Unit 1 Fundamental Economic Concepts

SSEF1-SSEF1

Unit 1A: Test SOON!

What is Economics?

What is Economics?

- Economics is the study of how people seek to satisfy their needs and wants by making choices.

- A social scientist studying the allocation of scarce resources and goods.
- <u>Allocate-</u> Distribute according to some plan or system.

SSEF1

- The student will explain why limited productive resources and unlimited wants result in scarcity, opportunity costs, and tradeoffs for individuals, businesses, and governments.

SSEF1: Element A

Define scarcity as a basic condition that exists when unlimited wants exceed limited productive resources.

1. Scarcity and Choice

- A “need” is something that is necessary for survival (food, air, shelter)
- A “want” is something we desire that is not essential to survival.

- Wants are unlimited while the resources (i.e. Money) are not!

Scarce:

- Short in supply

Scarcity

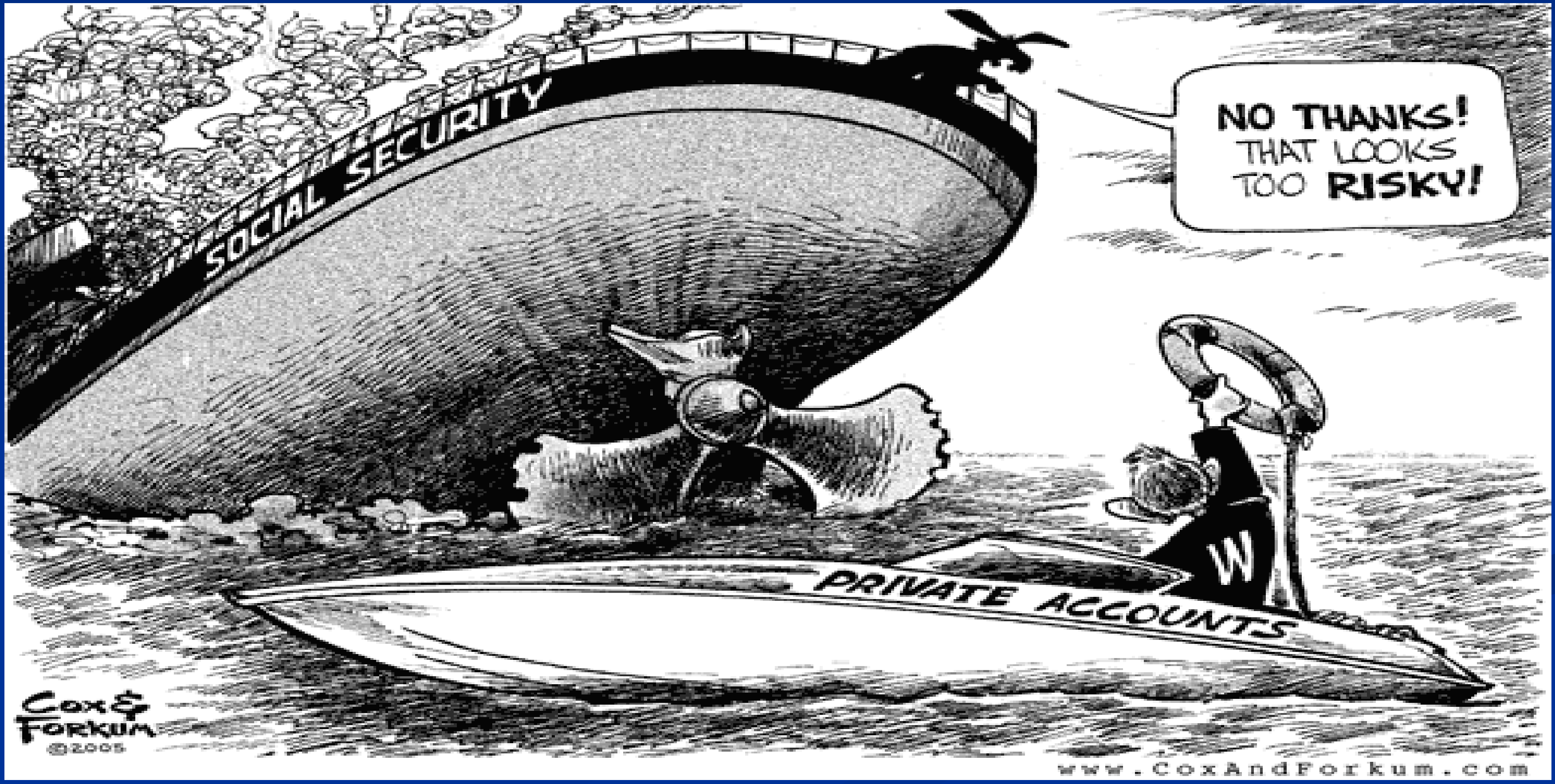
- Scarcity implies limited quantities of resources to meet unlimited wants.
- Unlimited wants exceed limited resources
- **<u>Economics</u> attempts to solve the problem of scarcity.**

Shortage vs. Scarcity

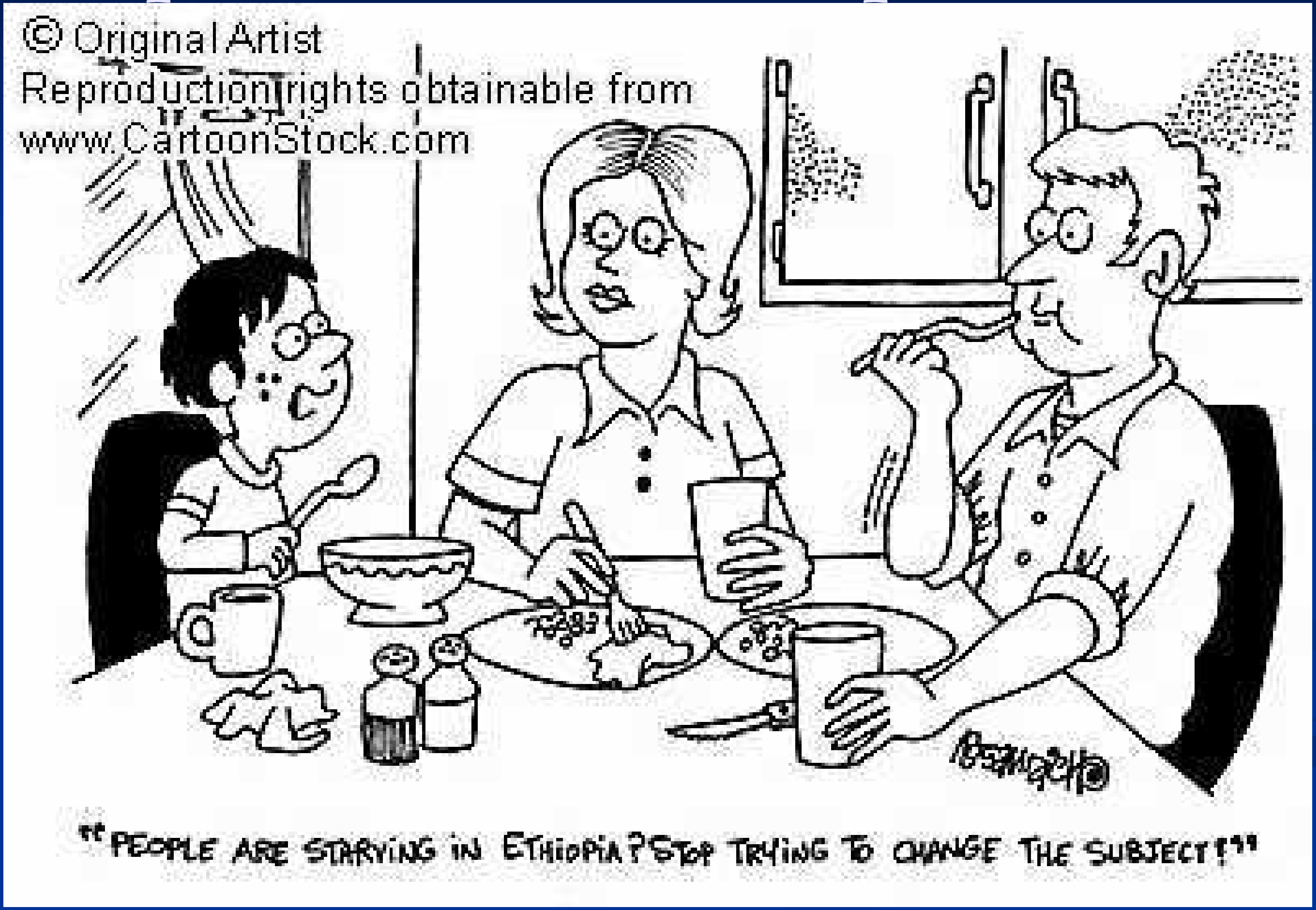
- A "shortage occurs" when producers will not or cannot offer goods or services.
- Shortages can be temporary or long term.
- "Scarcity" ***always*** exists because our needs and wants are always greater than our resource supply.

What does this picture represent?

- Why is social security a scarce resource?



What type of scarcity does this political cartoon represent?



SSEF1: Element B

Define and give examples of productive resources (factors of production) (e.g., land (natural), labor (human), capital (capital goods), entrepreneurship).

What resources were used to produce the fruits and vegetables shown here?

Answer: #1

- Natural Resources: are all of the raw materals in nature used to produce what humans need or want!

2. Resources

- Defined as those things which humans can put to productive use.

3. Productive Resources

- Resources need to be properly processed in order to produce things that are needed and/or wanted.

4. Factors of Production

- Economists call the resources that are used to make all goods and services the factors of production.
- **Four basic Factors of production: land, labor, entrepreneurship and capital (human and physical).**

i. Resource/Factors of Production

- The inputs land, labor, capitol, and entrepreneurship- used by society to produce outputs which are often finished products… example: Hamburgers!

Factors of Production (cont.)

- *Capital* is any **human-made resource** that is used to produce other goods and services.

a. *Land* refers to all natural resources used to produce goods and services.

Land cont.

It is more than the land we stand on it is timber, water, iron ore, crude oil, natural gas, coal, fish, uranium.

- *b. Labor* is the effort that a person devotes to a task for which that person is paid.

- Contribution by the human workers to the production process.
- Labor Includes: Physical and Mental efforts, highly skilled, and un skilled. A Doctor and an assembly-line work are all equal!

c. Capital

- Physical capital includes buildings, machinery, tools, all structures and equipment used in the manufacturing process. etc.
- *Human capital* is the knowledge and skills a worker gains through education and experience.

- It assists in saving time and money when producing goods.

d. Entrepreneurship

- A specific form of labor. It consist of the creative, managerial, and risk-taking capabilities that are involved in starting up and running a business.

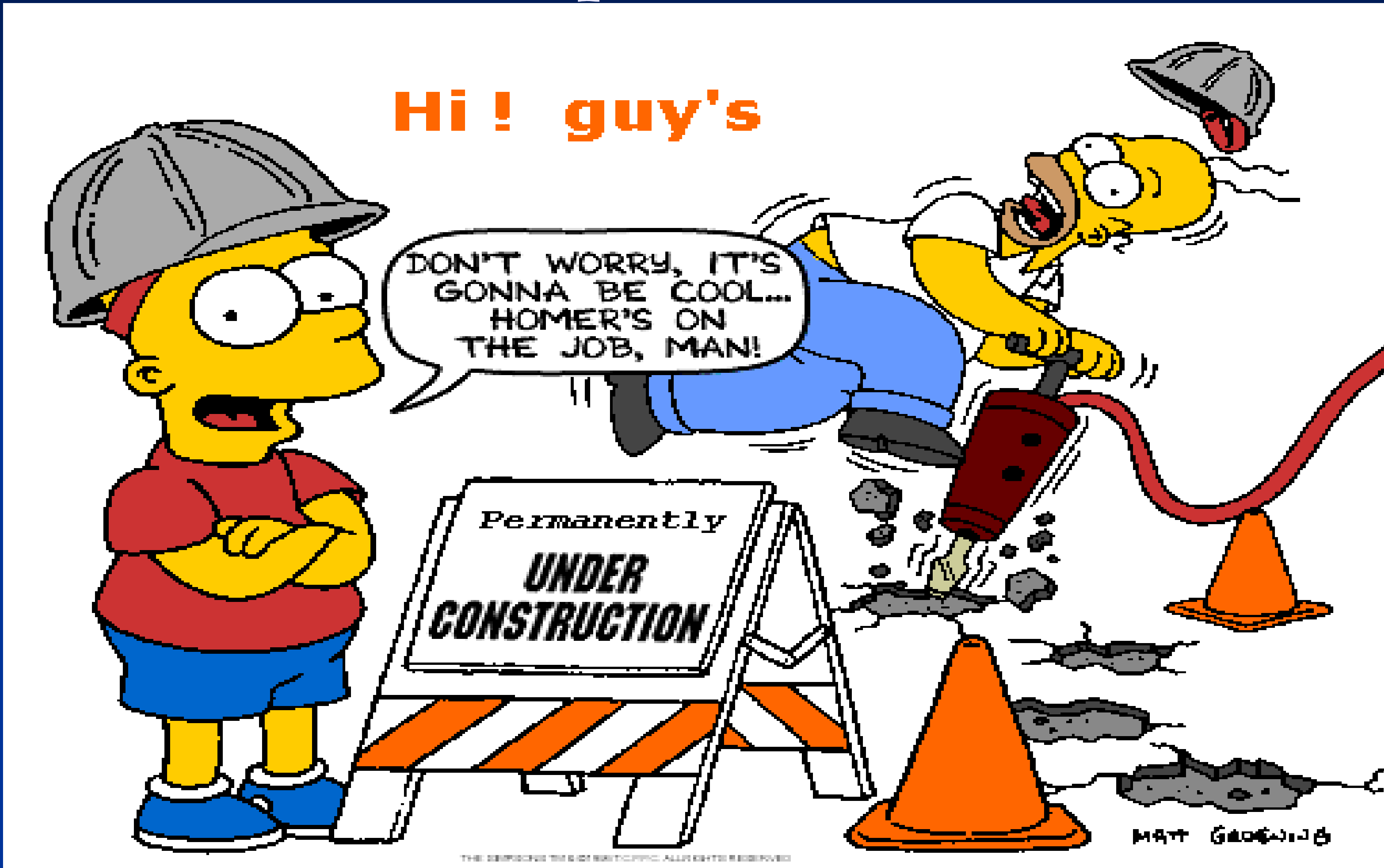
5. Goods vs. Services

- Goods are physical objects such as shoes and shirts.
- Services are actions or activities that one person performs for another.

Closing Thought

- All goods and services are scarce because the land, labor, and capital used to create them are scarce.

Can you identify the physical capital and human capital in this cartoon?



Where did they come from????

Journey of the French Fry…

- Journey of the French Fry….
- Started as a potato; planted in soil, had to be watered, fertilized, harvested, processed, frozen, transported to a supermarket.
- Cooked, sprinkled with salt, and eaten.

Scarce resources used to make the French Fry…

- Land: Small quantity of land for agriculture
- Labor: Limited amount of people available to plant, harvest, and process the potato crops.
- Physical Capital: farming equipment

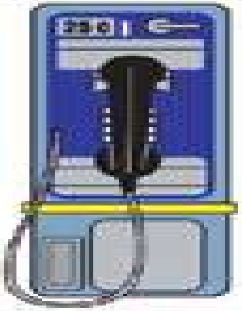
Pop Quiz: Good or Service

- Number Your Paper 1-12.
- Good or Service

1

a good ☐ or a service ☐

2



a good ☐ or a service ☐

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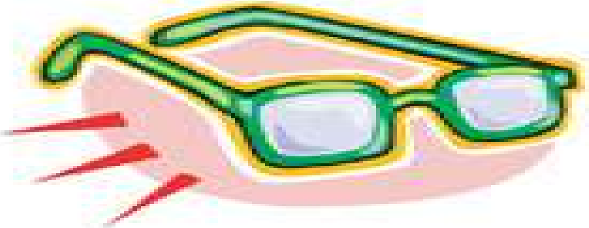
a good ☐ or a service ☐

4

a good ☐ or a service ☐

5



a good ☐ or a service ☐

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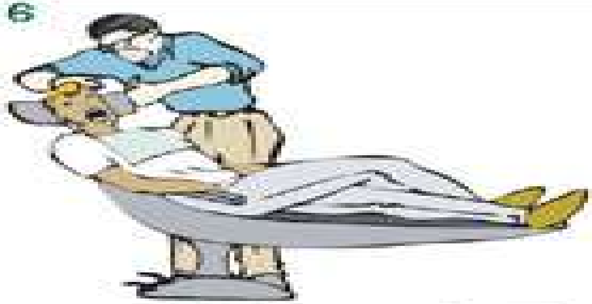

a good ☐ or a service ☐

7

a good ☐ or a service ☐

8

a good ☐ or a service ☐

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a good ☐ or a service ☐

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a good ☐ or a service ☐

11

a good ☐ or a service ☐

12

a good ☐ or a service ☐

SSEF1: Element C

List a variety of strategies for allocating scarce resources.

1. Scarcity:

- Is the lack of adequate resources to obtain all of one's wants.

Complete the following to turn in for a grade!

- An item's scarcity decreases and it becomes less costly as it becomes more common and/or demand for it diminishes.
- List Five Items that have become less scarce, more common and the demand has diminished. Since you where in 9th grade!

2. Strategies

a. Higher Prices. By raising prices, companies limit the number of consumers who can actually buy the product. This allows the producers to still make money while making sure the limited supply of a product lasts longer than it normally would have

b. Government Regulation

- Government establishes price ceiling or price floor

i. **Price ceiling**: means that the price of a certain good or service is not allowed to rise above a certain level.

ii. **Price floor**: means that a certain good or service is not allowed to drop below a certain price

iii. **Rationing**: only allows citizens to purchase so much of a scarce good to make sure there is enough

iv. Lotteries: ex. Ga Pre-K

v. Markets: Farmers Market: Local Goods

vi. Redistribution of Income: Income tax used to provide Government Aid.

Summary Questions to turn in!

- How is price an incentive for producers and consumers?
- Describe the three ways government controls the allocation of resources?

SSEF1: Element D

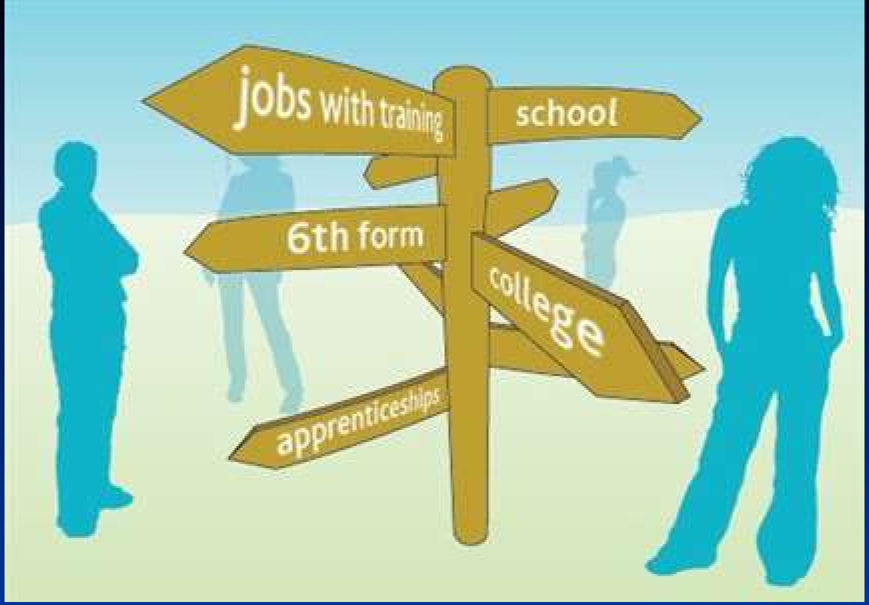
Define opportunity cost as the next best alternative given up when individuals, businesses, and governments confront scarcity by making choices.

1. Trade-off

- Every time people make a choice about how to use their resources, the must make a trade-off! People gain something, but also give up something!

2. Opportunity Cost

- Is the option you gave up by making a choice.
- You face an opportunity cost every time you decide how to use your scarce productive resource!



Making Choices…EFFICIENTLY

SSEF2: The student will give examples of how rational decision making entails comparing the marginal benefits and the marginal costs of an action.

SSEF2: Element A.

a. Illustrate by means of a production possibilities curve the trade offs between two options.

- Choices: the Decision to produce one good instead of another.

Think about it…

Fred is a businessman - he sells snack foods to students at Mays. He is only able to sell a maximum of 21 bags (per class period) of Flaming Hots or 15 Capri Sun drinks (per class period). He has found that the best combination of sales are: 15 Capri Suns (CS) and 0 Flaming Hots (FH); 8 FH and 14 CS; 14 FH and 12 CS; 18 FH and 9 CS; 20 FH and 5 CS; 21 FH and 0 CS. However, his cousin suggested he try to sale 10 bags of Flaming Hots and 12 Capri Suns. Would following his cousin's advice be the most productive?

Remember:

- Trade Offs are **all the alternatives that we give up** whenever we choose one course of action over another.

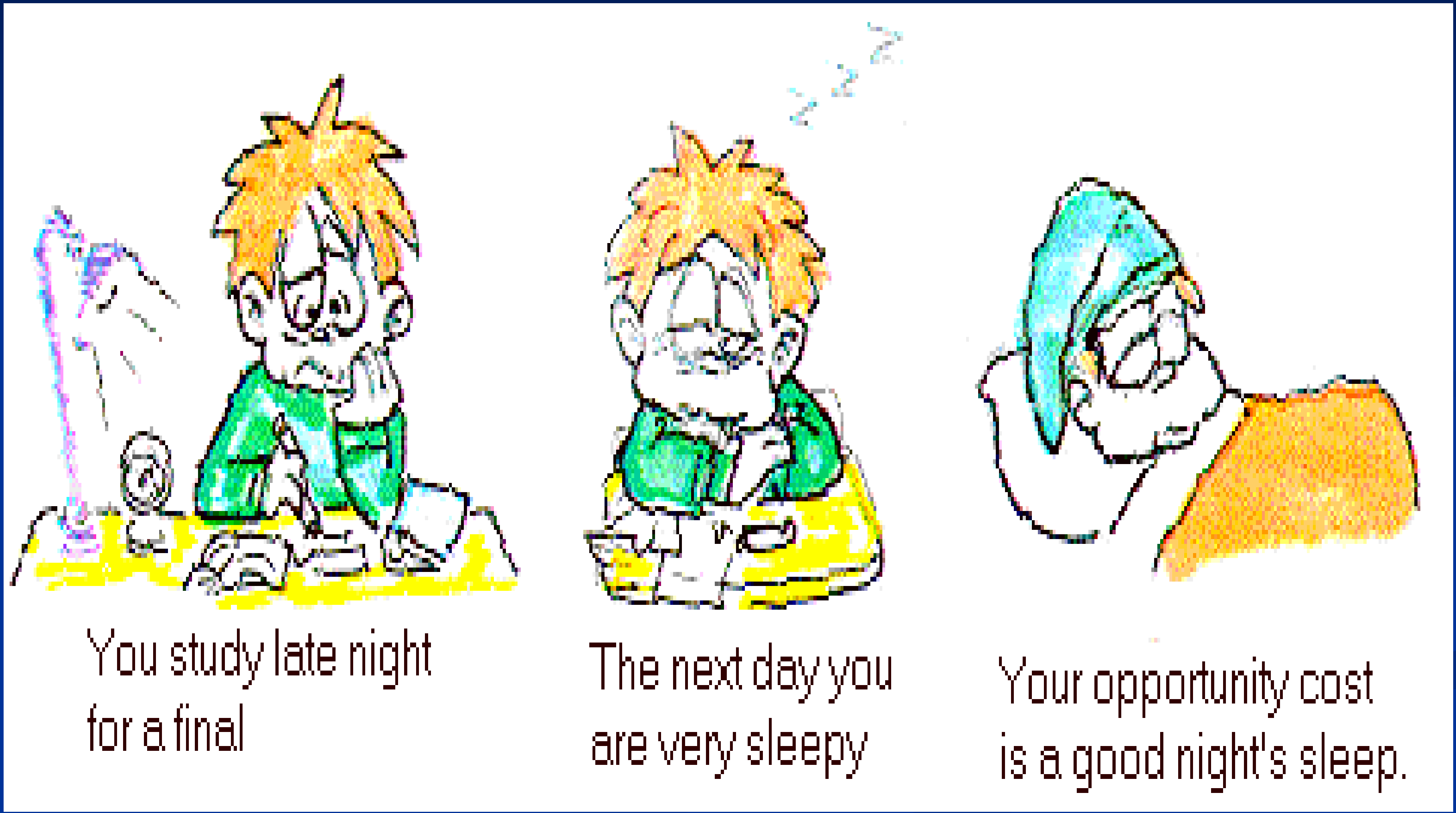
Types of Trade-Offs

- Individual Trade Offs
- Businesses Trade Offs
- **Society Trade Offs: “Guns or Butter”**
  - **Should we produce more military goods (“guns”) or more consumer goods (ex. “butter”)?**

Remember: Opportunity Costs

- The **most desirable alternative given up** as the result of a decision is called the opportunity cost.
- The Items we give up by making a choice.

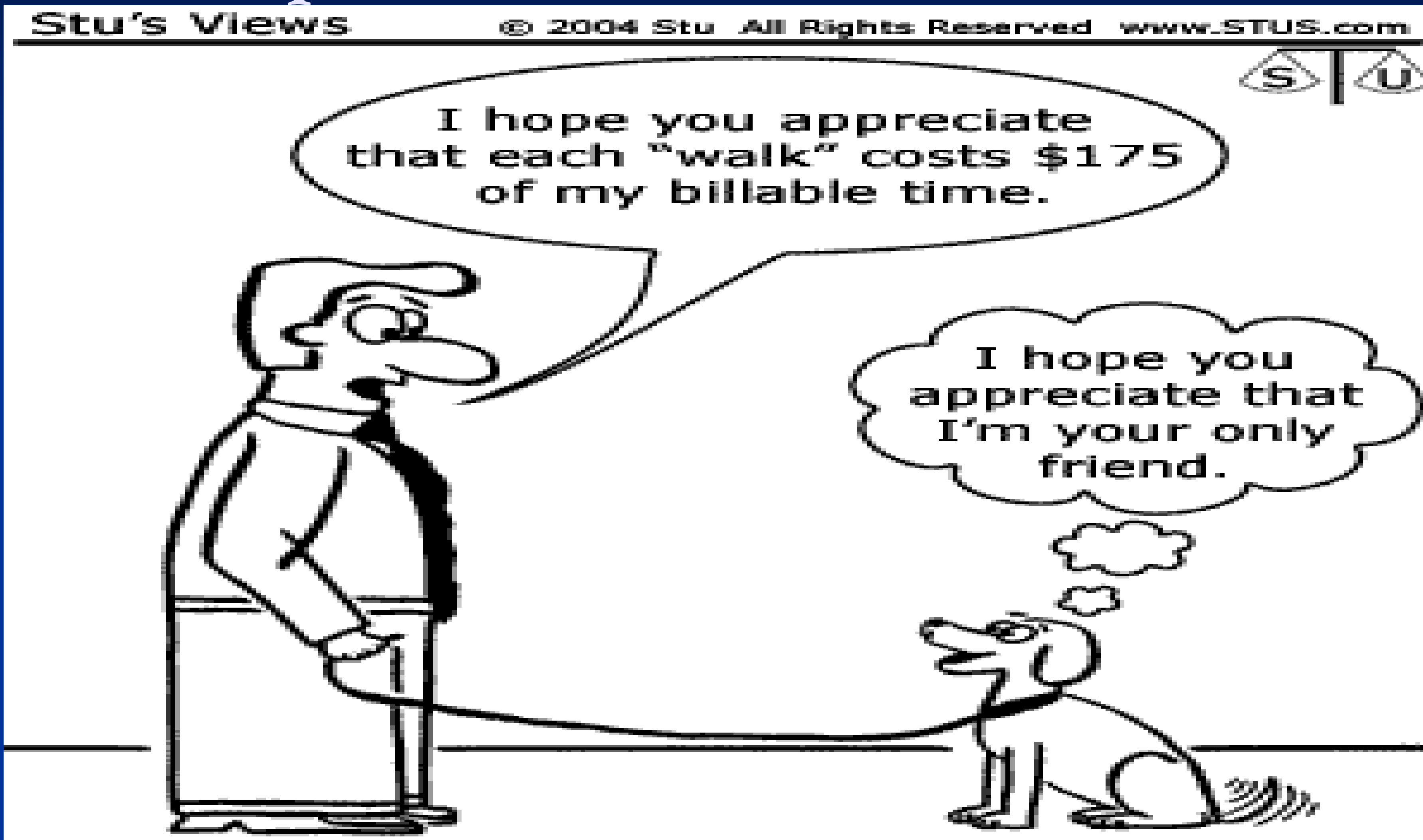
How could this have been prevented?



?????

- If you choose to use your savings to pay off a credit card bill instead of going on the senior trip, what is your opportunity cost?

What is the opportunity cost represented in this cartoon?



- Opportunity Cost is associated with scarcity. Why?
- OC is the value of the best alternative forgone when a choice is made

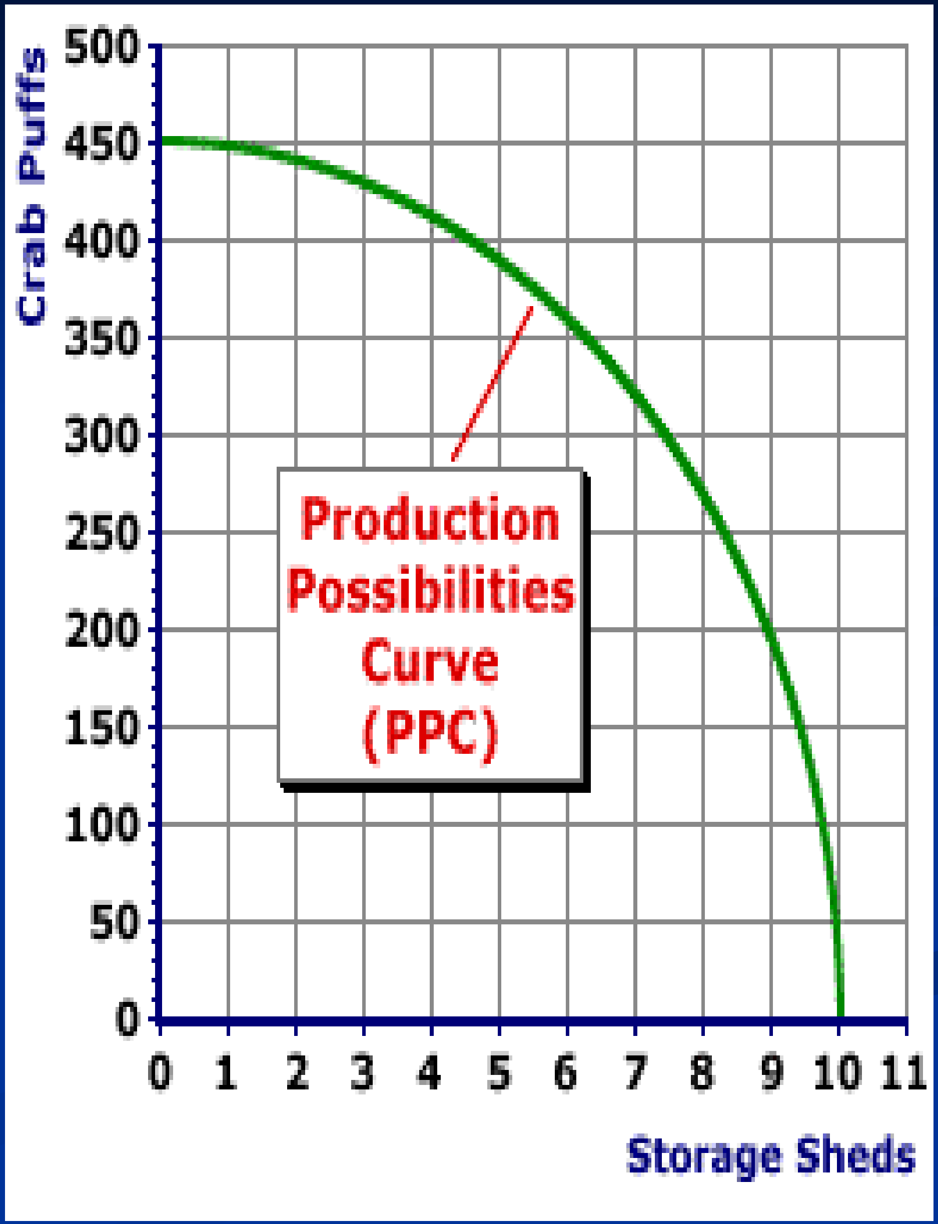
- Every economic decision must determine which tradeoffs are most beneficial. Trade-offs involves giving up one option for another.
- How was this train of thought reflected in the previous debate over the debt in Washington, D.C.?

1. Production Possibilities Curve:

- Depicts how much of a particular product can be produced given the limited amount of resources at a company or individuals disposal.

Productions Possibilities Curve (PPC)

- Graphical representation of how an economy makes decisions
- Shows the <u>choices</u> an economy can make with respect to its <u>available resources</u>



Interpreting the PPC

- All points on the curve represent the <u>efficient</u> production of goods and services (you are using your resources well)
- Any point inside the curve represents an underutilization of resources (you're wasting resources – could be producing more)

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Interpreting the PPC/PPF

- **Points on the curve** – efficient combination of goods/services
- **Points inside (under) the curve** – inefficient use of resources
- **Points outside the curve** – unattainable points (current productive resources will not allow the economy to produce

Why are PPCs/PPFs valuable to decision-makers?

- Graphical illustration of opportunity cost to produce more or one good (or service)
- Shows how efficient (or inefficient) an economy is working
- Shows growth or reduction

Why would the PPC/PPF move?

- When the quantity or quality of land, labor, capital, or technology grows, the ENTIRE PPC will *shift to the right*
- When the quantity or quality of land, labor, and capital shrinks, the ENTIRE PPC will *shift to the left*

SSEF2: Element B

Explain that rational decisions occur when the marginal benefits of an action equal or exceed the marginal costs.

1. Marginal Cost

- Is the cost of the decision once it is weighted against the benefits.

2. Marginal Benefits

- Refers to the amount of Benefit a person, business, or government receives once the cost of their decision is considered.

Marginal Costs vs. Marginal Benefits

- The additional cost incurred from one more unit (cost of processing one more item)
- The additional benefit gained from one more unit (benefit associated with that one additional item)

3. Thinking at the Margin

- When you're trying to decide, "how much more, or how much less?"…you are ***thinking at the margin***

Rational Decisions are made when the marginal benefits equal or exceed marginal costs

4. What is processing?

Opportunity Cost:

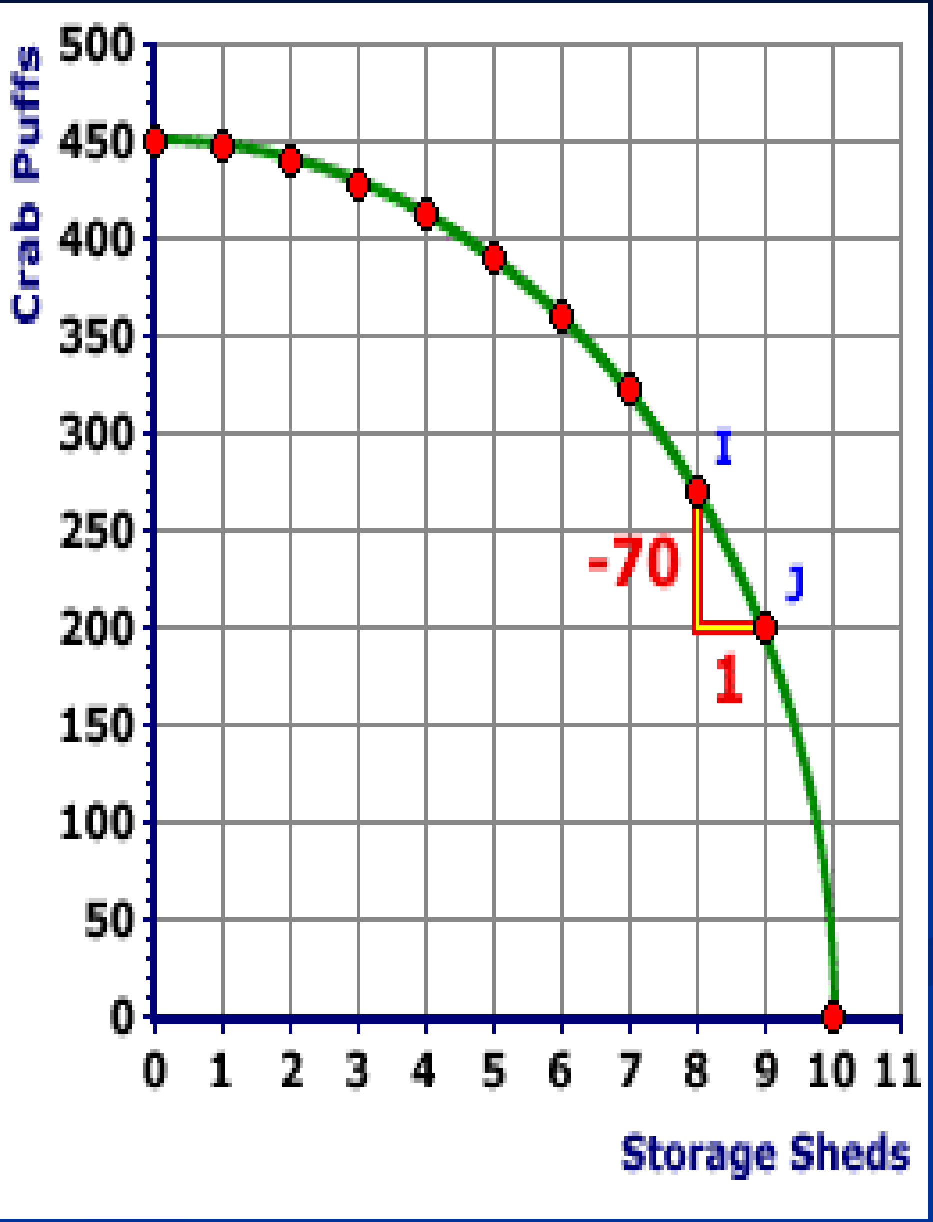
- Value of the alternative option that is lost when an individual, business, or government make a decision.

Opportunity Costs and the PPC/PPF

- The PPC/PPF is a graphical illustration of the opportunity cost involved in producing more of one good (or service)

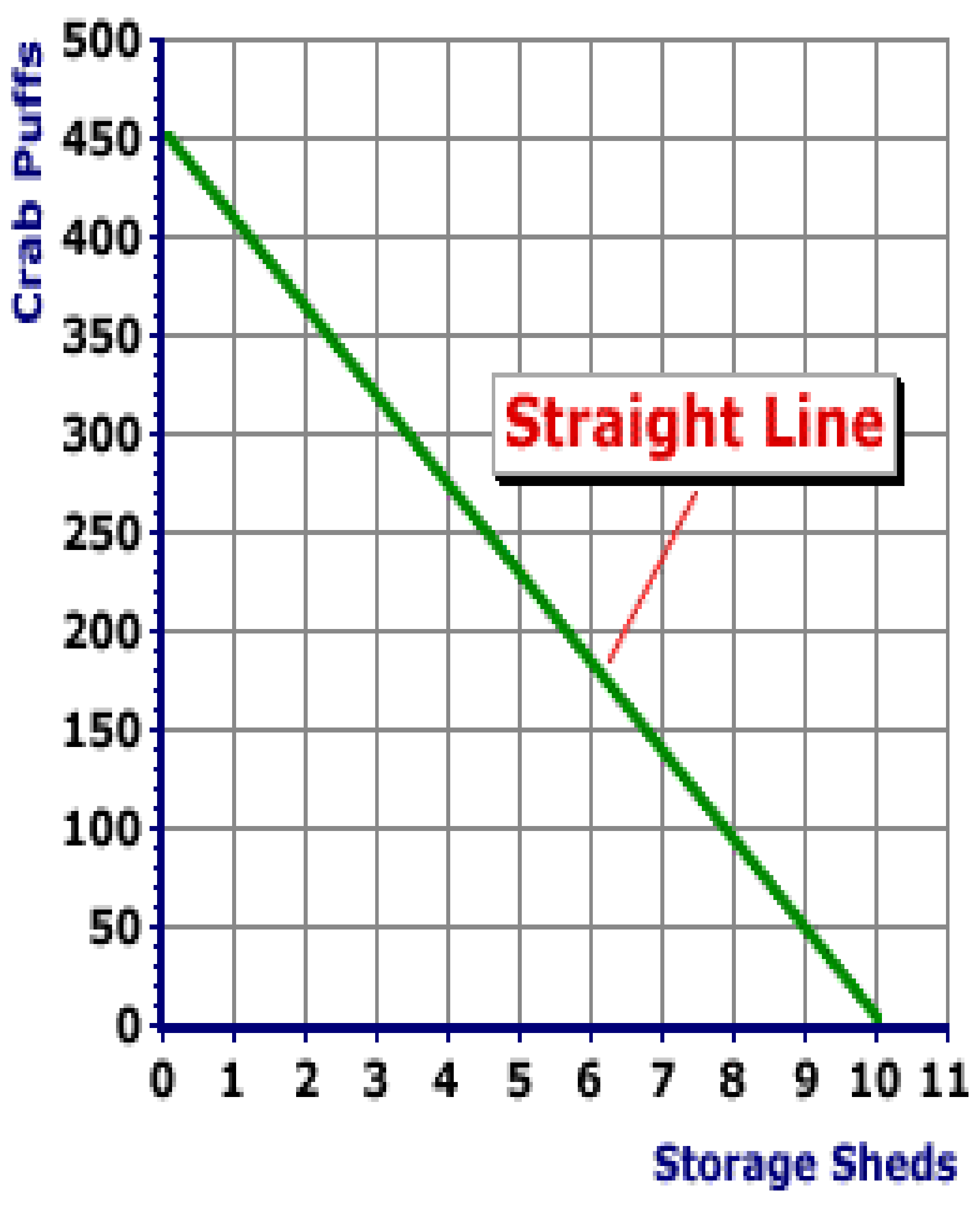
Increasing Opportunity Cost

- A convex curve always indicates increasing opportunity cost.
- The opportunity cost of an additional storage shed (8 to 9) is 70 crab puffs.
- Storage shed production results in increasing opportunity costs.



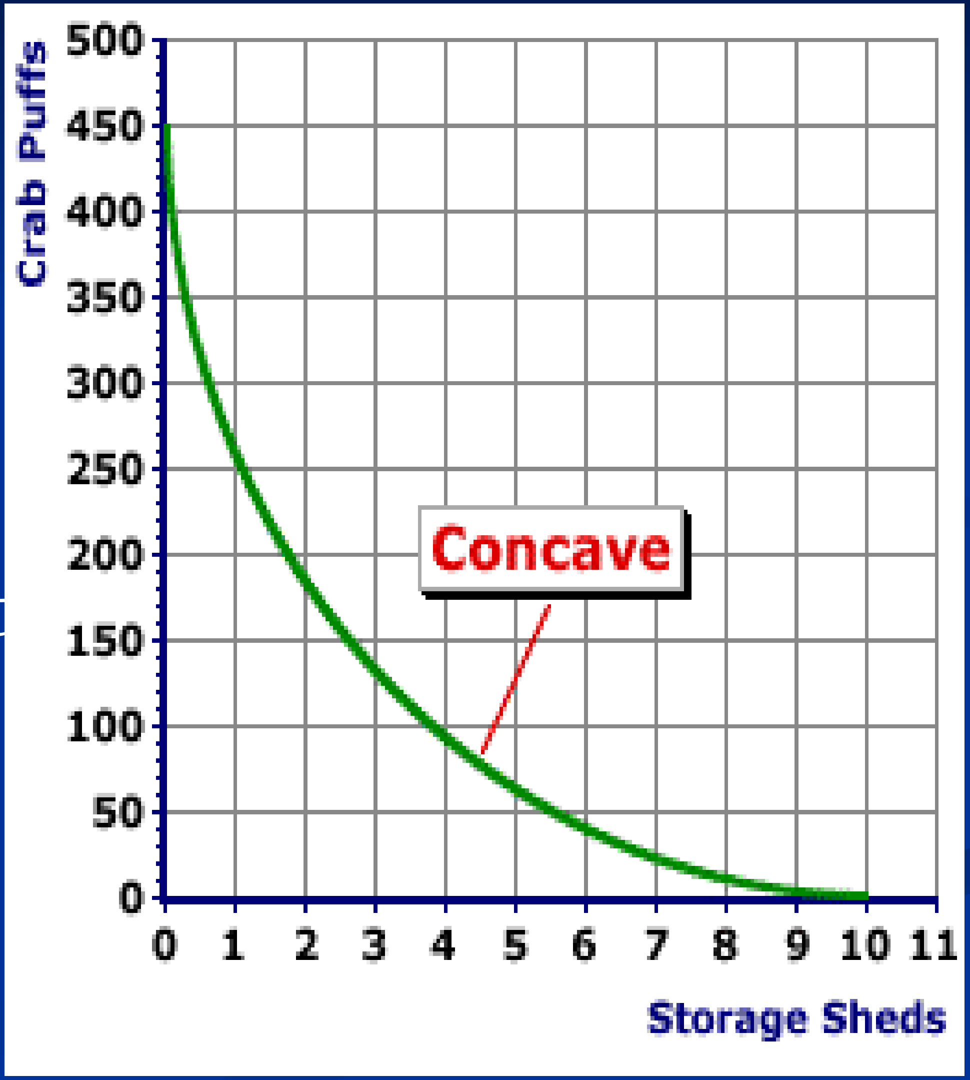
Constant Opportunity Cost

- The opportunity cost of additional sheds does not change. Each additional unit costs the same amount of crab puffs.
- The opportunity cost of more butter also remains constant.



Decreasing Opportunity Cost

- When the curve is concave, there are decreasing opportunity costs.
- The opportunity cost of the first the storage shed is 250 crab puffs; the ninth shed is only 15.



5. When and Why are irrational decisions made?

Cost/Benefit Analysis Practice

- Fred has decided to increase his supply of Capri Suns. It will cost Fred $75 to purchase an additional case of drinks. Once sold, this will result in $100 of additional revenue. Did Fred make a rational decision?

Help Fred make the most efficient decision… (choice!)

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Make a Production Possibilities Chart…

Combination	Flaming Hots	Capri Suns
A	0	15
B	8	14
C	14	12
D	18	9
E	20	5
F	21	0

Comb o	Flaming Hots	Capri Suns	Flaming Hots Opportunity Cost (Capri Suns foregone)
A			
B			
C			
D			
E			
F			

Rational and Productive Decision-Making Revisited

ssef2b

Marginal Cost/Benefit

- The *additional* costs or benefits associated with a decision

Rational Decisions

- Rational decisions are made when the marginal benefit of a decision meets or exceeds the marginal cost of that decision
  - R.D. Are made when a budget is used for spending and saving decisions

- Always consider Marginal Benefits and marginal costs when making rational decisions.
- The correct choice is one in which marginal cost is less than marginal benefit

Think about it…

Refer back to our example of Fred selling Flaming Hots and Capri Suns. What circumstances would cause his PPC/PPF to shift to the right? What circumstances would cause his PPC/PPF to shift to the left?

- Done with notes for Unit 1A.

SSEF3_a

- Specialization – assignment of tasks so that each worker performs fewer functions more frequently; same as the division of labor
- Voluntary Exchange – act of buyers and sellers freely and willingly engaging in market transactions

- Individuals – one person in society
- Businesses - a sole proprietorship, partnership, or a corporation that creates goods or services to sell in the market
- Involuntary exchange – a forced exchange in society

- Specialization increases productivity!
- Ex.Why don’t I teach math and science?