

# ECONOMICS IN THE REAL WORLD

## STUDENT RESOURCES

### A-LEVEL



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Edexcel A-level Economics: 1.1.3 The economic problem, a) the problem of scarcity, c) The importance of opportunity cost. 1.1.4 Production possibility frontiers

AQA A-level Economics: 3.1.1.4 Scarcity, choice and the allocation of resources, 3.1.1.5 Production possibility diagrams

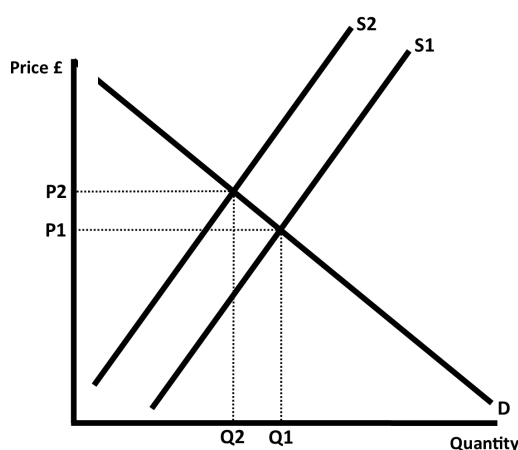
- **Scarcity** is when there is a limited supply of resources
- **The fundamental economic problem** arises from scarcity. This is: how to best use and distribute scarce resources

The problem of scarcity occurs because there is finite number of goods and services but infinite wants and needs.

### Impact of Scarcity

Because there are limited resources (scarcity) societies need to make decisions on how to allocate these resources. This includes what goods should be produced, how much should be produced and who should get them, this can be done through the free market.

The free market is a system in which the distribution of resources is determined by supply and demand, without government intervention.



For example, a bad harvest will lead a good such as wheat to become increasingly scarce.

Because of this we will see a shift in the supply curve to the left. This will lead to an increase in price from  $P1$  to  $P2$  and a reduction in quantity from  $Q1$  to  $Q2$ .

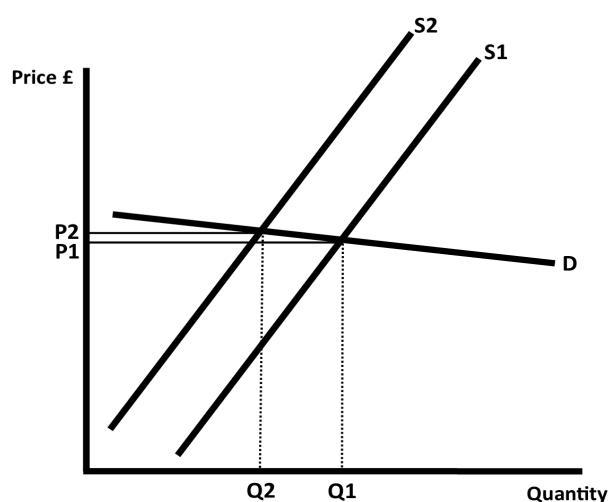
Therefore, in a free market system an increase in scarcity will lead to a reduction in the quantity of a good which is sold.

# ECONOMICS IN THE REAL WORLD

## Teacher resources



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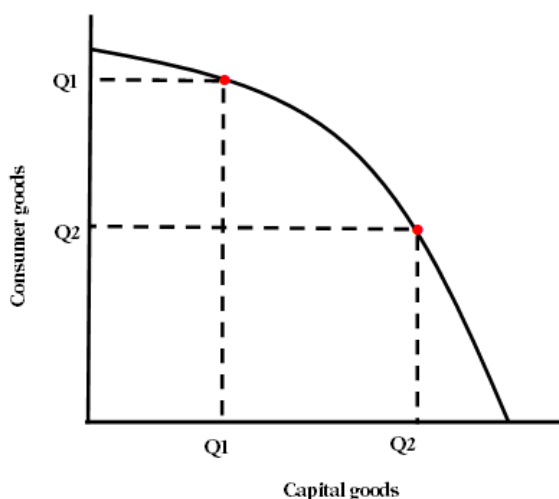
In the Long Run, patterns of consumption are more generally flexible.

With time individuals can change their patterns of consumption. For example as fuel becomes more expensive people may look to buy electric, as opposed to diesel or petrol cars.

Because of this, in the long run demand is likely to be more elastic as people and firms can switch to alternatives in the event of cost increases.

## Opportunity cost

Opportunity cost is the value of the next best alternative sacrificed when a decision is made.



Assuming that an economy is operating at full capacity, an increase in the production of one good will mean sacrificing a proportion of the production of another good. The amount of the good which is sacrificed is the opportunity cost of the decision.

In the graph on the left the choice to increase the production of capital goods from  $Q_1$  to  $Q_2$  has an opportunity cost of  $Q_1 - Q_2$  consumer goods.