

Ch. 1.4

1. Explain the relationship between scarcity and choice.

In its nature, scarcity in economics requires choice. There must be choices made on how to distribute the scarce resources that exist among the needs and wants of society. A country cannot produce unlimited amounts of defence machinery or healthcare as there just simply not enough resources, so a choice must be made.

2. Define opportunity cost.

The value of the next best alternative that must be given up or sacrifices in order to obtain something else. In other words, the opportunity cost is the value of what was given up in a choice

3. Think of three choices you have made today, and describe the opportunity cost of each one.

Choice 1: Walking to the library instead of catching the bus

Opportunity cost: The shorter bus ride

Choice 2: Buying a burrito instead of a sandwich for lunch

Opportunity cost: The enjoyment of that sandwich

Choice 3: Having a banana instead of an apple for a snack

Opportunity cost: The enjoyment of that apple

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Ch. 1.8

1. Which of the following are positive statements and which are normative?

(a) It is raining today.

Positive

(b) It is too humid today -

Normative

(c) Economics is a study of choices.

Positive

(d) Economics should be concerned with how to reduce poverty.

Normative

(e) If household saving increases, ceteris paribus, there will be a fall in household spending -

Normative

(f) Households save too little of their income -

Normative

2. Why do you think it is important to make a distinction between positive and normative statements in economics?

Both types of statements aid in different processes, and thus should be kept distinct. They are different types of statements, one being objective and one being subjective, and in processes such as policy-making, it is important to keep those separate.