IB / A-Level Economics

Exam Preparation Notes

Introduction to Economics

Core concepts: scarcity, choice, efficiency, equity, economic well-being, sustainability, change, interdependence and intervention.

Scarcity finite resources, unlimited wants	**Choice** selecting between alternatives	**Efficiency** avoiding resource waste
Equity fairness and justice	**Economic well-being** prosperity and quality of life	**Sustainability** protecting future ability to meet needs
Change dynamic economies and theories	**Interdependence** decision-makers affect each other	**Intervention** government action in markets

How to use these notes

- Learn definitions precisely for AO1 marks.
- Practise explaining causal chains: scarcity -> choice -> opportunity cost -> efficiency.
- Use examples from consumers, firms, governments and societies.
- For evaluation, compare market-based choices with government intervention and sustainability concerns.

1. What economics studies

Economics examines how societies use scarce resources to satisfy unlimited needs and wants.

Economics is a social science. It studies human behaviour, social relationships and decision-making about the use of scarce resources. Economists build theories and models using logic and empirical evidence, but economic behaviour is complex because people are influenced by values, institutions, history, politics, psychology and the natural environment.

Natural sciences

- Study the physical and biological world.
- Often use controlled experiments.
- May produce highly predictable laws under fixed conditions.

Social sciences

- Study human society and human behaviour.
- Use evidence, models and theory, but human motives vary.
- Often include value judgments, institutions and policy debates.

Microeconomics and macroeconomics

Area	Main focus	Typical examples	Exam language
Microeconomics	Individual decision-making units such as consumers, households and firms.	Market prices, consumer choices, firm behaviour, market failure.	Use words such as consumer, producer, firm, market, demand, supply and price.
Macroeconomics	The economy as a whole, using aggregates or totals.	National income, total output, unemployment, inflation, economic growth.	Use words such as economy-wide, aggregate demand, aggregate supply, employment and price level.

Exam tip

When asked to distinguish, state both sides clearly. Example: microeconomics studies individual markets and decision-makers, whereas macroeconomics studies the economy as a whole using aggregates.

2. The nine central concepts

These concepts run throughout IB and A-level Economics and are useful for analysis and evaluation.

Scarcity Resources are limited while human needs and wants are unlimited.	**Choice** Scarcity means decision-makers must select between competing alternatives.	**Efficiency** Resources should be used in ways that avoid waste and maximise satisfaction.
Equity Fairness in outcomes, opportunities, income and wealth distribution.	**Economic well-being** Prosperity, living standards, security, quality of life and the ability to maintain these over time.	**Sustainability** Meeting present needs without reducing the ability of future generations to meet theirs.
Change Economic theories and real-world economies are dynamic and respond to changing variables and environments.	**Interdependence** Economic decision-makers depend on and affect one another locally and globally.	**Intervention** Government involvement in markets to pursue goals such as efficiency, equity, sustainability or well-being.

Key debates linked to these concepts

Debate	What it means	Evaluation angle
Growth vs equity	Economic growth may increase output and income, but the gains may not be distributed fairly.	Ask whether growth improves well-being for all groups or mainly benefits some people.
Free markets vs intervention	Markets can allocate resources efficiently, but may fail to achieve equity, sustainability or welfare goals.	Evaluate the trade-off between efficiency, freedom, fairness and government failure.
Growth vs sustainability	Unlimited growth using finite resources cannot continue indefinitely.	Consider whether short-term output gains create long-term environmental costs.

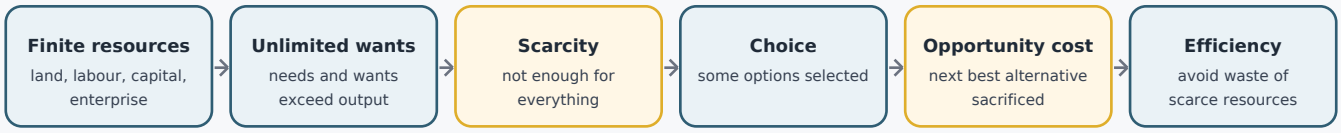
Exam command word practice

- Define: give a precise meaning.
- Explain: show how or why something happens, using economic reasoning.
- Evaluate: make a supported judgement, considering strengths, limits and trade-offs.

3. Scarcity, choice and the economic problem

The core of economics is the conflict between unlimited wants and finite resources.

Scarcity exists because resources, also called factors of production, are finite while human needs and wants are unlimited. Scarcity means society cannot produce every good and service people want. Therefore choices must be made about what to produce, how to produce it and who receives the output.



Core exam logic: scarcity forces choice; every choice creates an opportunity cost.

Precise definitions

Term	Definition	Example
Need	Something necessary for survival or basic well-being.	Food, shelter, clean water, basic healthcare.
Want	Something people would like to have but which is not essential for survival.	A luxury phone, holiday travel, designer clothes.
Goods	Physical objects that satisfy needs or wants.	Food, books, cars, computers.
Services	Non-physical activities that satisfy needs or wants.	Education, healthcare, banking, transport.
Resources / factors of production	Inputs used to produce goods and services.	Workers, factories, land, machines, entrepreneurship.
Scarcity	The situation in which finite resources cannot satisfy unlimited human needs and wants.	A government cannot fund every possible public project at once.

Why scarcity matters

- It forces consumers, firms, governments and societies to choose.
- It creates trade-offs: more of one option usually means less of another.
- It makes opportunity cost unavoidable.
- It makes efficiency important because wasted resources reduce possible well-being.

4. Sustainability and scarcity

Sustainability links present choices with future well-being.

Sustainable development means meeting the needs of the present without compromising future generations' ability to meet their own needs. In economics, sustainability is closely linked to scarcity because natural resources and environmental quality are limited. If current production and consumption deplete resources or damage the environment, future economic well-being is reduced.

Idea	Explanation	Example
Sustainability	Maintaining the ability of the economy and environment to satisfy needs and wants over time.	Managing forests so trees are replanted and regrow.
Sustainable resource use	Using renewable resources at a rate that allows them to reproduce or recover.	Fishing below the rate at which fish populations replace themselves.
Threat from high-income consumption	High output and consumption can rely on fossil fuels and pollution-intensive production.	Industrial air pollution, climate change, water pollution.
Threat from poverty	Very poor communities may damage the environment to survive in the short run.	Overgrazing, deforestation for fuel, soil erosion.

Short-run view

- Higher output can raise income and employment.
- More goods and services may improve living standards now.
- Firms and governments may prioritise growth.

Long-run view

- Pollution and resource depletion can reduce future well-being.
- Future generations may face fewer or lower-quality resources.
- Sustainable policies may require costs today.

Evaluation sentence starter

A strong answer recognises that economic growth can improve living standards, but if it relies on the unsustainable use of scarce natural capital, it may lower future economic well-being.

5. Factors of production

Resources are inputs used to produce goods and services.

Economists group resources into four broad factors of production: land, labour, capital and entrepreneurship. These are scarce, which is why societies cannot produce everything they want.

Factor	Meaning	Examples	Reward / role
Land	All natural resources used in production, including resources above and below the land.	Agricultural land, forests, rivers, oil, minerals, fish stocks.	Provides raw materials and environmental inputs.
Labour	The physical and mental effort people contribute to production.	Teachers, doctors, construction workers, economists, plumbers.	Supplies human work and skills.
Capital / physical capital	Man-made resources used to produce other goods and services.	Machinery, tools, factories, roads, airports, electricity networks.	Raises productive capacity.
Entrepreneurship	The human skill of organising factors, innovating and taking business risks.	Starting a business, developing new production methods, spotting market opportunities.	Coordinates production and accepts risk.

Common mistake

Do not define capital as money in this context. As a factor of production, capital means physical capital: man-made goods used to produce other goods and services.

Why entrepreneurship is separate from labour

Entrepreneurship is a human input, but it is treated separately from labour because it involves organising the other factors, innovating, seeking opportunities and taking the risk of business success or failure.

6. The different meanings of capital

Capital generally means resources that create future benefits.

The word capital has several meanings in economics. The common idea is that capital provides a future stream of benefits.

Type of capital	Meaning	Future benefit
Physical capital	Man-made inputs used to produce goods and services.	Increases future output and productivity.
Human capital	Skills, education, abilities, knowledge and health embodied in people.	Makes workers more productive and increases future earning potential.
Natural capital	Natural resources and environmental assets, including air, biodiversity, soil quality and climate.	Supports human survival, production and future well-being.
Financial capital	Money or financial assets such as stocks and bonds.	Can generate income or be used to purchase productive assets.

One-sentence summary

Capital is not always machinery. It can refer to physical, human, natural or financial resources that create future benefits.

Application examples

Scenario	Type of capital involved
A government builds a railway network.	Physical capital.
Students gain qualifications and job skills.	Human capital.
A country protects forests and clean rivers.	Natural capital.
A household buys shares or bonds.	Financial capital.

7. Opportunity cost

Every economic choice involves sacrificing the next best alternative.

Opportunity cost is the value of the next best alternative that must be given up when a choice is made. It arises because resources such as time, money, land, labour and capital are scarce.

Decision-maker	Choice made	Possible opportunity cost
Student	Studies economics for one hour.	The best alternative use of that hour, such as resting or meeting friends.
Consumer	Spends money on shoes.	The books, food or other best alternative purchase forgone.
Firm	Uses funds to buy machinery.	The marketing campaign or extra workers it could have funded instead.
Government	Spends on defence goods.	The food, healthcare or education that could have been funded instead.

How to identify opportunity cost

- Step 1: identify the choice actually made.
- Step 2: identify the next best alternative only, not every possible alternative.
- Step 3: state the value of that alternative as the opportunity cost.

Guns or butter example

If a society uses scarce resources to produce more defence goods, it must usually produce fewer consumer goods such as food. The opportunity cost of extra defence is the value of the food or other civilian goods sacrificed.

Exam warning

Opportunity cost is not the money price alone. It is the value of the next best alternative forgone.

8. Free goods and economic goods

Opportunity cost allows economists to classify goods by scarcity.

Type of good	Definition	Opportunity cost	Examples / notes
Free good	A good that is not scarce.	Zero opportunity cost.	Rare. Example: unobstructed sunshine in many situations or sand in the Sahara desert.
Economic good	A good that is scarce because it is naturally limited or produced using scarce resources.	Opportunity cost greater than zero.	Most goods and services: food, healthcare, public parks, roads, clean air in polluted areas.
Free of charge but not free good	A good that users do not pay for directly, but society uses scarce resources to provide it.	Positive opportunity cost.	Public education, healthcare services, roads, playgrounds and government services funded through taxes.
Common pool resource	A natural resource not privately owned and vulnerable to overuse.	Positive opportunity cost because it is scarce.	Clean air, forests, lakes, rivers, wildlife, fish stocks.

Key distinction

A good can be free of charge to the user but still be an economic good. The question is whether scarce resources were used or sacrificed, not whether the user paid directly.

Worked mini-example

Public parks are not free goods, even when users enter without paying. Land, workers, equipment and tax revenue are used to provide and maintain them. Therefore, they have an opportunity cost and are economic goods.

9. Exam skills: explaining, applying and evaluating

Use precise definitions and clear chains of reasoning.

Strong Economics answers combine definitions, explanation, examples and judgement. A short answer may only require AO1 and AO2, but longer answers need application and evaluation.

Skill	What to do	Example phrase
AO1 Knowledge	Define key terms accurately.	Scarcity is the situation where finite resources cannot satisfy unlimited wants.
AO2 Understanding	Explain the mechanism or causal link.	Because resources are scarce, society must choose how to allocate them.
Application	Use a relevant example.	For example, a government choosing between healthcare and defence spending faces a trade-off.
Evaluation	Make a judgement with limitations or trade-offs.	However, the best choice depends on social priorities, time period and effects on future generations.

High-value explanation chains

Question focus	Chain of reasoning to use
Why does economics study choice?	Unlimited wants + finite resources -> scarcity -> not everything can be produced -> decision-makers must choose.
Why does opportunity cost exist?	Scarcity -> choice -> the selected option uses resources -> next best alternative is sacrificed.
Why is efficiency important?	Scarce resources can be wasted -> wasted resources reduce output and well-being -> economists seek best use of resources.
Why is sustainability an economic issue?	Natural capital is scarce -> present use affects future availability -> current choices influence future well-being.

Model paragraph frame

Point: Scarcity forces choice. Explain: Since resources are finite but wants are unlimited, not all goods and services can be produced. Example: A government that spends more on defence may have fewer resources for healthcare. Link: The healthcare forgone is the opportunity cost of extra defence spending.

10. Practice questions

Exam-style revision tasks with marks guidance.

Question	Answer / marking guidance
1. Define scarcity. [2]	2 marks: finite/limited resources; unlimited needs/wants or insufficient resources to satisfy them.
2. Distinguish between microeconomics and macroeconomics. [4]	2 marks for micro focus on individuals/firms/markets; 2 marks for macro focus on whole economy/aggregates.
3. Explain why economics is considered a social science. [4]	Economics studies human society/behaviour and uses scientific methods, theory, models and evidence to analyse choices and well-being.
4. Using an example, explain opportunity cost. [4]	Define opportunity cost; give a choice; identify next best alternative forgone; link to scarcity.
5. Explain the relationship between scarcity and sustainability. [4]	Scarce natural resources and environmental quality mean current use can reduce future availability; sustainability aims to preserve ability to satisfy future needs.
6. Identify the four factors of production and give one example of each. [4]	Land, labour, capital, entrepreneurship, with accurate examples.
7. Explain why government-provided free healthcare is not a free good in economics. [3]	It uses scarce resources such as labour, buildings and tax revenue; therefore it has an opportunity cost and is an economic good.
8. Compare physical capital and human capital. [4]	Physical capital is man-made productive input; human capital is skills/education/health; both increase future productive capacity.
9. Explain one advantage and one disadvantage of government intervention in markets. [4]	Advantage may relate to equity/sustainability/market failure; disadvantage may relate to inefficiency, cost, information problems or government failure.
10. Evaluate the view that economic growth should always be the main economic objective. [8]	Balanced judgement: growth can increase output, jobs and incomes; but may worsen inequality, pollution and resource depletion. Strong answers link growth to equity, sustainability and well-being.

Checklist before a test

- Can you define scarcity, opportunity cost, sustainability and economic good without notes?
- Can you distinguish microeconomics from macroeconomics using examples?
- Can you explain why free of charge does not mean free good?
- Can you evaluate a policy using efficiency, equity, sustainability and well-being?