

## Learning activity 1 answers

### *True/False answers*

1. The opportunity cost of a choice is the value of the best, foregone opportunity.  
  1. True
  2. False
2. If John resigns from his salary-earning job to open his own business, the salary he previously earned must be included in the opportunity cost of the business.  
  1. True
  2. False
3. Economics studies human behaviour and is therefore classified as a social science.  
  1. True
  2. False
4. Economics studies human behaviour and is therefore classified as a natural science.  
  1. True
  2. False
5. The purpose of an economic system is to solve the three central economic questions (what? How? And for whom?)  
  1. True
  2. False
6. Economic systems are based on any or a combination of three coordinating mechanisms: Tradition, command and the market.  
  1. True
  2. False
7. The distinction between a market economy and a centrally planned economy lies in the type of coordinating mechanism used to solve the central economic questions.  
  1. True
  2. False

8. For a market to exist physical contact must take place between the prospective buyers and the prospective sellers of the good or service in question.
1. True
  2. False
9. Households are responsible for the spending on consumer goods.
1. True
  2. False
10. Firms are mainly involved in consumption while households are mainly involved in production.
1. True
  2. False

### ***Review answers***

1. Briefly explain the basic economic problem in your own words.

In this question, you have to refer to three aspects.

**Firstly**, the economic problem has to be explained by referring to the three basic questions to which the economic system must find answers. The questions are: **What** should be produced, **how** should goods be produced, and for whom should goods and services be produced?

**Secondly**, a discussion of the economic problem requires a definition of economics.

**Thirdly**, a description of the scarcity concepts (i.e. limited means and unlimited wants) is required.

2. Briefly explain the difference between a planned or command system and capitalist or market system.

Under a capitalist system, the government plays a secondary role to the private sector. Private property is allowed, and prices allow markets to coordinate the economy. Under a planned economy, the government plays the primary role in the economy. It decides 'what' must be produced, what 'resources' must be used and what 'wants' must be satisfied. Prices and markets play a limited role, if any, in the economy.

3. Explain in which type of system (market oriented or command) you are likely to find the following situations:

3.1 The government department of planning sets targets for infrastructure development for the next five years.

3.2 Due to the fall in the harvest of wheat in 2015, the price of bread will increase considerably.

3.3 The government does not vary from the legislated price of bread, despite the fall in the wheat harvest.

3.4 Investors are free to buy shares in both domestic and international companies.

1.1 **Planned system**

1.2 **Market system**

1.3 **Planned system**

1.4 **Market system**

4. Describe each of the factors of production listed below:

4.1 Land

4.2 Capital

4.3 Labour

4.4 Entrepreneurship

4.1 **Land** refers to the land and all natural resources used in the production process.

4.2 **Capital** refers to goods used in the production of other goods. In economics, it typically does not refer to money.

4.3 **Labour** refers to all the mental and physical resources provided by people.

4.4 **Entrepreneurship** refers to the ability of certain people to use their initiative and embark on business activities.

5. Classify each of the following according to a factor of production:

- 5.1 A bio-scientist working on a vaccine for Ebola.
- 5.2 A South African R200 banknote
- 5.3 The technology that transforms coal into electricity in power stations.
- 5.4 The physical labour of a builder.
- 5.5 The milk used to make cheese
- 5.6 A person buying clothing at a factory store and selling it again.
- 5.7 A professional soccer player.

- 5.1 Labour
- 5.2 Not a factor of production
- 5.3 Capital
- 5.4 Labour
- 5.5 Natural resource
- 5.6 Entrepreneur/labour
- 5.7 Labour