Homework 1: Scarcity and Opportunity Cost

Read Chapter 1 (pages 2 to 5) in your Peter Smith OCR Economics Textbook. Answer the following questions:

1) Define the following key terms:

Key Term	Definition
Scarcity	*A situation that arises because people have unlimited wants in the face of limited resources*
Opportunity Cost	*In decision making, the value of the next-best alternative foregone*

2) Give an example of an opportunity cost you have faced with your money and time.

Opportunity Cost With:	Your Choice	What did you forgo?
Money	*Buying a magazine*	*A chocolate bar*
Time	*Going to the cinema*	*Going bowling*

3) With which of Samuelson's three questions (what, how, for whom) would you associate the following?

Statement	What, How, For Whom?
Faced with increased labour costs, a firm introduces labour-saving machinery	*How*
A firm chooses to switch from producing CD player in order to increase output of DVD recorders.	*What*
The owner of a shop decides to close down and take a job in a local factory	*How*
The government has decided to reduce spending on education and reallocate the money to defence	*What*
A firm has decided to implement 'greener' eco-friendly technology	*How*
The government has decided to scrap free prescriptions on antibiotics and has implement a nominal charge for them	*Whom*