



# Topic Tests

## for AS and A Level Edexcel Economics B

Theme 1: Markets, Consumers and Firms

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# Teacher's Introduction

This resource consists of a set of Topic Tests that have been written to support the teaching of Theme 1: Markets, Consumers and Firms of the Edexcel B Economics specification. It allows teachers and students to check their understanding and consolidate knowledge of each part of the specification. In each Topic Test there is a mixture of numerical, multiple-choice, short-answer and essay-style questions of a variety of different difficulties. There are 9 Topic Tests in this resource, following the topics of the specification.

## Remember!

Always check the exam board website for new information, including changes to the specification and sample assessment material.

Importantly, each Topic Test is accompanied by a set of detailed answers that could be handed out to students as a basis for 'model' answers in the examination. Note that although the Topic Test questions aren't always in exam format, the questions within have been written carefully with the intention of testing the range of Assessment Objectives and often borrow aspects that are similar to those in the exam.

Most of the case studies in the Topic Tests include up-to-date economic data and scenarios that should place economic theory in recent history, enrich students' general knowledge of the subject, and prepare students for the Data Response aspects of the examination. Moreover, the resource also includes plenty of opportunities for students to practise the Quantitative Skills outlined in Appendix 3 of the Edexcel B specification.

Topic tests for Theme 1 range from 45–59 marks and should take approximately 40–60 minutes to complete. The tests should be presented to students *after* teaching the parts of the specification that are to be tested. However, the Topic Tests could also be given to students as homework in order to consolidate their knowledge outside of the classroom, or certain aspects could be used as a supplement to in-class learning.

Answers and indicative content are included at the end of the resource. To avoid repetition, the level descriptors for the 8-, 10-, 12- and 20-mark questions are provided in the Appendix.

It is important to note that this resource should be used as a complement to other resources such as textbooks and practice exam papers, and not in isolation. These Topic Tests include plenty of explanation of the theory in the mark scheme, but students should be encouraged to access information as widely as possible.

It is hoped that this resource, as well as offering support for teaching the essential elements of the specification, will help students fully prepare for their AS and A Level examinations. The economic environment is constantly in flux, and full of fascinating current issues. This resource attempts to share some of these current issues as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of Economists!

Happy teaching!

*February 2024*

## Test 1.1: Scarcity, choice and potential conflicts

- What is meant by the 'economic problem'?
- Identify which **three** of the following are 'needs'.
 

A Food	D Shelter
B Internet	E Holidays
C Jewellery	F Clothing
- What are the **three** basic economic questions?
- Explain, using an example, how scarcity necessarily means that economic agents must make choices.
- With reference to the concept of 'trade-offs', define the term opportunity cost.
- Explain **two** examples where a firm might trade off one business choice in favour of another.
- In Economics, we typically assume firms are aiming to maximise profits. Explain the profit maximisation objective and why a firm might choose that objective.
- Identify which of the following business objectives are being described.
 

• Survival	• Profit maximisation
• Market share	• Cost efficiency
• Customer satisfaction	• Social objectives

  - Increasing the amount of control that a business has over a particular market.
  - Ensuring that the end-user demand is fulfilled, leading to repeat purchases.
- What is meant by the business objective of profit satisfaction?
- Explain **two** reasons that a firm's managers might choose to satisfice rather than maximise.

Vinnie Mills and his husband, Aamir Kahn own and run a chocolate café. They also produce a variety of delicious chocolate gift boxes which they sell online. They started the café in West London and now have 27 cafés located all over the world. They are proud to say that they also own a plantation in Ghana which provides them with cocoa beans. They have a deep understanding of the cocoa process from tree to bar.

The entrepreneurs have seen incredible organic growth in the business over the years and want to open a series of cafés in Europe and for that they will need external investment. They are currently updating the company website and is considering including a CSR page.

- Explain the advantage of having a CSR policy to The Chocolate Guru.

Rod Campbell started a laundry service in Glasgow, Scotland. Inspired by his local business Eagle Express Laundry Ltd.

The laundry specialises in cleaning tablecloths and napkins from most of the hotels in Glasgow. The laundry is located in a busy part of town where there are lots of flats. Many of his closest neighbours have complained more than once to the local council about the smelly emissions from the laundry.

Over time the equipment that the laundry uses has grown old and parts to fix it are becoming obsolete. Rod is not keen to invest in new equipment even though he knows that the laundry are probably breaking government guidelines now. Rod also has a very strong dislike for smoke and a severe need of repair.

Since starting the limited company in 1990 Rod has sold shares to his friends and family, expanding the business. These investors expect a dividend on their investment and Rod when his costs rise.

- Assess the potential conflict between stakeholders of Eagle Express Laundry.

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## **Preview of Questions Ends Here**

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This is a limited inspection copy. Sample of questions ends here to avoid students previewing questions before they are set. See contents page for details of the rest of the resource.

## Answers

### Test 1.1: Scarcity, choice and potential conflicts

1. The 'economic problem' refers to the situation that arises in which an economy's resources are therefore, insufficient in being able to satisfy the *infinite* number of wants of economic agents. This is referred to as the problem of 'scarcity'.

*[2 marks for clear explanation of the BEP – answer has to include the idea of unlimited resources, whether referring explicitly or implicitly to scarcity]*

2. (A) Food, (D) Shelter and (E) Clothing are considered to be basic human 'needs'. The 'wants' because they are desires that aren't necessary for a comfortable existence but might be.

*[1 mark for each need identified correctly up to a total of 3 marks]*

3. 1. What should be produced?  
2. How should it be produced?  
3. For whom should it be produced?

*[1 mark for mostly correct response; 2 marks for correct response]*

4. Scarcity forces economic agents to make choices because the nature of having finite resources means that not all wants can be satisfied. Necessarily, using our resources for the consumption of something means we cannot use the same resources on something else. Agents consider their limited resources and then decide what they would like to consume. Individuals, therefore, must prioritise those items that are most important to their 'needs' – and then make choices about which of their 'wants' to satisfy. If scarcity did not exist, we would never be forced to make choices about production and consumption and Economics would not exist.

*[2 marks for a clear explanation of how scarcity forces choices to be made – i.e. an individual's limited set of resources]*

5. An 'opportunity cost' is the value of the *next best alternative forgone* arising from the choice of a particular course of action. Whenever an individual chooses to pursue some action – e.g. studying Economics – they forgo the benefits that would have arisen from all other possible decisions – e.g. studying Philosophy at university. They also forgo other options such as seeking employment instead. However, the only thing that would have arisen from the 'next-best' option is the opportunity cost.

*[2 marks for clear definition of an opportunity cost – the idea of a value placed on the next best alternative is central to the definition, and the idea that all decisions involve a trade-off but only the value of the next best alternative is the opportunity cost]*

6. Answers might include (but not be limited to):
- Spending more budget on sales and decreasing the operations budget
  - Releasing an upgraded product instead of a brand-new one
  - Hiring externally rather than from within
  - Improving the work environment rather than making more profit

*[1 mark for identifying a relevant scenario, 1 further mark for explaining the relevance]*

7. Typical alternatives to profit-maximisation as a business objective include:
- Revenue maximisation
  - Sales volume maximisation
  - Growth maximisation
  - Utility maximisation

Students should explain **one** of these objectives and explain some of the numerous reasons why a business' decision to maximise one alternative objective.

e.g. Firms that choose to pursue a strategy of 'revenue-maximisation'. Revenue-maximisation is a business objective in which the firm aims to maximise revenue rather than profit. This involves producing a quantity of output at which revenue is maximised which is likely to deviate from the condition of  $MR=MC$ . Firms that revenue maximise tend to produce a greater quantity of output, and the price charged for this output is necessarily lower.

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Firms might choose to revenue maximise if there is a division of ownership and managers often pursue revenue maximising objectives because their compensation can be related to revenue. Ultimately, whether a business follows an alternative objective will depend upon the preferences of the shareholders.

*[Maximum 4 marks. 2 marks for identifying and explaining one alternative maximisation objective and 2 marks for an explanation of the factors that could lead to it: at least one well-explained reason, or two less well-explained reasons.]*

8. (a) Market share (1)  
(b) Customer satisfaction (1)

*[Total 2 marks]*

9. Satisficing means pursuing a business objective in which the business makes 'just enough' profit to satisfy the shareholders' content – this is because shareholders' dividends ultimately depend upon profit.

*[2 marks for a clear explanation of a profit satisficing; 1 mark for an explanation that conveys the general meaning.]*

10. **Principal-Agent Problem:** Firms – if they are privately or publicly traded – usually experience a 'divergence of interest' between the shareholders (principal) and management (agent). They do not always operate in the manner that shareholders expect – e.g. the management department might pursue other objectives that might personally benefit them. Hence, the problem is to ensure that management behaves in a satisficing manner.

**Short-termism vs. Long-termism:** Firms can deviate from a profit-maximising position in the short term to be beneficial for long-term profitability – e.g. the firm might choose to maximise sales in the short term to consolidate its market position. Therefore, firms might satisfice in the short term in order to maximise long-term profitability.

*[2 marks each for a clear explanation of a reason that firms might choose to satisfice in the short term; 1 mark each for an explanation that is less clear but which conveys the general meaning.]*

11. CSR means corporate social responsibility and will involve how The Chocolate Guru operates. If it has a CSR page then the business may gain an improved reputation with its customers and attract "external investment" from investors. Aamir and Aamir want to continue to grow and expand their business and mean repeat business and customer loyalty. This means increased revenue and profit and investment in the business.

*1 mark available for knowledge and correct use of business terminology, plus a correct explanation of CSR. 2 marks available for using the business context, including use of quotes and examples. 1 mark available for analysis and developing points.*

12. A stakeholder is anyone who has an interest in and is affected by the actions of a business.

Possible content:

In this example of Eagle Express Laundry in Scotland the two stakeholders at conflict are the laundry (people who live in the nearby flats), who are impacted by the pollution, and the laundry owner. On the one hand Rod is trying to keep his shareholders happy by keeping costs of production down, but there is a conflict with his community and the government.

Possible counterbalance:

Rod's main responsibility as a business owner is to his shareholders. If they are demanding that he order to continue to trade he will have to ignore the complaints of the neighbours. If there was a laundry there when they moved in, so they don't really have a case against Eagle Express Laundry.

Possible conclusion:

If Rod maintained or replaced his machines (long-term thinking) then he would reduce the pollution and improve his relationships with the community and not infringe any laws. He may also find that this will lead to a more efficient laundry. This may reduce the average costs of each item to be cleaned.

*[10 marks]*

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## **Preview of Answers Ends Here**

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## Appendix: Level Grade Descriptor

### 8-mark questions

Level	Mark	Descriptor
	0	Completely incorrect
1	1–2	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>No or poor application of knowledge</li> <li>General arguments provided – poorly attempted</li> </ul>
2	3–5	<ul style="list-style-type: none"> <li>Correct understanding of theory</li> <li>Accurate but limited application of knowledge</li> <li>Attempt at developing arguments but they may be too simple or one or two insufficiently covered</li> <li>Some balance attempted in answer, though lacking in a range of</li> </ul>
3	6–8	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Consistent application of knowledge (evidence supported points)</li> <li>Good attempt at developing arguments – two reasons fully/deeply</li> <li>A well-balanced argument supported by qualitative and quantitative</li> </ul>

### 10-mark questions

Level	Mark	Descriptor
	0	Incorrect answer
1	1–2	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>No or poor application of knowledge (very little, if any, evidence)</li> <li>General arguments provided (question poorly addressed)</li> <li>No evidence of relevant context</li> </ul>
2	3–4	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>Some application of knowledge to the relevant context, but too limited</li> <li>Attempt at developing arguments but they may be too simple, or</li> <li>General but undeveloped arguments and comparison provided</li> </ul>
3	5–7	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Accurate though not comprehensive, application of knowledge</li> <li>Good attempt at developing arguments, and some balance demonstrated</li> <li>Some concluding remarks, supported by qualitative and quantitative</li> </ul>
4	8–10	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Consistent comprehensive application of knowledge clearly based on</li> <li>Articulate and rational development of arguments which are thorough</li> <li>Wide array of well-thought-out remarks, supported by qualitative</li> </ul>

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## 12-mark questions

Level	Mark	Descriptor
	0	Incorrect answer
1	1–2	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>No or poor application of knowledge (no or very little supporting evidence)</li> <li>General arguments provided (question not answered fully)</li> <li>No evidence of relevant context</li> </ul>
2	3–5	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>Some application of knowledge to a relevant context, but limited</li> <li>Attempt at developing arguments but they may be too simple, imprecise or generic</li> <li>General arguments provided, comparisons and evaluation weak</li> </ul>
3	6–8	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Accurate application of knowledge and good use of relevant context</li> <li>Good attempt at developing arguments</li> <li>Some concluding remarks, supported by qualitative and quantitative data, some balanced</li> </ul>
4	10–12	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Consistent and comprehensive application of knowledge which is relevant to the context throughout</li> <li>Articulate and rational development of arguments which are thorough</li> <li>Wide array of well-thought-out and well-balanced concluding remarks, supported by qualitative and quantitative data</li> </ul>

## 20-mark questions

Level	Mark	Descriptor
	0	Incorrect answer
1	1–4	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>No or poor application of knowledge (no or very little supporting evidence)</li> <li>General arguments provided (question not answered fully)</li> <li>No evidence of relevant context</li> </ul>
2	5–9	<ul style="list-style-type: none"> <li>Some understanding of theory</li> <li>Some application of knowledge</li> <li>Attempt at developing arguments but they may be too simple or imprecise or generic</li> <li>General arguments provided which may be generic or unsupported</li> </ul>
3	10–15	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Accurate application of knowledge to relevant context, though limited</li> <li>Good attempt at developing arguments which demonstrate some understanding</li> <li>Some concluding remarks, supported by qualitative and quantitative data, some balanced</li> </ul>
4	16–20	<ul style="list-style-type: none"> <li>Correct and detailed understanding of theory</li> <li>Consistent and comprehensive application of knowledge which is relevant to the context throughout</li> <li>Articulate and rational development of arguments</li> <li>Wide array of well-thought-out remarks, supported by qualitative and quantitative data</li> <li>Question/challenge addressed and conclusion justified with well-balanced arguments</li> </ul>

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