1.1 Nature of Economics

1. Which of the following about economics is/are CORRECT?
   - ☑ Economics is a social science.
   - ☐ Economics studies how the money market works.
   - ☑ Economics studies how people make choices under the condition of scarcity.
2. *(Microeconomics / Macroeconomics)* analyses the behaviours of individuals and firms, while *(microeconomics / macroeconomics)* analyses the operation of the economy as a whole.

1.2 Wants, Scarcity and Choice

3. Scarcity refers to the situation in which the resources available are not enough to satisfy all people's wants.
4. Which of the following about scarcity is/are CORRECT?
   - ☐ The existence of scarcity implies the existence of market prices.
   - ☑ Adjusting prices cannot solve the problem of scarcity.
   - ☐ If human wants are unlimited, scarcity exists.
   - ☐ If the supply of a good is very little, the good is scarce.
   - ☑ If people want more of a good, the good is scarce.
   - ☑ If a good is scarce, this implies that people are willing to pay to obtain the good.

1.3 Relationship between Scarcity, Competition and Discrimination

5. Determine whether the following examples are price competition or non-price competition.

Example	Price competition	Non-price competition
(a) An organisation distributes alcohol-based handrub for free on a 'first-come, first-served' basis.		✓
(b) A special residential unit is sold by auction.	✓	
(c) A secondary school admits students based on their academic and non-academic performance.		✓

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6. Determine whether the following statements are correct.

Statement	Correct	Incorrect
(a) The existence of scarcity implies the existence of competition.	✓	
(b) The existence of competition implies the existence of discrimination.	✓	

1.4 Opportunity Cost

7. The opportunity cost of a choice is the value of the highest-valued option forgone.
8. Full cost = Monetary cost + Non-monetary cost
9. Time cost is an example of non-monetary cost.
10. Amanda is going to attend a cooking lesson. Determine how the following cases will affect Amanda's cost of attending the lesson.

Situation	The opportunity cost will
She falls asleep during the lesson.	*(increase / decrease / remain unchanged)*
She is 15 minutes late for the lesson.	*(increase / decrease / remain unchanged)*
The lesson runs over by 15 minutes.	*(increase / decrease / remain unchanged)*

11. Eason spent $80 on a movie ticket. To watch the movie, he did not conduct a tutorial lesson for his student and gave up his salary of $200. What is Eason's opportunity cost of watching the movie?
    $280 (= $80 + $200)
12. Determine whether the following statements are correct.

Statement	Correct	Incorrect
(a) When people choose the same option, their opportunity costs must be the same.		✓
(b) If the monetary cost of obtaining an option is higher than another option, the opportunity cost of obtaining that option must be higher.		✓

1.5 Relationship between Interest and Opportunity Cost

13. To borrowers, interest is the price or cost of earlier availability of resources. To lenders, interest refers to the premium or compensation they receive for deferring their current consumption of resources.
14. When the interest rate increases, current consumption will *(decrease / increase)* and saving will *(decrease / increase)*.

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15. Which of the following about interest is/are CORRECT?

- ☐ If there is no inflation, there is no interest.
- ☑ Interest exists in a barter economy.
- ☑ The existence of interest implies the existence of scarcity.

1.6 Free Goods and Economic Goods

16. No one is willing to pay for a free good because the quantity available of free goods is sufficient to satisfy all human wants so that people do not prefer more of them.
17. The free Wi-Fi service provided by a coffee shop is *(a free good / an economic good)* because the Wi-Fi service is produced from scarce resources which have alternative uses.
18. A free good *(must be / may not be)* free of charge while a free-of-charge good *(must be / may not be)* a free good.

19. Classify the following into free goods or economic goods and write the numbers in the correct spaces in the table.

① sand in a desert	② sand used in a construction site	③ distilled water
④ sea water	⑤ ice used in a restaurant	⑥ ice at the North Pole

Free goods	Economic goods
①④⑥	②③⑤

20. Which of the following about free goods and economic goods is/are CORRECT?

- ☑ Economic goods are scarce, while free goods are not scarce.
- ☐ Economic goods must have market prices, while free goods must not have market prices.
- ☑ People will compete for economic goods, but not for free goods.
- ☐ Since people get more satisfaction from economic goods than from free goods, people prefer economic goods to free goods.
- ☑ The quantity available of an economic good is not enough to satisfy all human wants at zero price while the quantity available of a free good is enough to satisfy all human wants at zero price.

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1.7 Circular Flow of Economic Activities

21. The diagram below is the circular flow diagram of an economy.

Flow A represents household's consumption expenditure/firm's revenue.

Flow B represents final goods and services.

Flow C represents factors of production.

Flow D represents cost of production/factor income.

1.8 Positive Statements and Normative Statements

22.

Statement 1: Introducing a general sales tax is the best way to raise government revenue.
Statement 2: Raising unemployment benefits can narrow the income gap.

Statement 1 is a *(positive statement / normative statement)* because it is not refutable by facts.

Statement 2 is a *(positive statement / normative statement)* because it is refutable by facts.

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