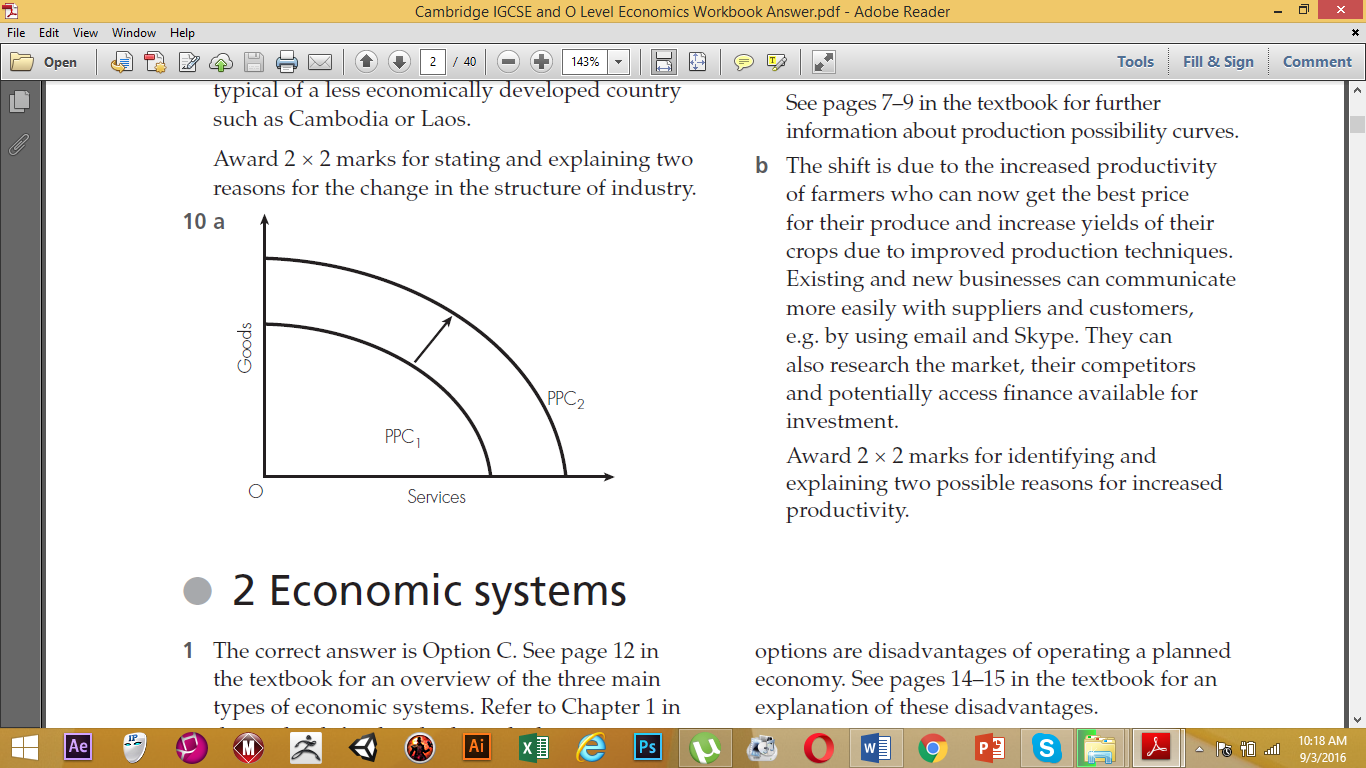
**1 The basic economic problem**

1. 1 The correct answer is Option B. Resources in an economy are scarce and needs and wants (of individuals, firms and governments) are unlimited. Option A states that wants are limited and resources are unlimited which is incorrect as wants are unlimited and resources limited. See pages 2–3 in the textbook for a more detailed explanation of the basic economic problem.
2. The correct answer is Option A. Public domain web pages are available to anybody with access to the internet. Access therefore is unlimited. The other options (running shoes, housing and tennis rackets) are all limited in supply and are therefore economic goods. See page 2 in the textbook for more examples of economic and free goods.
3. The correct answer is Option C. Selling and distributing olive oil is in the tertiary sector of the economy. Options A and D are in the secondary sector as both are part of the manufacturing process. Option B (growing of olive trees) is in the primary sector. See pages 5–6 in the textbook for more detailed information on the three sectors of industry.
4. The correct answer is Option C. To increase production of wheat from W2 to W1 it is necessary to decrease production of oil from O2 to O1. This is because the PPF represents the maximum amount of wheat and oil that can be produced at each level of output, with all resources used efficiently. Options A and B are incorrect because to increase production of wheat it is necessary to decrease oil production.  
     
   Option D requires an increase in the productive capacity of the country. See pages 7–9 in the textbook for more detailed information on PPFs.
5. The correct answer is Option B. It is possible to increase production within the economy without incurring an opportunity cost, i.e. it is possible to increase both production of wheat and oil without any opportunity cost. Options C and D are on the production possibility curve and therefore represent maximum output in the economy. Point E is unattainable given the current resources in the economy.
6. Country X could invest in machinery and/or technology and this will increase the productive capacity of the economy as more oil and wheat can be produced with the same amount of resources.  
     
   Country X could train workers to increase their skills and this may increase their productivity as workers become more efficient at producing oil and wheat.  
     
   Award 2 × 2 marks for stating and explaining two ways to increase the productive capacity of Country X.  
     
   See pages 132–133 and 217–218 in the textbook for more information on how to increase the productive capacity of the economy.
7. Examples of capital-intensive industries: car manufacturing and glass making. Examples of labour-intensive industries: garment manufacturing and teaching.  
     
     
   Award 1 mark for each relevant example of each type of industry, up to the maximum of 2 marks.
8. Opportunity cost is the cost of the next best alternative foregone when making a decision.  
     
   For example, if a school spends money on a new sports hall, the opportunity cost might be a new science laboratory which could have been built instead. See page 7 in the textbook for a more detailed explanation of opportunity cost.
9. The agricultural sector has become less valuable as a percentage of GDP for Country Y because the price of goods being produced may have fallen or people may be leaving the agricultural industry. Instead, with economic development, these people have entered the manufacturing or service sector because earnings are higher in these industries.  
     
   The service sector may have increased in value due to growth in the tourism industry and related trades. For example, an increase in tourism will bring about income for the hotel industry, airlines, restaurants, retail outlets (shops) and tourist attractions.  
     
   The change in the structure of industry in Country Y could be due to economic growth caused by an increase in the tourism industry typical of a less economically developed country such as Cambodia or Laos. Award 2 × 2 marks for stating and explaining two reasons for the change in the structure of industry.



The introduction of the internet café causes the PPF curve for the village to shift outwards, from PPC1 to PPC2.  
  
Award 2 × 1 marks for drawing and correctly labelling the axes.  
  
Award 1 mark for drawing the original PPF curve.  
  
Award 1 mark for drawing the new PPF curve to the right of the original PPF curve.  
  
See pages 7–9 in the textbook for further information about production possibility curves.

1. The shift is due to the increased productivity of farmers who can now get the best price for their produce and increase yields of their crops due to improved production techniques.  
     
   Existing and new businesses can communicate more easily with suppliers and customers, e.g. by using email and Skype. They can also research the market, their competitors and potentially access finance available for investment.  
     
   Award 2 × 2 marks for identifying and explaining two possible reasons for increased productivity.