it from money cost].
- Opportunity cost normally is **positive or a positive value**
  [I.e., when making an economic decision an opportunity cost shall exist, therefore, we describe this cost as being positive].
- However, 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, maximum 05 marks]

The features are only expected to be stated, description is not required

<u>Question (04)</u>

Potential output or Full employment level of output is the output level an economy is able to produce when all its presently available resources are **fully employed,** at their **normal rate** of **usage** or **at productivity**, within a given period of time (i.e., when the economy's available resource endowment is used at **productive efficienc**y, at present).

Alternatively:
Potential output is the **maximum sustainable output** that can be produced **without** triggering rising inflation or an **inflationary pressure**. It is not necessarily the **absolute maximum** output that an economy can produce.

[02 marks]

The potential output of a country at a given point of time is determined by the following factors:

- **Stock or endowment of resources (productive resources)**
- **Productivity of resources**
- **State of technology**

[01 mark]

Actual output refers to the output, a given economy **has achieved** in **reality** using its production capacity or potential, during a given period of time.

[01 mark]

The economy **can operate** with actual output levels **above potential output** for a **short time**. As an example: Factories and workers can work overtime for a while, but production above potential is **not indefinitely sustainable.**

[01 marks]

Actual output level of an economy is determined by the following factors

- Stock or endowment of resources (productive resources)
- Productivity of resources
- State of technology
- **Resource utilization** or **level (rate) of efficiency in resource utilization**

[01 mark]

A Production Possibilities Frontier (PPF) itself represents a country's potential output with regards to two product categories or industries, while a point or alternative product combination of the two goods produces by the country indicates or shows the actual output.

[01 mark]

Accordingly, there can be an **output gap** or **lag** within an economy during a given period of time. An output lag refers to a **difference between** the **potential output** and the **actual level** of output achieved by a country within a given period of time.

[01 mark]
[Total 08 marks]

Question (05)

Fixed opportunity cost behavior 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 decreasing by a **fixed or consistent** number of units

[02 marks]

A **linear (straight line)** PPC implies **fixed** marginal opportunity cost, upwards or downwards along the curve.

[01 marks]

The main assumptions or reasons for fixed opportunity cost can be stated as follows:

- 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.

[01 mark each, subtotal 03 marks]
[Total 06 marks]

Question (06)

Increasing opportunity cost behavior 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 decreasing by an **increasing** or **rising** number of units

[02 marks]

A **concave (outward bowed)** PPC implies increasing marginal opportunity cost, upwards or downwards along the curve.

[01 mark]

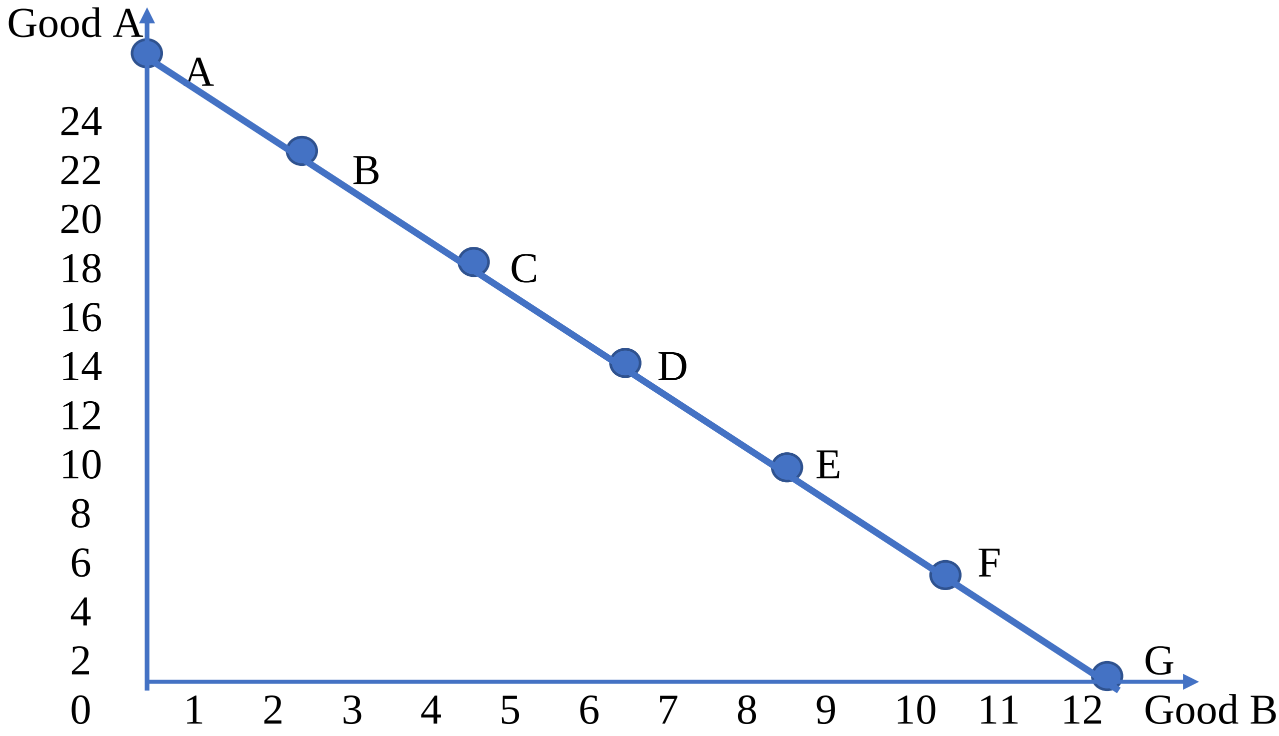
The main reasons for increasing opportunity cost can be stated as follows:

- The **Non-homogeneous** nature of production factors used within each industry [**Job specific** nature resources among industries]
- The differences in **production methodology** and techniques used in both industries
- The **productivity 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.

[01 mark each, subtotal 03 marks]
[Total 06 marks]

Question (07)

Part (A)



(B) **Estimate the following**

(1) The opportunity cost of increasing from point (A) to point (B) is **2 units** of Good (**A**).

(2) The opportunity cost of increasing from point (B) to point (C) is **2 units** of Good (**A**).

(3) The opportunity cost of increasing from point (G) to point (F) is **0.5 units** of Good (**B**).

(4) The opportunity cost of increasing from point (F) to point (E) is **0.5 units** of Good (**B**)

(5) The opportunity cost of increasing from point (A) to point (G) is **2 units** of Good (**A**)

Alternatively: Total Opportunity Cost is 24 units of Good (A)

(6) The opportunity cost of increasing from point (G) to point (A) is **0.5 units** of Good (**B**)
Alternatively: Total Opportunity Cost is 12 units of Good (B)

[01 mark each]

Question (08)

- **Economies of scale, i.e., economies of large-scale production**
- **There is different type of economies of scale (low opportunity cost, and gradual decrease in MOC)**

[02 marks]