

# 1.4 Production Possibility Curves

## Question Paper

Course	CIE IGCSE Economics
Section	1. The Basic Economic Problem
Topic	1.4 Production Possibility Curves
Difficulty	Medium

**Time allowed:** 60  
**Score:** /42  
**Percentage:** /100

### **Question 1**

There is a range of factors that influence the supply of economic goods, including natural disasters. Recently a series of earthquakes in one country destroyed buildings, including factories and offices. One factory that survived has since increased its scale of production. This firm has employed more factors of production and has experienced a fall in its average cost of production.

**Analyse**, using a production possibility curve diagram (PPC), the effect of the destruction of some of its resources on an economy.

**[6 marks]**

### **Question 2**

The main industries in the Seychelles, an island country in the Indian ocean, are tourism and fishing. The price elasticity of supply of fish is affected by the relatively short time that fish can be stored. Economic goods and free goods play a role in both fishing and tourism. With rises in the skills of workers and an increase in enterprise, GDP per head has increased by more than seven times over the last fifty years.

**Analyse**, using a production possibility curve (PPC) diagram, the effect of an increase in enterprise on an economy.

**[6 marks]**

### **Question 3**

In March 2017, Peru was hit by floods and the strongest winds in decades. Roads, bridges, houses and capital goods were destroyed. It is expected that the damage caused will affect Peru's Human Development Index (HDI) and economic growth rate. In 2016, Peru experienced a 4% economic growth rate which was higher than the growth rate of the USA

**Analyse**, using a production possibility curve (PPC) diagram, the effect of damaging weather on an economy

**[6 marks]**

#### Question 4

Russia's birth rate fell by 11% in 2017 to its lowest level for a decade. Over the next 30 years, Russia's population is forecast to fall from 144 million to 107 million. The government announced measures to reverse this decline in population. In 2017, it also announced privatisation plans and measures to reverse a decrease in investment which could lead to a fall in the quantity of capital goods. Privatisation can reduce monopoly power in a market.

**Analyse**, using a production possibility curve (PPC) diagram, the effects of a decrease in the quantity of capital goods in an economy.

[6 marks]

#### Question 5

Estonia has one of the fastest internet speeds in the world. The government allows both direct and indirect taxes to be paid online. According to the World Bank, it is very easy for a firm to deal with construction permits and to register property in Estonia. A low level of government regulation affects how easy it is to start and to run a firm. Many new firms are labour-intensive but some become more capital-intensive as they grow.

**Analyse**, using a production possibility curve (PPC) diagram, the possible effects of faster internet speeds for economic growth.

[6 marks]

**Question 6**

In 2016, the Indonesian government increased its spending on healthcare and education and considered raising the school leaving age. The government also planned to increase taxation. Such a move might conflict with its aim of reducing unemployment at a time when a number of countries were at risk of entering a recession.

**Analyse**, using a production possibility curve (PPC) diagram, the effects of high unemployment in a country

**[6 marks]**

### **Question 7**

The production process in the oil industry is capital-intensive. The pollution it generates means it is one cause of environmental market failure. A Nigerian oil monopoly is starting to produce more environmentally friendly liquefied petroleum gas (LPG), rather than kerosene, in an attempt to reduce pollution. The Nigerian government intends to split the monopoly firm into separate companies to improve efficiency.

**Analyse**, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG.

**[6 marks]**