



Edexcel A - AS Level Economics

Theme 1 – Introduction to Markets and Market Failure

1.1 Nature of economics

Worked Examples

Contents

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1.1.2 Positive and Normative Economic Statements

Exam Style Question 1

Statement 1: Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

Which **one** of the following best describes the two statements above? [1]

	Statement 1	Statement 2
<input type="radio"/> A	Normative	Normative
<input type="radio"/> B	Normative	Positive
<input type="radio"/> C	Positive	Normative
<input type="radio"/> D	Positive	Positive

1.1.2 Positive and Normative Economic Statements

Exam Style Question 1

Answer:

Application:

- **Statement 1:** “Cuba has a healthcare system with a patient-to-doctor ratio of 155:1.”
 - This is a **fact** that can be tested or verified. It’s describing what exists, so it’s a **positive statement**.
- **Statement 2:** “Other countries ought to adopt a similar healthcare system to that which exists in Cuba.”
 - This is an **opinion** about what should happen. It’s based on a value judgment, so it’s a **normative statement**.

Correct Answer: C

- Statement 1 = Positive
- Statement 2 = Normative

Remember Positive = facts, Normative = opinions.



1.1.2 Positive and Normative Economic Statements

Exam Style Question 2

Statement 1: In the March 2016 Budget, the Chancellor of the Exchequer announced a tax increase on tobacco of 2% above the rate of inflation.

Statement 2: The increase in the tax on tobacco is unjustified since it takes up a high proportion of the income of the low paid.

Which **one** of the following best describes the two statements above? [1]

- A: Statement 1 is normative, and Statement 2 is positive
- B: Both statements are normative
- C: Statement 1 is positive, and Statement 2 is normative
- D: Both statements are positive

Answer

Explanation [3]

1.1.2 Positive and Normative Economic Statements

Exam Style Question 2

Answer:

C [1]

Definition: A positive statement are facts that can be tested or verified. [1]

Definition: A normative statement is one that is based on opinions or value judgments about what should be. They can't be proven true or false. [1]

Application:

Statement 1: This is a fact. It can be checked and verified, by reference to government Budget report over the tax increase on tobacco, so it's a positive statement. [1]

Statement 2: This is an opinion because it includes the word "unjustified" and reflects a value judgment about fairness. So, it's a normative statement. [1]



1.1.2 Positive and Normative Economic Statements

Exam Style Question 3

Statement 1: Bonuses to financial sector workers in the City of London exceeded £13 billion in 2009.

Statement 2: A 50% tax on bonuses above £25,000 is fair.

Which **one** of the following best describes the two statements above? [1]

- A: Statement 1 is positive, and Statement 2 is normative
- B: Both statements are normative
- C: Statement 1 is normative, and Statement 2 is positive
- D: Both statements are positive

Answer

Explanation [3]

1.1.2 Positive and Normative Economic Statements

Exam Style Question 3

Answer:

A [1]

Definition: A positive statement are facts that can be tested or verified. [1]

Definition: A normative statement is one that is based on opinions or value judgments about what should be. They can't be proven true or false. [1]

Application:

Statement 1: This is a fact. It can be checked and verified whether the financial sector workers did receive more than £13 billion in bonuses, so it's a positive statement. [1]

Statement 2: This is an opinion because it includes the word "fair". So, it's a normative statement. [1]



1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 4

The 'Energy Company Obligation' is the government's term for its programme to make houses in the UK more energy efficient.

Explain an opportunity cost to the government of granting subsidies to energy suppliers to install loft insulation. [3]

1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 4

Answer:

Definition: Opportunity cost is the value of the next best alternative forgone. [1]

Application: In this case, when the government gives subsidies to energy suppliers to install loft insulation, it has to use money from its budget, which means it can't spend that money on other important things.

For example, the opportunity cost could be:

- Building more hospitals or improving healthcare services.
- Investing in education by hiring more teachers or improving schools.
- Fixing roads or expanding public transport systems. [1]

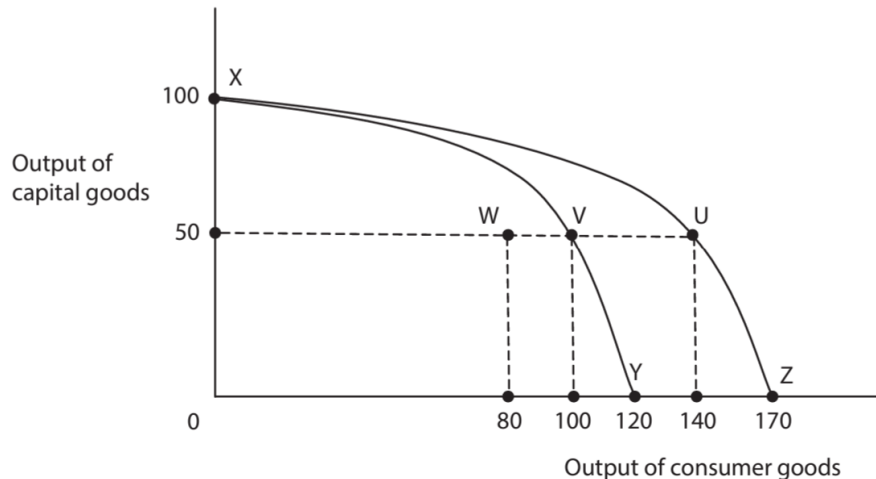
So, by focusing on making homes more energy efficient, the government gives up the chance to invest in other areas that could also benefit society and in the long run there might be better ways of saving energy. [1]



1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 5

The diagram refers to production possibility frontiers (PPF) for a country that produces capital goods and consumer goods.



Originally, the economy has a PPF shown by the line **XY**, operating at point **V**. The PPF then moves to **XZ**, operating at point **U**.

(a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working. [2]

1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 5

(b) Which one of the following was the most likely cause of the movement in the PPF from **XY** to **XZ**? [1]

- A A reduction in unemployment in consumer goods industries
- B A rise in the cost of producing consumer goods
- C An increase in demand for consumer goods
- D A technological improvement in the production of consumer goods

(c) Explain **one** characteristic of the economy at position **W**. [2]



1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 5

Answer:

(a) Calculate the original and the new opportunity cost of producing 50 capital goods. You are advised to show your working. [2]

Original opportunity cost:

At 50 capital goods on-line XY, Point V produces 100 consumer goods so the opportunity cost is:

$$\text{Opportunity cost} = 120 - 100 = 20$$

Therefore, the opportunity cost of producing 50 capital goods on line XY is 20 consumer good. **[1]**

New opportunity cost:

At 50 capital goods on line XZ, Point U produces 140 consumer goods so the opportunity cost is:

$$\text{Opportunity cost} = 170 - 140 = 30$$

Therefore, the opportunity cost of producing 50 capital goods on-line XZ is 30 consumer good. **[1]**

1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 5

Answer:

(b) Which one of the following was the most likely cause of the movement in the PPF from XY to XZ? [1]

Answer is D. **[1]**

Why not the other options:

A: Reducing unemployment boosts production but doesn't shift the PPF outward; it just moves the economy closer to the current PPF i.e., from W to V.

B: PPF shows potential output and not the cost of output.

C: PPF shows potential output and not the demand for a good or service.

(c) Explain one characteristic of the economy at position W. [2]

Position W is inside the PPF which means the economy is not fully using all its available resources and operating inefficiently. **[1]**

It is possible to increase output of both consumer goods and capital goods by using unemployed resources. **[1]**

1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 6a

Which **one** of the following is most likely to cause an outward shift in a country's PPF? [1]

- A A decrease in unemployed resources
- B An increase in demand for consumer goods
- C An increase in unemployment benefits
- D An increase in immigration

Answer

Explanation [3]

You earn 1 mark for the correct answer and also get 3 marks by explaining why the other options are incorrect. See next page.

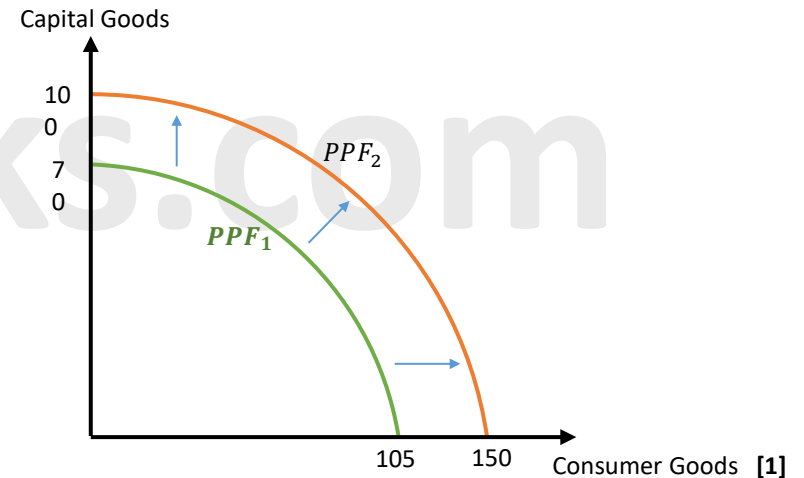
1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 6a

Answer:

Answer D. [1]

Definition: The **Production Possibility Frontier (PPF)** shows the maximum output an economy can achieve using all its resources efficiently. [1]



Application: An increase in immigration brings in more workers, which adds to economy's available resources (labour). [1]



1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 6b (Alternative method)

Which **one** of the following is most likely to cause an outward shift in a country's PPF? [1]

- A A decrease in unemployed resources
- B An increase in demand for consumer goods
- C An increase in unemployment benefits
- D An increase in immigration

Answer

Explanation [3]

This is how we earn marks by using a different method and focusing on rejection marks. Earn 4 marks by explaining why the other 3 options are wrong, even if you can't explain why D is correct.

1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 6b (Alternative method)

Answer:

Answer D. [1]

Rejection marks: Why not the other options?

A: A decrease in unemployment would just move the actual output closer to the PPF and not shift it. [1]

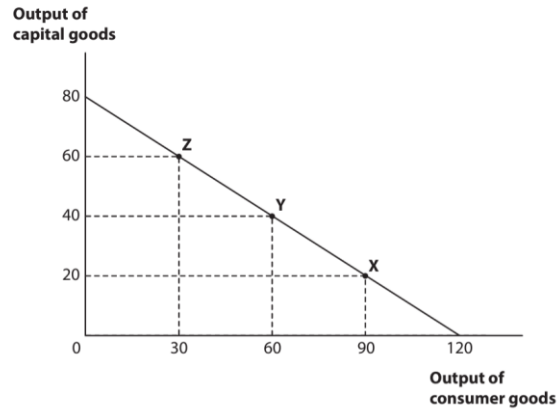
B: An increase in demand for goods does not guarantee an outward shift. PPF shows potential output and not the demand for a good or service. [1]

C: Increase in unemployment benefits may reduce the incentive to work and could even decrease the PPF in the long run. [1]



1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 7



The diagram shows a PPF for an economy which is currently operating at Point X. Which **one** of the following is true? [1]

- A The opportunity cost of producing 90 units of consumer goods is 20 capital goods.
- B Moving to point Y will decrease the rate of economic growth compared to point X.
- C The opportunity cost of increasing the output of capital goods is constant.
- D Moving to point Z will increase current living standards

Answer

Explanation [3]



1.1.3 The Economic problem & 1.1.4 Production Possibility Frontiers (PPF)

Exam Style Question 7

Answer:

Answer: C [1]

Definition: Opportunity cost is the value of the next best alternative forgone. [1]

Definition: The **Production Possibility Frontier (PPF)** shows the maximum output an economy can achieve using all its resources efficiently. [1]

Application: Since the line is straight, it shows a constant opportunity cost of 1 capital good to every 1.5 consumer goods. [1]

Rejection Marks (Alternative way to get 3 marks)

Option A is wrong because the opportunity cost of producing 90 consumer goods is actually 60 capital goods, not 20.

Option B is wrong because moving to Point Y increases capital goods, which boosts economic growth, not decreases it.

Option D is wrong because at Point Z, fewer consumer goods are produced, which means living standards in the current period will drop.

1.1.5 Specialisation

Exam Style Question 8

Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(Explain **one** advantage of a firm of using division of labour when organising its production process.) [2]

1.1.5 Specialisation

Exam Style Question 8

Answer:

Knowledge [1] + Analysis [1]

Application: One advantage of using division of labour is that workers become skilled at their specific tasks. [1]

Reasoning: When each person focuses on just one part of the production process, they get faster and more efficient. This helps the firm produce more goods in less time, lowering costs and boosting productivity. [1]

Other advantages from mark scheme

- Less training needed
- Faster production process
- Greater output from given workforce
- Less time wasted moving between jobs
- Increased efficiency



1.1.5 Specialisation

Exam Style Question 9

The most likely consequence of an increase in the division of labour in the construction of new houses is an increase in

- A Output per unit of labour
- B The price of houses
- C The production cost of each house
- D The range of skills required by each worker

Answer [1]

Explanation [3]



1.1.5 Specialisation

Exam Style Question 9

Answer:

Answer: A [1]

Definition: Division of labour is the production of a good broken down into different tasks and labour allocated to each task. [1]

Application: When the division of labour is increased in house construction, workers specialise in specific tasks for example, painter and decorators, bricklayers, plumbers, electricians, etc... [1]

Reason: This makes them faster and more efficient because they're focusing on one job instead of doing everything. As a result, output per unit of labour increases, meaning more houses can be built for the same amount of work. [1]

Rejection marks - You can earn 3 marks by explaining why the other 3 options are wrong:

- **Option B:** Incorrect since prices are more likely to fall since cost of building each house has fallen.
- **Option C:** Incorrect since the cost of producing each house should fall as labour productivity increases.
- **Option D:** Incorrect since each worker will concentrate on a narrow range of skills such as a bricklayer, rather than other skills involved with tiling and plumbing.

1.1.6 Types of Economics

Exam Style Question 10

- (a) Define the term 'free market economy'. [1]
- (b) Explain **one** advantage of a free-market economy compared to a command economy. [2]

1.1.6 Types of Economics

Exam Style Question 10

Answer:

(a) Define the term 'free-market economy'.

A free-market economy refers to an economic system where the prices of goods and services are set freely by the forces of supply and demand and without intervention by the government. [1]

(b) Explain one advantage of a free-market economy compared to a command economy.

Possible answers include:

- Competitive markets responsive to consumers [1], no competition in command economics to ensure firms are efficient [1].
- Reduces risk of government failure [1], as governments do not know what is demanded [1].



1.1.6 Types of Economics

Exam Style Question 11

One reason for the existence of mixed economies is that

- A The profit motive is always undesirable
- B The free market economy always allocates resources efficiently
- C Competition between firms ensures consumer welfare is maximised
- D The free-market economy may lead to market failure

Answer [1]

Explanation [3]



1.1.6 Types of Economics

Exam Style Question 11

Answer:

Answer: **D** [1]

Definition: Mixed economy refers to when resources are partly allocated by the market and partly by the government. [1]

Definition: Market failure is when the market fails to allocate resources efficiently. [1]

Reason: Mixed economics exist because free markets can fail to address issues like monopoly formation or unequal distribution of income and so government steps in to fix it. [2]

Please see the '1.1 Nature of Economics Revision Notes' pack for detailed notes.

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