

O-Level Economics Notes

Paper 1 & Paper 2

Zubair Hussain

(0302-5557467)

Visiting Teacher

Beaconhouse

Lahore Grammar School

Lyceum

Green Hall Academy Gulberg

All rights reserved. No part of this publication may be reproduced, Stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the publisher.

Title	O-Level Economics Notes
Author	Zubair Hussain (0302-5557467)
Price	
Published by	MS Books (042-35774780)
Legal Advisor	Ashir Najeeb Khan (Advocate) AKBAR LAW CHAMBERS 39-40, 1 st Floor, Sadiq Plaza, The Mall, Lahore. 0307-4299886, 042-36314839
For Complaints/Order	MS Books 83-B Ghalib Market, Gulberg III Lahore (042-35774780),(03334504507),(03334548651)

PREFACE

My economics, Guidebook had been helping the Cambridge O level students since 2016. Cambridge has revised the syllabus of O Level Economics in 2023, I realized that no single O level economics book available in the domestic markets covered the all topics required by the CAIE syllabus. CAIE questions demand a variety of higher under skills like application, analysis and evaluation. This guide book, which is concise and comprehensive, emphasizes the skills Cambridge examiner look for and help the students write better developed answer. This guide book helping students to attain full grasp on syllabus and preparing them for paper 1 and paper 2. My guide book divided into six units according to the CAIE syllabus and the further subdivided into different topics with a separate chapter.

I am delighted to present my guide book, which is complete accordance with the revised O Level Economics syllabus for 2023, 2024 and 2025. I hope my readers will satisfy with the content that have been offer them and look forward for their feedback.

Thank you.

Malik Zubair Hussain Jhakar

TABLE OF CONTENTS

Sr No.	TOPIC	Page No
1.	The Basic Economic Problem <ul style="list-style-type: none"> • The nature of economic problem: 	7
2.	The Allocation of Resources <ul style="list-style-type: none"> • Microeconomics and macroeconomics: • The role of markets in allocating resources: • Price elasticity of demand and price elasticity of supply: • Determinants of PES: • Market failure: • Mixed economic system and Government intervention: 	12
3.	Microeconomic Decision Makers <ul style="list-style-type: none"> • Money and banking: • Households: • Labour market: • Trade unions: • Firms: • Causes and forms of the growth of firms: • Firms and production: • Firms' costs, revenue and objectives: • Market structure: 	39
4.	Government and The Macroeconomic <ul style="list-style-type: none"> • Fiscal policy: • Monetary policy: • Economic growth: • Employment and unemployment: • Inflation and deflation: 	66
5.	Economic Development <ul style="list-style-type: none"> • Poverty: • Population: • Differences in economic development between countries: 	86
6.	International Specialization <ul style="list-style-type: none"> • Globalization, free trade and protection: • Foreign exchange rates: • Current account of balance of payments: 	95

Unit 1

THE BASIC ECONOMIC PROBLEM

The nature of economic problem:

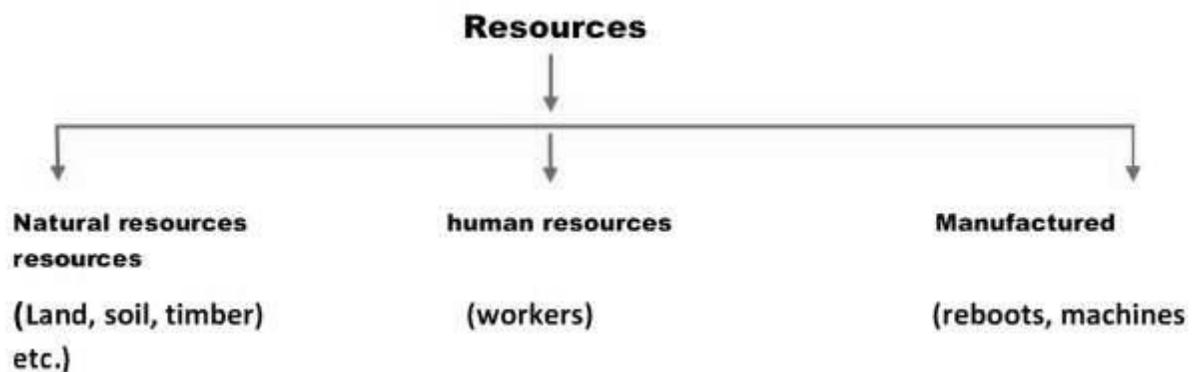
Economy: is an area where people produced, consumed the goods and services to satisfy their needs and wants.

Economics: is the social science which deals with the study of how to utilize the limited resources in efficient way to fulfill the maximum needs and wants of the people.

Finite resources and unlimited wants: Everyone has some basic needs to survive, food, shelter and clothing. However, apart from these needs, people have a never – ending list of goods and services they want, for instance, a luxury car, branded clothes and holidays etc.

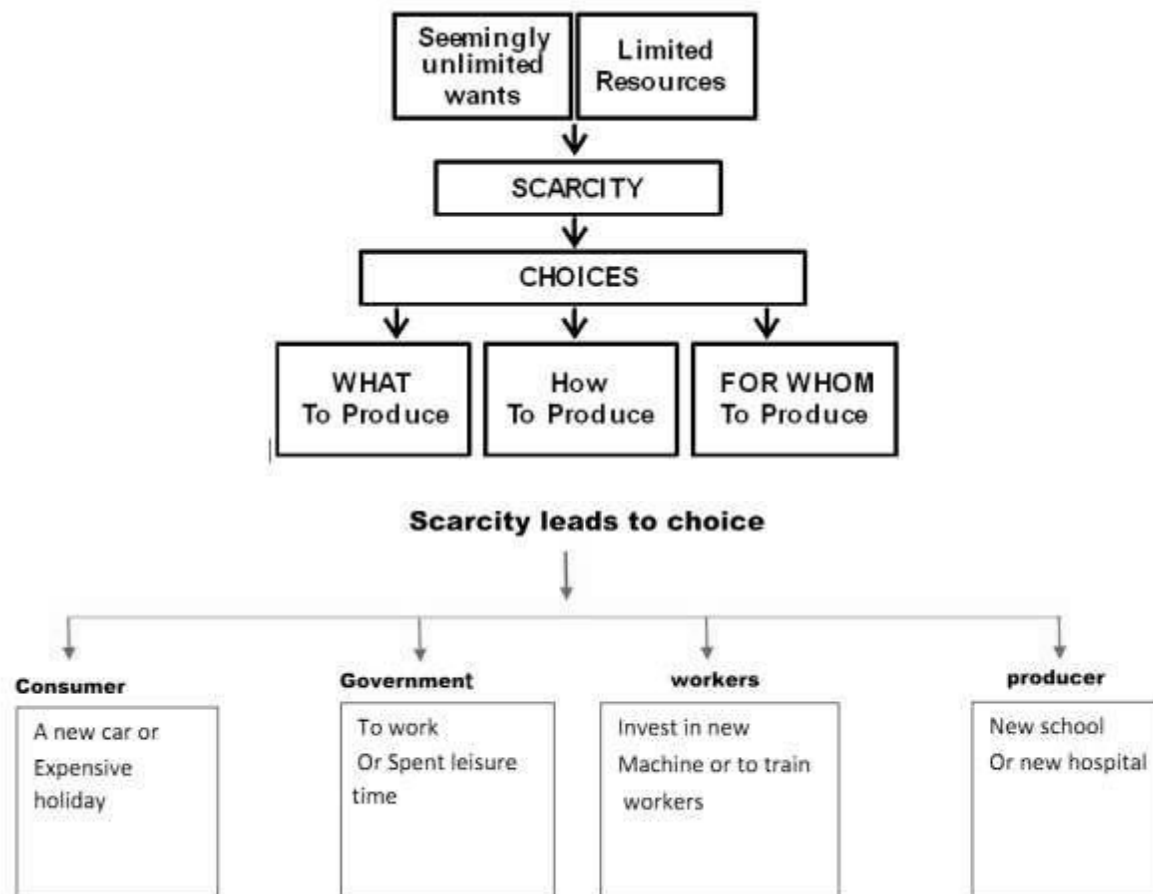
Need vs want: Goods and services necessary for survival known as need whereas goods and services not necessary for survival known as want.

Resources are used to produce goods and services to fulfill these needs and wants. They include natural resources and human resources and manufactured resources.



These resources can be economic and free, **Economic resources** are limited in supply and have opportunity cost (Land, Labour, capital and Enterprise), whereas, **free resources** have unlimited supply and zero opportunity cost (air, Sunlight etc.)

The economic problem: we have unlimited wants and limited resources to fulfill these wants, there arise a problem named as **scarcity**. Scarcity means there is lack of resources available to produce all the goods and services to satisfy these unlimited wants. Therefore, **choices** have to be made about production and consumption. The economic problem applies to more than just consumers. It applies to all areas of economy.



Economic goods vs free goods: Economic goods are limited in supply relative to the demand for them, whereas free goods that are supplied at zero cost because there are more than enough available to satisfy the demand for them.

Factors of production and their reward: Factor of production are the resources that people use to produce goods and services. Not any economic activity completed without these resources. These are following

- (i) **Land:** include all natural resources, this includes land itself but also natural resources that come from land, such as timber, minerals, fossil fuels etc.
- (ii) **Labour:** include all human resources used to produce the goods and services. This can be physical or mental effort.
- (iii) **Capital:** include all manmade resources, also known as manufactured resources used to produce goods and services. Capital include machines, factory, and office buildings and automated production tools.
- (iv) **Enterprise:** is ability to take risk and brings together all the other factors so that production of commodities can take place. The one who use this ability is known as entrepreneur.

Rewards of factors of production:

	land	labour	capital	enterprise
symbol	N	L	K	-
reward	Rent	wage	interest	profit

Mobility of factors of production: How it is easy or difficult for factors of production to be transferred to alternative use, for instance, **land** can often be adapted for other uses and **labour** can often be retrained to carry out other tasks. However, **capital** can be more difficult to move to alternative use, for instance, a machinery is made especially for the production of particular good or service, it will probably not be able to be used in any other production process of a good or service. Lastly, **Enterprise**, can be moved to alternative businesses based on the knowledge of alternative businesses.

Causes of the changes in the factors of production:

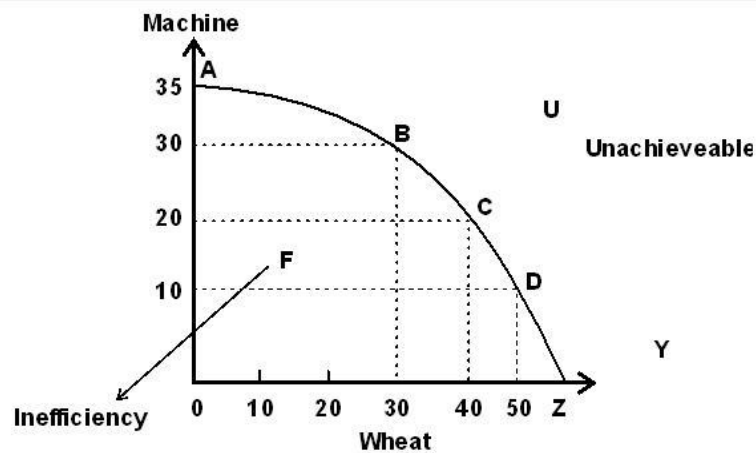
Quantitative change	Cause of change	Qualitative change	Cause of change
Land	Increase in natural resources, discovery of oil	Land	More productivity of land
Labour	Increase in the population	Labour	Increase in the skills
Capital	more no. of machines	Capital	More advance machinery
Enterprise	More entrepreneurs	Enterprise	Better management skills

Opportunity cost: The next best alternative forgone when making decisions in the process of production and consumption. For instance, a producers have to make decision which commodities to be produced because of limited resources. In the similar way consumers have to make decision which goods and services to be consumed because of limited budget.

Production possibility curve (PPC): PPC shows different combinations of two goods that are attainable, when all resources are fully and efficiently employed.

Assumptions of PPC:

- (i) Economy is producing only two goods
- (ii) All the resources to be utilized at full capacity
- (iii) All the resources are fixed



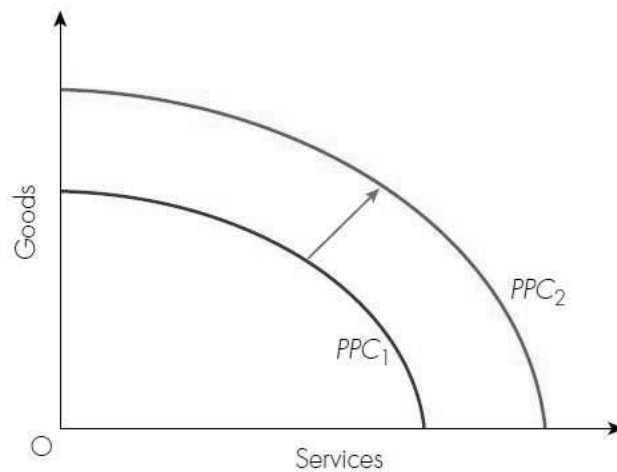
Economy is producing machines and wheat. We take the machines on y-axis whereas wheat on x-axis. At A, all of the resources are employed in the production of machines now we decided that we have to produce some of wheat so shift some of the resources towards the production of wheat at point B. similarly at point C and D we shift more resources towards the production of wheat and less of machines. The point inside PPC shows inefficiency that we are not using resources at full capacity. The point outside the PPC that is U shows we have not enough resources to attain that level of production. **One important point**, on the curve all point show resources are using efficiently.

PPC and opportunity cost: From PPC we can clearly judge the concept of opportunity cost. At PPC we move from point A to towards B for the production of wheat, we lose some units of machines that 5 units and we gain 30 units of wheat so 5 unit of machine which we forgo is the opportunity cost.

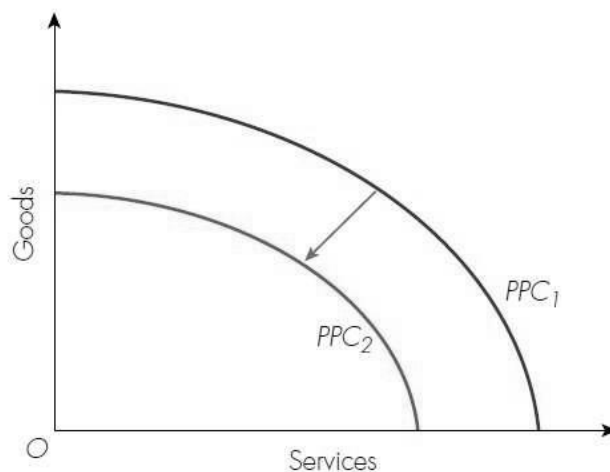
Shift of the PPC: shift of PPC is in **two** way

- (i) Outward shift of PPC (due to increase in resources qualitative and quantitative way)
- (ii) Inward shift of PPC (due to decrease in resources qualitative and quantitative way)

ZUBAIR HUSSAIN

Outward shift of the PPC:

The PPC is not fixed forever, if country discovers more resources, or its population increases or technology improve, or labor skill increases then PPC shift outward. PPC shift outward in the figure which shows country's capacity to produce goods increases.

Inward shift of the PPC:

If the country's resources decreased due to exploitation or might be due to earthquake, the PPC shift leftward as shown in Fig. This leftward shift shows decrease in resources.

MP
BOOKS