

# **APT Initiatives Ltd**

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**1<sup>st</sup> Set of 30 of 570 Multiple Choice Questions**  
Full set of 570 can be purchased from [www.apr-initiatives.com](http://www.apr-initiatives.com)  
or individual sets of 30 from [www.tes.com/teaching-resources](http://www.tes.com/teaching-resources)

## **30 Multiple Choice Questions**

for

**OCR A Level ECONOMICS**

on

**Component 1**

**Scarcity and Choice**

General Advice on Tackling the Multiple Choice Questions  
Multiple Choice Questions  
Answers with Supporting Explanations

**Minimising Workloads, Maximising Performance**

## **FOREWORD**

This resource is one of **19 sets of 30 multiple choice questions** to test students' knowledge and understanding of the subject content required to be covered for **OCR A Level Economics (on Microeconomics and Macroeconomics)** - as published in the 2016 specification for first examination in 2017. There is also an Interactive version available - for use on a computer (and intranet) for students to complete in their own time, or during class as a group exercise. The full set of 570 questions can be purchased from APT's website: [www.appt-initiatives.com](http://www.appt-initiatives.com). Individual sets of 30 can be purchased from the TES website: [www.tes.com/teaching-resources](http://www.tes.com/teaching-resources).

The full set of 570 questions comprises **16 sets of 30 'End of Topic' multiple choice questions** as follows:

### **1 Component 1: Microeconomics:**

- 1.1 Scarcity and choice (1 set of 30 questions)
- 1.2 How competitive markets work (2 sets of 30 questions)
- 1.3 Competition and market power (2 sets of 30 questions)
- 1.4 Labour market (1 set of 30 questions)
- 1.5 Market failure and government intervention (1 set of 30 questions)

### **2 Component 2: Macroeconomics**

- 2.1 Economic policy objectives and indicators of macroeconomic performance (2 sets of 30)
- 2.2 Aggregate demand and aggregate supply (2 sets of 30 questions)
- 2.3 The application of policy instruments (2 sets of 30 questions)
- 2.4 The global context (2 sets of 30 questions)
- 2.5 The financial sector (1 set of 30 questions)

This particular set of 30 questions relates to **Component 1 on Scarcity and Choice**.

The full set of 570 questions also contains:

### **2 'End of Component' multiple choice tests:**

- A set of 30 questions testing aspects relating to Component 1 on Microeconomics
- A set of 30 questions testing aspects relating to Component 2 on Macroeconomics

**1 final test** of 30 questions on **any aspect of the OCR A Level Economics specification** (published in 2016, for first examination in 2017). This test could form part of a mock exam for OCR A Level Paper 3 on Themes in Economics.

The resource, therefore, enables students to be tested **at the end of each topic** covered in class, as well as **at the very end of their study** of OCR A Level Economics.

**Supporting explanations are also provided for each question posed** - further helping to consolidate students' knowledge and understanding.

Whilst every effort has been made to provide appropriate questions, as well as answers with explanations for the questions posed, these questions, answers and explanations are intended as **an aid to the teacher** who must retain full responsibility for checking up-to-date specification requirements and exam board assessment material, and the final delivery of subject matter to students. In this context, APT is always available to discuss any aspect of the questions, answers and explanations, should the teacher wish to discuss APT's interpretation.

**PTO...**

**Other resources for OCR and A Level Economics:**

These Multiple Choice Questions for OCR A Level Economics are one of several resources produced by **APT Initiatives Ltd** to support teachers and students taking OCR A Level Economics examinations. Practice (Mock) Exam Papers have been produced for A Level Paper 1 (on Component 1: Microeconomics), Paper 2 (on Component 2: Macroeconomics) and Paper 3 (on the entire specification: Themes in Economics). Further information on each of these resources, as well as other resources for Business and Economics qualifications, is available on APT's website: [www.apr-initiatives.com](http://www.apr-initiatives.com).

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**STUDENT INFORMATION SHEET****TACKLING THE MULTIPLE CHOICE QUESTIONS**

A multiple choice paper provides you with a good opportunity to achieve a high mark, but only if you know the subject matter and think logically. In addition to **revising thoroughly to learn the subject matter**, the following points should be taken into account when tackling the multiple choice questions for OCR A Level Economics (in Paper 3).

1. **Pace yourself.** You are advised to spend approximately **30 minutes** on the 30 multiple choice questions. On some questions you should identify the correct response very quickly, others will take a little longer but you have **an average of one minute per question**. Don't rush your answer, but try to make sure that after 30 minutes you are in a position to move on to Section B of the examination.
2. **Read the question very carefully.** Work on the assumption that every word is of significance.
3. There is only one correct answer. **Do not 'hedge your bets' by suggesting two answers.** If you give two answers then you will not get a mark (even if one is correct).
4. You should (a) **identify the correct answer** and (b) **understand why the others are incorrect.** Sometimes you can identify the correct answer by eliminating the wrong ones. Ideally, you should approach questions from both angles.
5. **There are no half marks.** Even though one of the 3 distracters (incorrect answers) might be more valid than the other 2, you do not get half marks for spotting the 'half right answer'. The fact is that if it is 'only half right', then it is wrong.
6. It is very tempting to guess the answer when you are unsure. But, remember, there is only a one in four chance of guessing correctly and a three in four chance of guessing it wrong. Therefore, always try to work out the answer using your knowledge and logical thinking. **Only guess the answer if you genuinely have no idea of what the correct answer is.**
7. **Be extra careful when answering 'most' or 'least likely' questions,** eg '*Which of the following is most / least likely to...*', and **especially when answering any negative questions** eg '*Which of the following is not...*'.
8. **Use the question paper to do rough working.** This applies particularly to quantitative questions.
9. **Use the question paper to jot down or to manipulate a sketch graph.** This advice is especially relevant in questions which refer to demand or supply curves shifting to the left or to the right. It is easier to see a leftward / rightward shift on paper than trying to visualise it in your mind.
10. Graphs showing a shift in the supply or demand curve are labelled D1, D2, S1 and S2 etc with the curve labelled 1 as the original. To make it clearer to see this on the question paper, **draw an arrow to show the direction of the shift.**

**1.1 Scarcity and Choice**

Answer **all** the questions in this section.

**Write your answer for each question in the box provided.**

- 1 An economic good is
- A one which has an opportunity cost
  - B also defined as a factor of production
  - C one which increases economic efficiency
  - D the opposite of a public good

Your answer

[1]

- 2 Which of the following is commonly classed as a free good?
- A A toy given away with a breakfast cereal
  - B Fresh air
  - C Tap water
  - D Renewable energy

Your answer

[1]

- 3 The basic economic problem leads to which of the following key economic decisions that any economy must address?
- A What the balance should be between the production of consumer and capital goods
  - B What, how, why, and for whom goods and services are produced
  - C Which goods should be made specifically for the export market and which should be imported
  - D Which goods should be provided by the public sector and which by the private sector

Your answer

[1]

4 Which of the following is **not** associated with the economic problem?

- A Inefficiency
- B Pollution
- C Sustainability
- D Inequality

Your answer

[1]

5 A positive statement

- A is one that can be tested
- B is one that is true
- C is one based on an opinion
- D cannot be refuted by looking at the evidence

Your answer

[1]

6 Which of the following is a positive statement?

- A The government should reduce the standard rate of income tax
- B The government ought to cut social security benefits
- C A cut in social security benefits will increase incentives to work
- D There needs to be an increase in defence spending

Your answer

[1]

7 Which of the following statements best distinguishes between needs and wants?

- A Needs are essential for survival, whereas wants are the additional things that a consumer can also afford
- B A need is backed by effective demand, whereas everything else is not, and are therefore wants
- C A need is something required to survive, whereas all other things are wants
- D A need is something that is desired, whereas a want is something that is desired but not needed

Your answer

[1]

8 The table below shows an individual's potential needs and wants. Which combination correctly identifies a need and a want?

	Need	Want
A	Transport	Food
B	Shelter	Water
C	WiFi	Clothing
D	Healthcare	Education

Your answer

[1]

9 Which of the following is an accurate definition of scarcity?

- A Insufficient resources to produce enough to fulfil wants
- B Effective demand greater than supply
- C Demand greater than supply
- D The misallocation of an economy's resources

Your answer

[1]

**10** The economic problem has, at its core, the issue of choice because

- A** our income determines what we can choose
- B** resources are finite
- C** as consumers we are free to choose what we want
- D** the more we earn the more we can choose

Your answer

[1]

**11** Which of the following combinations of outcomes reflects a reduction in the sustainability of an economy?

	<b>Scarcity</b>	<b>Choice</b>
<b>A</b>	Decrease	Increase
<b>B</b>	Decrease	Decrease
<b>C</b>	Increase	Increase
<b>D</b>	Increase	Decrease

Your answer

[1]

**12** When making economic decisions, the government is least likely to take account of

- A** the wages in particular industries
- B** how the defence budget is spent
- C** possible changes in average incomes
- D** the impact on exports

Your answer

[1]



- 13** Economic resources are those which
- A** maximise the output of goods in the long term
  - B** increase economic efficiency
  - C** are plentiful
  - D** can contribute to increased production

Your answer

[1]

- 14** Labour is a factor of production because
- A** its value to an economy can be improved
  - B** its productivity affects productive efficiency
  - C** it is a resource which can contribute to output
  - D** Its cost can be reduced

Your answer

[1]

- 15** In economic theory it is assumed that employees seek to
- A** maximise company profits
  - B** maximise their wages
  - C** maximise their spending
  - D** minimise the interest on savings

Your answer

[1]

16 Which of the following is a strength of a market economy?

- A There will be greater productivity than in a command economy
- B There will be greater equality of income than in a mixed economy
- C There will be fewer negative externalities than in a mixed economy
- D There will be greater provision of public goods than in a command economy

Your answer

[1]

17 Which of the following is a role of government in a pure free-market economy?

- A Setting the level of the minimum wage
- B The protection of property rights
- C Deciding how production should be organised
- D The provision of merit goods

Your answer

[1]

18 An individual will make economic decisions at the margin regarding which course of action should be taken. The table below shows two outcomes associated with each of four courses of action that an individual could take.

Which of the four courses of action would a rational consumer choose?

	<b>Outcome 1</b>	<b>Outcome 2</b>
<b>A</b>	Marginal benefit 100	Marginal cost 100
<b>B</b>	Marginal benefit 200	Marginal cost 100
<b>C</b>	Marginal benefit 100	Marginal cost 200
<b>D</b>	Marginal benefit 0	Marginal cost 0

Your answer

[1]

- 19 The table below shows how the total utility for a particular consumer changes as consumption of a particular good increases.

Quantity Consumed	Total Utility
0	0
1	20
2	38
3	52
4	60
5	64

At which level of consumption is the consumer's marginal utility equal to 4?

- A 2
- B 3
- C 4
- D 5

Your answer

[1]

- 20 If a car firm increases production by one car and the additional revenue from the sale of this additional car is greater than the increase in the cost of producing this additional car, then

- A it will be profitable to produce this additional car
- B it will not be profitable to produce this additional car
- C the firm should not produce this additional car because the marginal cost does not equal the marginal revenue
- D the firm should produce this additional car because average revenue is greater than marginal revenue

Your answer

[1]

- 21** Providing more and better information to individuals will **not** necessarily lead to rational decision making. Maybe this is because
- A** individuals are assumed to maximise their own utility
  - B** individuals can be overloaded with information that they are unable to process
  - C** individuals are assumed to always act in their own self-interest
  - D** individuals will not adopt irrational behaviour patterns

Your answer

[1]

- 22** A family inherited £15,000 from a long lost aunt. They are weighing up whether to buy a new car **or** go on a trip to Australia for a month. They decide to go to Australia. What is the opportunity cost of this decision?
- A** The cost of going to Australia
  - B** The cost of a buying a new car
  - C** The benefits of going to Australia
  - D** The benefits of having a new car

Your answer

[1]

- 23** In the context of opportunity cost, the concept of a 'trade off' refers, for example, to a consumer
- A** having more of one item but less of another
  - B** having more of one item and potentially also having more of another
  - C** increasing their consumption of all goods
  - D** decreasing their consumption of all goods

Your answer

[1]

- 24** The production possibility curve can be used to illustrate each of the following, with the exception of
- A** consumer demand
  - B** economic growth
  - C** opportunity cost
  - D** unemployment

Your answer

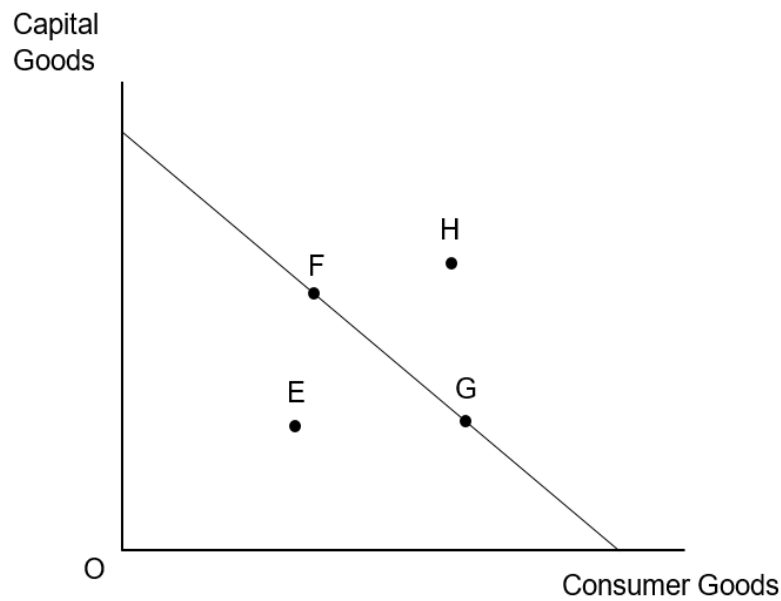
[1]

- 25** On a production possibility diagram, a proportionate increase in productive efficiency in all sectors of the UK economy would be indicated by which of the following?
- A** A parallel outward shift of the production possibility curve
  - B** A parallel inward shift of the production possibility curve
  - C** A new position along the production possibility curve
  - D** A new position beyond the production possibility curve

Your answer

[1]

**26** Referring to the production possibility diagram below, at which point is there unemployment in the economy?



- A** E
- B** F
- C** G
- D** H

Your answer

[1]

**27** Which of the following best defines the division of labour?

- A** A worker undertaking an apprenticeship within a small firm
- B** A worker undertaking retraining within a large firm
- C** A worker undertaking a specific task within a production process
- D** A worker training within a particular industry

Your answer

[1]

**28** Which of the following is a benefit of specialisation and division of labour?

- A** Greater worker satisfaction
- B** Increased allocative efficiency
- C** Greater income equality
- D** Increased productivity

Your answer

[1]

**29** Which of the following provides the best explanation of why specialisation encourages trade within an economy?

- A** Specialisation leads to increased output and greater self-sufficiency
- B** Specialisation leads to increased output and reduced self-sufficiency
- C** Specialisation leads to increased output with each worker producing a greater range of goods
- D** Specialisation cannot be applied in service industries

Your answer

[1]

**30** Division of labour requires an efficient means of exchange because

- A** specialist workers are not self-sufficient
- B** specialist workers achieve high productivity
- C** exchange is not possible without the use of money as a medium of exchange
- D** specialist workers produce a surplus

Your answer

[1]

### **1.1 Scarcity and Choice - Answers**

- 1 An economic good is  
**A one which has an opportunity cost**  
B also defined as a factor of production  
C one which increases economic efficiency  
D the opposite of a public good

*Explanation: An economic good uses scarce resources and, therefore, involves an opportunity cost. The opposite of an economic good is a 'free good' which can be seen as a free gift of nature and does not involve the use of scarce resources.*

- 2 Which of the following is commonly classed as a free good?  
A A toy given away with a breakfast cereal  
**B Fresh air**  
C Tap water  
D Renewable energy

*Explanation: A free good is a good with zero opportunity cost. Fresh air is the only option that can be consumed without reducing its availability to others. The use of all other goods incurs an opportunity cost, and they are therefore classified as 'economic' rather than 'free'.*

- 3 The basic economic problem leads to which of the following key economic decisions that any economy must address?  
A What the balance should be between the production of consumer and capital goods  
**B What, how, why, and for whom goods and services are produced**  
C Which goods should be made specifically for the export market and which should be imported  
D Which goods should be provided by the public sector and which by the private sector

*Explanation: Whilst all of these decisions will be made at some point, depending on the prevailing economic system, scarce resources mean that decisions need to be made regarding what, how, why, and for whom goods and services are produced.*

- 4 Which of the following is **not** associated with the economic problem?  
A Inefficiency  
B Pollution  
**C Sustainability**  
D Inequality

*Explanation: Economic sustainability can be defined as the ability to support a defined level of economic production indefinitely. This is not an economic problem arising from choices having to be made.*

- 5 A positive statement  
**A is one that can be tested**  
B is one that is true  
C is one based on an opinion  
D cannot be refuted by looking at the evidence

*Explanation: A positive statement can be confirmed or disproved by testing it against evidence. A positive statement is, therefore, not a statement of opinion.*



- 6 Which of the following is a positive statement?  
 A The government should reduce the standard rate of income tax  
 B The government ought to cut social security benefits  
**C A cut in social security benefits will increase incentives to work**  
 D There needs to be an increase in defence spending

*Explanation: All other statements are opinions or value judgements and are, therefore, normative statements. As such, they cannot be tested by reference to the facts, since they are neither true nor false. C, on the other hand, may be controversial but, nevertheless, can be tested to determine whether a cut in social security benefits does indeed provide an incentive to work.*

- 7 Which of the following statements best distinguishes between needs and wants?  
 A Needs are essential for survival, whereas wants are the additional things that a consumer can also afford  
 B A need is backed by effective demand, whereas everything else is not, and are therefore wants  
**C A need is something required to survive, whereas all other things are wants**  
 D A need is something that is desired, whereas a want is something that is desired but not needed

*Explanation: A need is something essential for survival, and therefore includes anything on which an individual's life would depend. This includes things like food, water, shelter and healthcare. All other things are wants.*

- 8 The table below shows an individual's potential needs and wants.  
 Which combination correctly identifies a need and a want?

	<b>Need</b>	<b>Want</b>
<b>A</b>	Transport	Food
<b>B</b>	Shelter	Water
<b>C</b>	WiFi	Clothing
<b>D</b>	<b>Healthcare</b>	<b>Education</b>

*Explanation: A need is something that is essential for survival. In economics, and more widely, the idea of survival is paramount, in the sense that an individual would die without their needs being met. This priority therefore includes things like food, water, shelter and healthcare. All other goods and services are wants.*

- 9 Which of the following is an accurate definition of scarcity?  
**A Insufficient resources to produce enough to fulfil wants**  
 B Effective demand greater than supply  
 C Demand greater than supply  
 D The misallocation of an economy's resources

*Explanation: Scarcity is defined as a situation in which the needs and wants of a society cannot be fully met because the resources required are limited. Options B and C refer to excess demand.*

- 10 The economic problem has, at its core, the issue of choice because  
 A our income determines what we can choose  
**B resources are finite**  
 C as consumers we are free to choose what we want  
 D the more we earn the more we can choose

*Explanation: The essential economic problem is that resources are scarce and finite.*

- 11 Which of the following combinations of outcomes reflects a reduction in the sustainability of an economy?

	<b>Scarcity</b>	<b>Choice</b>
A	Decrease	Increase
B	Decrease	Decrease
C	Increase	Increase
<b>D</b>	<b>Increase</b>	<b>Decrease</b>

*Explanation: Economic sustainability is the ability to support a defined level of economic production and output over time. If such an ability is reduced, there will be an increase in scarcity and a decrease in choice.*

- 12 When making economic decisions the government is least likely to take account of

- A the wages in particular industries**  
 B how the defence budget is spent  
 C possible changes in average incomes  
 D the impact on exports

*Explanation: Governments will consider the impact of decisions on the economy in general, but are very unlikely to consider the impact on a particular group of workers.*

- 13 Economic resources are those which

- A maximise the output of goods in the long term  
 B increase economic efficiency  
 C are plentiful  
**D can contribute to increased production**

*Explanation: An economic resource is scarce rather than plentiful, and contributes to production today and not just in the future. Whether it increases economic efficiency depends on how it is used.*

- 14 Labour is a factor of production because

- A its value to an economy can be improved  
 B its productivity affects productive efficiency  
**C it is a resource which can contribute to output**  
 D its cost can be reduced

*Explanation: The others are valid statements but do not explain why labour is a factor of production. Labour is defined as human resources that contribute to output.*

- 15 In economic theory it is assumed that employees seek to

- A maximise company profits  
**B maximise their wages**  
 C maximise their spending  
 D minimise the interest on savings

*Explanation: The factor of production known as labour (human resources used in production) is rewarded by a wage. It is reasonable to assume that employees will seek the highest wage possible.*

- 16 Which of the following is a strength of a market economy?

- A There will be greater productivity than in a command economy**  
 B There will be greater equality of income than in a mixed economy  
 C There will be fewer negative externalities than in a mixed economy  
 D There will be greater provision of public goods than in a command economy

*Explanation: In a market economy there is increased motivation to use resources productively and therefore more cheaply, compared to their use in mixed or command economies. This difference arises from the need to secure greater personal reward for risks involved in an economic endeavour. Hence, greater productivity is associated with a market economy.*

17 Which of the following is a role of government in a pure free-market economy?

- A Setting the level of the minimum wage
- B The protection of property rights**
- C Deciding how production should be organised
- D The provision of merit goods

*Explanation: In a pure free-market economy there is no government intervention at all. The government merely facilitates law and order and a country's property rights which allows for the ownership of the means of production in the private sector.*

18 An individual will make economic decisions at the margin regarding which course of action should be taken. The table below shows two outcomes associated with each of four courses of action that an individual could take.

Which of the four courses of action would a rational consumer choose?

	<b>Outcome 1</b>	<b>Outcome 2</b>
A	Marginal benefit 100	Marginal cost 100
<b>B</b>	<b><u>Marginal benefit 200</u></b>	<b><u>Marginal cost 100</u></b>
C	Marginal benefit 100	Marginal cost 200
D	Marginal benefit 0	Marginal cost 0

*Explanation: Rational individuals will only choose a course of action if marginal benefit exceeds marginal cost.*

19 The table below shows how the total utility for a particular consumer changes as consumption of a particular good increases.

<b>Quantity Consumed</b>	<b>Total Utility</b>
0	0
1	20
2	38
3	52
4	60
5	64

At which level of consumption is the consumer's marginal utility equal to 4?

- A 2
- B 3
- C 4
- D 5**

*Explanation: Marginal utility is the change in satisfaction from consuming one extra unit. The marginal utility of consuming the 5th unit is equal to 4, as total utility increases from 60 to 64.*

- 20 If a car firm increases production by one car and the additional revenue from the sale of this additional car is greater than the increase in the cost of producing this additional car, then
- A it will be profitable to produce this additional car**
  - B it will not be profitable to produce this additional car
  - C the firm should not produce this additional car because the marginal cost does not equal the marginal revenue
  - D the firm should produce this additional car because average revenue is greater than marginal revenue

*Explanation: If the marginal revenue from additional production is greater than the marginal cost of the additional production then it will be profitable for the firm to expand production*

- 21 Providing more and better information to individuals will **not** necessarily lead to rational decision making. Maybe this is because
- A individuals are assumed to maximise their own utility
  - B individuals can be overloaded with information that they are unable to process**
  - C individuals are assumed to always act in their own self-interest
  - D individuals will not adopt irrational behaviour patterns

*Explanation: Individuals may not have the capacity to deal with the amount of information that they are presented with. This may lead to them ignoring some of the information that is available but which they are incapable of processing.*

- 22 A family inherited £15,000 from a long lost aunt. They are weighing up whether to buy a new car **or** go on a trip to Australia for a month. They decide to go to Australia. What is the opportunity cost of this decision?
- A The cost of going to Australia
  - B The cost of a buying a new car
  - C The benefits of going to Australia
  - D The benefits of having a new car**

*Explanation: The opportunity cost of the holiday is the alternative the family sacrificed. They forego the benefits of a new car in order to go to Australia.*

- 23 In the context of opportunity cost, the concept of a 'trade off' refers, for example, to a consumer
- A having more of one item but less of another**
  - B having more of one item and potentially also having more of another
  - C increasing their consumption of all goods
  - D decreasing their consumption of all goods

*Explanation: The concept of opportunity cost refers to the trade-off which arises because having more of one thing results in having less of another. The opportunity cost is the most desirable alternative given up (traded off) as the result of a decision.*

- 24 The production possibility curve can be used to illustrate each of the following, with the exception of
- A consumer demand**
  - B economic growth
  - C opportunity cost
  - D unemployment

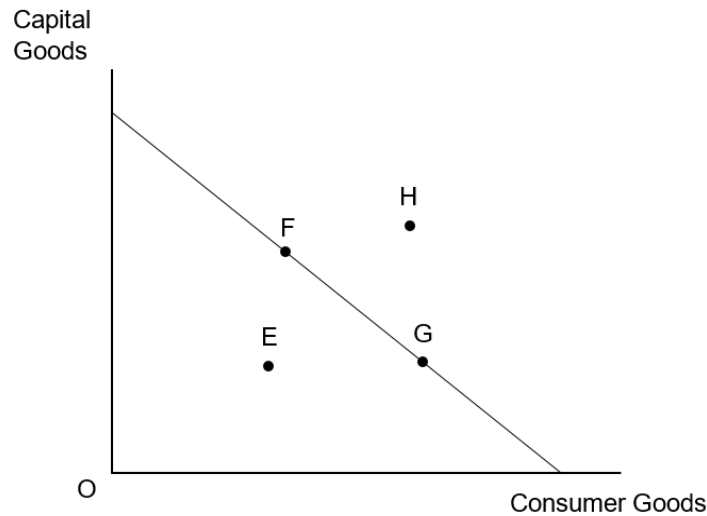
*Explanation: The production possibility curve illustrates productive potential. At any point inside the curve there is unemployment of resources. An outward shift of the curve illustrates growth in productive potential. A movement along the curve reminds us that we can sacrifice some units of one product to acquire more of another (ie opportunity cost). However, the PPC tells us nothing about demand for goods or services.*

25 On a production possibility diagram, a proportionate increase in productive efficiency in all sectors of the UK economy would be indicated by which of the following?

- A **A parallel outward shift of the production possibility curve**
- B A parallel inward shift of the production possibility curve
- C A new position along the production possibility curve
- D A new position beyond the production possibility curve

*Explanation: An increase in productive efficiency in all sectors will shift the PPC outwards. If the efficiency gains were confined to one sector, the shift would be greater on one axis rather than the other.*

26 Referring to the production possibility diagram below, at which point is there unemployment in the economy?



- A **E**
- B F
- C G
- D H

*Explanation: At F and G the economy is producing at its full potential and therefore resources are fully employed. H is beyond the curve and is not feasible with current resources and technology and can only be achieved by a process of economic growth. At E, on the other hand, the economy is not producing at full potential, therefore some resources must be underemployed.*

27 Which of the following best defines the division of labour?

- A A worker undertaking an apprenticeship within a small firm
- B A worker undertaking retraining within a large firm
- C **A worker undertaking a specific task within a production process**
- D A worker training within a particular industry

*Explanation: The division of labour occurs when workers are assigned specific tasks within a production process.*

28 Which of the following is a benefit of specialisation and division of labour?

- A Greater worker satisfaction
- B Increased allocative efficiency
- C Greater income equality
- D Increased productivity**

*Explanation: Specialisation and division of labour occurs when workers are assigned specific tasks within a production process. This leads to workers becoming more skilled and less wasteful and, therefore, increases in labour productivity.*

29 Which of the following provides the best explanation of why specialisation encourages trade within an economy?

- A Specialisation leads to increased output and greater self-sufficiency
- B Specialisation leads to increased output and reduced self-sufficiency**
- C Specialisation leads to increased output with each worker producing a greater range of goods
- D Specialisation cannot be applied in service industries

*Explanation: Specialisation leads to a narrowing of the range of goods/services produced from any given set of inputs. This increases the need to trade surpluses in order to access a wider range on goods/services for consumption, and reduce the limitations self-sufficiency.*

30 Division of labour requires an efficient means of exchange because

- A specialist workers are not self-sufficient**
- B specialist workers achieve high productivity
- C exchange is not possible without the use of money as a medium of exchange
- D specialist workers produce a surplus

*Explanation: A specialist worker does not produce the full range of goods and services that he / she requires. Therefore, specialists must engage in exchange – goods for goods, goods for money, labour services for money, and so on. B and D are valid statements but do not explain why specialists need to engage in exchange. C is an incorrect statement – exchange can occur without the use of money.*