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30 Multiple Choice Questions

for

AQA A-level ECONOMICS

on

Section 4.1.1

Economic Methodology and the Economic Problem

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 **18 sets of 30 multiple choice questions** to test students' knowledge and understanding of the subject content required to be covered for **AQA A-level Economics** ie on **Individuals, Firms, Markets and Market Failure** and **The National and International Economy**. There is also an Interactive version available - for use on a computer for students to complete in their own time, or during class as a group exercise. The full set of 540 questions can be purchased from APT's website: www.appt-initiatives.com. Individual sets of 30 can be purchased from the TES website: www.tes.com/teaching-resources.

The full set of 540 questions contains **a set of 30 questions** on **each** of the **14 subject content areas** listed in the **AQA A-level Economics** specification (published for teaching from September 2015), ie 30 multiple choice questions on each of the following numbered sections:

4.1 Individuals, firms, markets and market failure:

- 4.1.1 Economic methodology and the economic problem
- 4.1.2 Individual economic decision making
- 4.1.3 Price determination in a competitive market
- 4.1.4 Production, costs and revenue
- 4.1.5 Perfect competition, imperfectly competitive markets and monopoly
- 4.1.6 The labour market
- 4.1.7 The distribution of income and wealth: poverty and inequality
- 4.1.8 The market mechanism, market failure and government intervention in markets

4.2 The national and international economy:

- 4.2.1 The measurement of macroeconomic performance
- 4.2.2 How the macroeconomy works : the circular flow of income, AD/AS analysis, and related concepts
- 4.2.3 Economic performance
- 4.2.4 Financial markets and monetary policy
- 4.2.5 Fiscal policy and supply-side policies
- 4.2.6 The international economy

This particular set of 30 questions relates to **Section 4.1.1** on **Economic methodology and the economic problem**.

The full set of 540 questions also contains:

2 'end of section' tests, ie a set of 30 questions testing aspects relating to **Individuals, Firms, Markets and Market Failure** and a set of 30 questions testing aspects relating to **The National and International Economy**.

2 final tests of 30 questions on **any aspect of the AQA A-level Economics specification**. These could form part of **a mock examination for A-level Paper 3: Economic Principles and Issues**. These '**final test**' papers reflect the specimen assessment material produced by AQA for this paper (at the time of writing), with the **majority** of the multiple choice questions assessing students' **knowledge and understanding**, but a significant proportion of questions also testing their ability to **apply** their knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues.

The resource, therefore, enables students to be tested **at the end of each subject content area** covered in class, as well as **at the very end of their study** of AQA A-level Economics.

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

PTO...

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 specification requirements and the 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.

Other resources for AQA AS and A-level Economics:

These Multiple Choice Questions for AQA A-level Economics are one of several resources produced by **APT Initiatives Ltd** to support teachers and students taking AQA AS and A-level Economics examinations. Multiple Choice questions (interactive and printable tests) have also been produced for AS Section 1 and Section 2, and Practice (Mock) Exam Papers have been produced for A-level Paper 1 (on Section 4.1 of the A-level Specification), Paper 2 (on Section 4.2 of the A-level specification) and Paper 3 (on the entire specification). 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.

APT Initiatives Ltd can be contacted directly with any orders, queries or feedback via the website: www.apr-initiatives.com, via email: support@apr-initiatives.com or by phone: 01952 540877.

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 AQA 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 one of the following is most / least likely to...*', and **especially when answering any negative questions** eg '*Which one 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 D_1 , D_2 , S_1 and S_2 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.**

4.1.1 Economic Methodology and the Economic Problem

There are 30 questions. Only **one** answer per question is allowed.

For each answer completely fill in the lozenge alongside the appropriate answer.

CORRECT METHOD



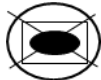
WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.



1. Value judgements influence economic decision making and policy because value judgements
 - A are facts that individuals feel might be relevant to a decision.
 - B are evaluative processes that an individual uses solely to prioritise monetary value.
 - C are the foundations of positive decision making when a judgement is required.
 - D are evaluative processes based on an individual's standards or priorities.

2. Which one of the following is a central purpose of economic activity? The production of goods to
 - A satisfy the needs of consumers.
 - B make a profit for firms.
 - C provide tax revenue for the government.
 - D ensure equitable access to utility.

3. The main methodological difference between Economics and the natural sciences is that economists

- A cannot test hypotheses in laboratory conditions.
- B cannot refute hypotheses.
- C rely on observation to produce evidence.
- D suffer the poverty of quantitative data.

4. 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.

5. A normative statement is

- A verifiable by facts.
- B objective.
- C based on an opinion.
- D based on real world data.

6. Which one 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.

7. *'Rising unemployment is a price worth paying to get inflation down'*. This is an example of

- A a theory.
- B a hypothesis.
- C a positive statement.
- D a value judgement.

8. The basic economic problem leads to which one 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

9. Economic decision-makers are primarily concerned with

- A increasing output.
- B maximising their welfare.
- C reducing prices.
- D increasing international trade.

10. 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.

11. The majority of firms, when making economic decisions are least likely to take account of

- A wage rates.
- B advances in technology.
- C the working conditions of suppliers' employees.
- D the amount of profit to be retained in the business.

12. 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.

13. The objective of economic activity is to

- A achieve productive efficiency.
- B minimise the use of factors of production.
- C satisfy consumer wants.
- D maximise output.

14. Which one of the following phrases is normally a feature of a positive statement?

- A It will result in...
- B The government ought to...
- C The government should...
- D The government must...

15. 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.

16. The factor of production, land, includes

- A trawlers.
- B dams.
- C meadows.
- D roads.

17. 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.

18. The factor of production, capital includes

- A money.
- B computers.
- C an overdraft.
- D a mortgage.

19. The core function of the factor of production known as enterprise includes

- A organising resources.
- B motivating employees.
- C risk taking.
- D selling to customers.

20. Which one the following is least likely to be a scarce resource?

- A Land
- B Labour
- C The environment
- D Fresh air

21. 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.

22. The basic economic problem is that

- A resources have to be allocated between competing uses.
- B consumers have infinite wants.
- C governments cannot always deal effectively with market failure.
- D every economic decision generates externalities.

23. Economics is the study of

- A how to increase economic growth.
- B how society allocates scarce resources in order to maximise welfare.
- C how to ensure that resources are shared equally.
- D how resources should be allocated.

24. 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.

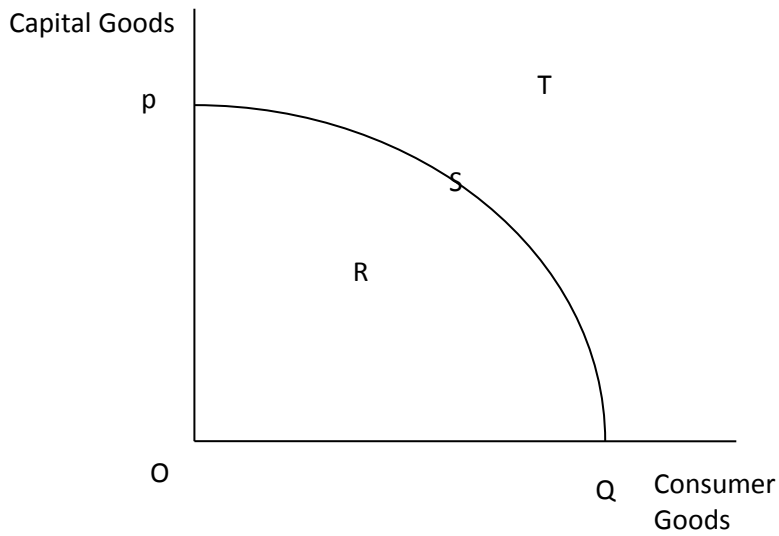
25. A family inherited £15,000 from a long lost aunt. They are weighing up whether to buy a new car **or** go on a trip to Australia for a month. They decide to go to Australia. The opportunity cost of this decision is

- 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.

26. 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.

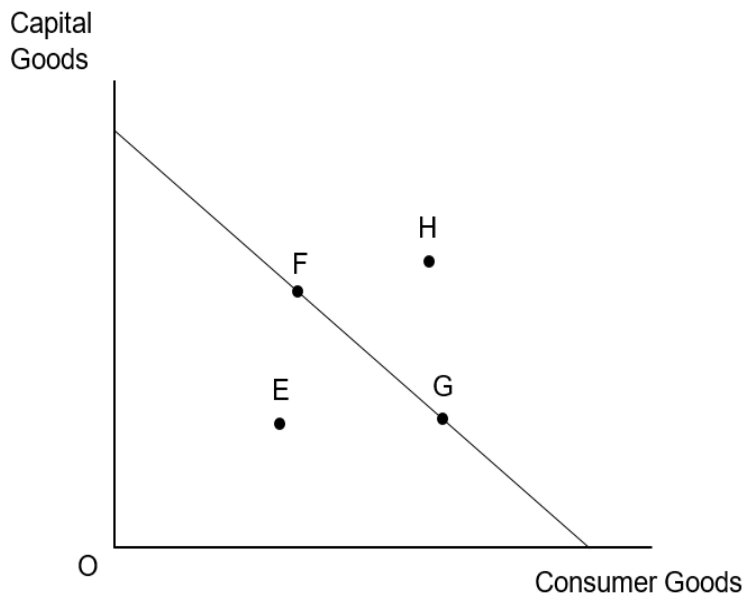
27. The production possibility diagram below shows various output choices P, Q, R, S and T.



Which combination of capital and consumer goods could this country choose to produce?

- A points TSR
- B points PSQ
- C points TSQ
- D points SQPR

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



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

29. All points on the production possibility curve show productive efficiency because

- A output is distributed equitably.
- B the economy is producing the combination of output that consumers demand.
- C the economy has reached its full long-term potential.
- D the economy is producing at full current capacity.

30. Which one of the following statements is false? At all points on the production possibility curve

- A there is productive efficiency.
- B resources are allocated efficiently.
- C resources are fully employed.
- D the economy is working at its full potential.

4.1.1 Economic Methodology and the Economic Problem - Answers

1. Value judgements influence economic decision making and policy because value judgements
- A are facts that individuals feel might be relevant to a decision.
 - B are evaluative processes that an individual uses solely to prioritise monetary value.
 - C are the foundations of positive decision making when a judgement is required.
 - D are evaluative processes based on an individual's standards or priorities.**

Explanation: A value judgement is an assessment of something as good or bad in terms of one's standards or priorities. These standards or priorities are processed when an individual is required to make economic or policy decisions.

2. Which one of the following is a central purpose of economic activity? The production of goods to
- A satisfy the needs of consumers.**
 - B make a profit for firms.
 - C provide tax revenue for the government.
 - D ensure equitable access to utility.

Explanation: The central purpose of economic activity is the production of goods and services to satisfy our changing needs and wants.

3. The main methodological difference between Economics and the natural sciences is that economists
- A cannot test hypotheses in laboratory conditions.**
 - B cannot refute hypotheses.
 - C rely on observation to produce evidence.
 - D suffer the poverty of quantitative data.

Explanation: Economists apply the same scientific method as used in the natural sciences but, unlike natural scientists, it is not possible to conduct and to repeat experiments in a laboratory-controlled environment.

4. 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.

5. A normative statement is
- A verifiable by facts.
 - B objective.
 - C based on an opinion.**
 - D based on real world data.

Explanation: A normative statement typically includes words such as 'ought to' or 'should' and is an expression of an opinion.

6. Which one 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. 'Rising unemployment is a price worth paying to get inflation down'.
This is an example of
- A a theory.
 - B a hypothesis.
 - C a positive statement.
 - D a value judgement.**

Explanation: Rising unemployment might lead to lower inflation but this is not the point. The use of the words 'a price worth paying' should convince us that this is a value judgement (or a normative statement).

8. The basic economic problem leads to which one 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.

9. Economic decision-makers are primarily concerned with
- A increasing output.
 - B maximising their welfare.**
 - C reducing prices.
 - D increasing international trade.

Explanation: Economic theory assumes that entrepreneurs, employees and consumers are self-interested and seek to maximise profits, wages and satisfaction (utility) respectively.

10. 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.

11. The majority of firms, when making economic decisions are least likely to take account of
- A wage rates.
 - B advances in technology.
 - C the working conditions of suppliers' employees.**
 - D the amount of profit to be retained in the business.

Explanation: If firms are self-interested and seek to maximise profits, they will not be concerned with conditions of work for the employees of supply firms.

12. 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.

13. The objective of economic activity is to
- A achieve productive efficiency.
 - B minimise the use of factors of production.
 - C satisfy consumer wants.**
 - D maximise output.

Explanation: The central purpose of economic activity is the production of goods and services in order to satisfy needs and wants. Production occurs not for its own sake, but in order to satisfy needs and wants.

14. Which one of the following phrases is normally a feature of a positive statement?
- A It will result in...**
 - B The government ought to...
 - C The government should...
 - D The government must...

Explanation: B, C and D are clearly included in statements of opinion which cannot be tested by reference to the facts. Response A, on the other hand, suggests a causal relationship between two variables and, as such, can be tested and, if appropriate, disproved.

15. 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.

16. The factor of production, land, includes
- A trawlers.
 - B dams.
 - C meadows.**
 - D roads.

Explanation: The other three refer to capital (goods that are man-made and are used in production). A meadow is natural and is not man-made and, therefore, is regarded as land.

17. 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.

18. The factor of production, capital includes
- A money.
 - B computers.**
 - C an overdraft.
 - D a mortgage.

Explanation: Capital refers to man-made resources used in production, eg a computer. The other three refer to financial resources which do not themselves contribute to production, but can be used to buy or hire factors of production, including capital items such as computers.

19. The core function of the factor of production known as enterprise includes
- A organising resources.
 - B motivating employees.
 - C risk taking.**
 - D selling to customers.

Explanation: Many entrepreneurs are personally engaged in organising, motivating and selling, but in large businesses these functions are delegated to paid managers. Risk taking, on the other hand, is the essential characteristic of being an entrepreneur.

20. Which one the following is least likely to be a scarce resource?
- A Land
 - B Labour
 - C The environment
 - D Fresh air**

Explanation: Resources are finite at any moment in time and therefore they are scarce. The environment is now classed as a scarce resource because we now appreciate that man has the capacity to destroy it, thus depriving it to future generations. In most situations, fresh air is seen as a free good available to all without an opportunity cost. Hence, it is the least likely to be seen as a scarce good. But atmospheric pollution shows that we should not take this for granted.

21. 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.

22. The basic economic problem is that
- A resources have to be allocated between competing uses.**
 - B consumers have infinite wants.
 - C governments cannot always deal effectively with market failure.
 - D every economic decision generates externalities.

Explanation: It is true that consumers have infinite wants, but this is only a problem because resources are scarce and, therefore, have to be allocated between competing uses. For this reason, the basic problem in Economics is the allocation of scarce resources. The other issues are, ultimately, derived from the basic economic problem.

23. Economics is the study of
- A how to increase economic growth.
 - B how society allocates scarce resources in order to maximise welfare.**
 - C how to ensure that resources are shared equally.
 - D how resources should be allocated.

Explanation: The central issue in Economics is the allocation of scarce resources. The other responses might refer to one aspect of Economics but not to the central issue that is at the heart of Economics.

24. 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.

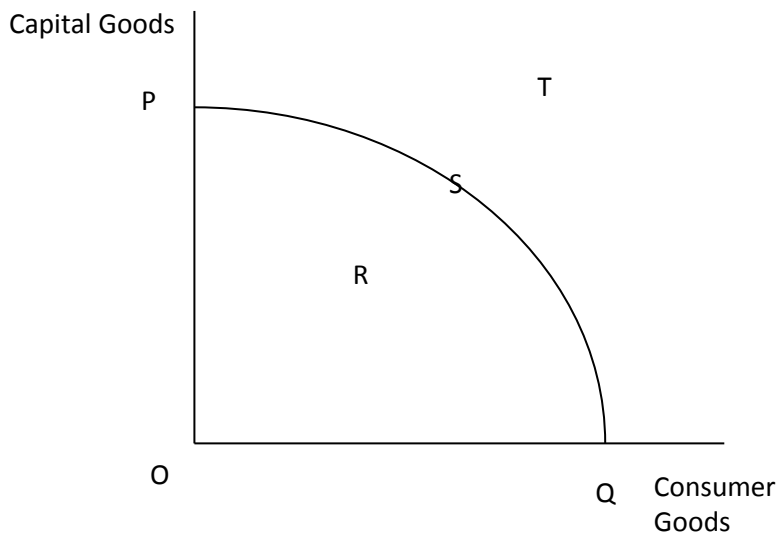
25. A family inherited £15,000 from a long lost aunt. They are weighing up whether to buy a new car **or** go on a trip to Australia for a month. They decide to go to Australia. The opportunity cost of this decision is
- A the cost of going to Australia.
 - B the cost of a buying a new car.
 - C the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

26. 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.

27. The production possibility diagram below shows various output choices P, Q, R, S and T.

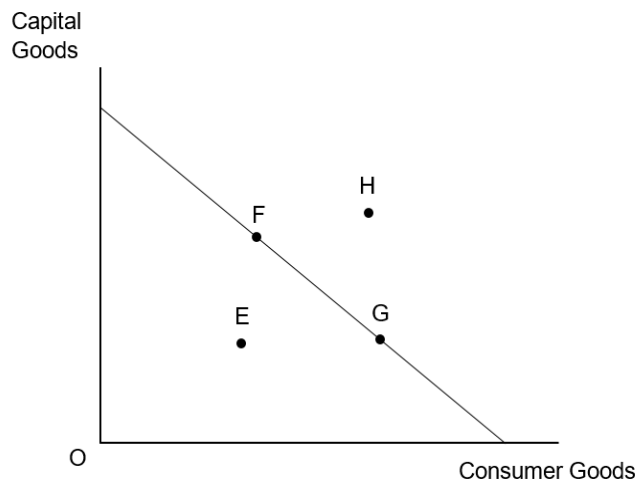


Which combination of capital and consumer goods could this country choose to produce?

- A points TSR
- B points PSQ
- C points TSQ
- D points SQPR**

Explanation: P, S and Q are all on the production possibility curve and are possible combinations of goods and services that can be produced. R is also possible because it is inside the curve. T, on the other hand, is outside the productive potential of the economy, given existing resources and technology.

28. 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.

29. All points on the production possibility curve show productive efficiency because
- A output is distributed equitably.
 - B the economy is producing the combination of output that consumers demand.
 - C the economy has reached its full long-term potential.
 - D the economy is producing at full current capacity.**

Explanation: The PPC tells us nothing about the distribution of output. Response B concerns allocative efficiency. This leaves the final responses which might be regarded as similar. The reason why D is the correct answer is that the PPC is drawn on the assumption of a fixed quantity of resources and no change in technology. This does not rule out an increase in capacity (ie productive potential) in the future.

30. Which one of the following statements is false? At all points on the production possibility curve
- A there is productive efficiency.
 - B resources are allocated efficiently.**
 - C resources are fully employed.
 - D the economy is working at its full potential.

Explanation: The production possibility curve (PPC) reflects the productive potential of the economy and therefore at any point on the curve the resources are fully employed, output is at its full potential (given resources and technology) and therefore there is productive efficiency. Allocative efficiency occurs when resources are allocated to provide consumers with the particular combination of goods and services they require at any moment of time. The PPC tells us nothing about consumer demand.