

Economics – Will I make a good economist?

Read, then answer the following questions

Economics may be defined as the study of 'scarcity'. Scarcity arises from the assumption that we all have infinite material needs and wants such as designer clothing and a large mansion. But we only have a limited ability to meet these needs and wants. On one level this is due to a lack of money. But the money in circulation is kept scarce for a reason: there is only a limited amount of 'goods and services' available. And this is because there is only a limited quantity of the 'economic resources' (land, labour, capital and enterprise) that are needed to make these goods and services. Because of scarcity we have to make choices – we cannot have everything we want. Over time, due to factors such as better education and technology, the quantity and quality of these economic resources can be increased, so that more can be produced. This is called 'economic growth'. It therefore means that over time scarcity can be reduced, but never eliminated.

1. The most fundamental economic problem is:

- A) security
- B) the fact the UK buys more goods from foreigners than we sell to foreigners
- C) health
- D) scarcity

2. Scarcity requires most people to:

- A) work
- B) compete
- C) cooperate
- D) make choices

3. Which of the following is **not** a benefit of economic growth?

- A) scarcity can reduce
- B) workers can achieve pay rises
- C) pollution of the environment may increase
- D) the government has more money to spend on public services

4. Why is money kept scarce?

What would most likely happen if a lot more money were created and given out free to people in order to reduce scarcity?

5. What has happened to scarcity in the UK during the Covid crisis?

Give two examples of people affected.

6. The government is reducing the economic impact of the Covid crisis on people by spending money above the amount it raises through taxes. This is known as government borrowing. What could be the effect of this borrowing and spending? [three points].

7. Some economists are proposing a new and different way for the government to pay for this extra spending: Modern Monetary Theory (MMT). Research this theory, and write a basic

definition. What might be an advantage and a disadvantage of using MMT to pay for the Covid crisis?

LINK TO SPECIFICATION -1. D 2. D 3. C 4. Because economic resources are scarce; rising prices or inflation

5. Scarcity has increased e.g. furloughed workers on less than full pay; the newly unemployed; small businesses forced to close.

6. In short term a rise in people's incomes; but in long term the government's debt increases, as does the interest the govt has to pay on its debt.

7. Govt spending is paid for by creating money; taxes are used to reduce money to avoid inflation OR using money creation to pay the 'budget deficit'; it is free money and does not increase the govt's debt, but may lead to inflation.