

Unit 2 Fundamental Economic Concepts

SSEF1-SSEF6

Unit 2: 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.
- Allocate- 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.

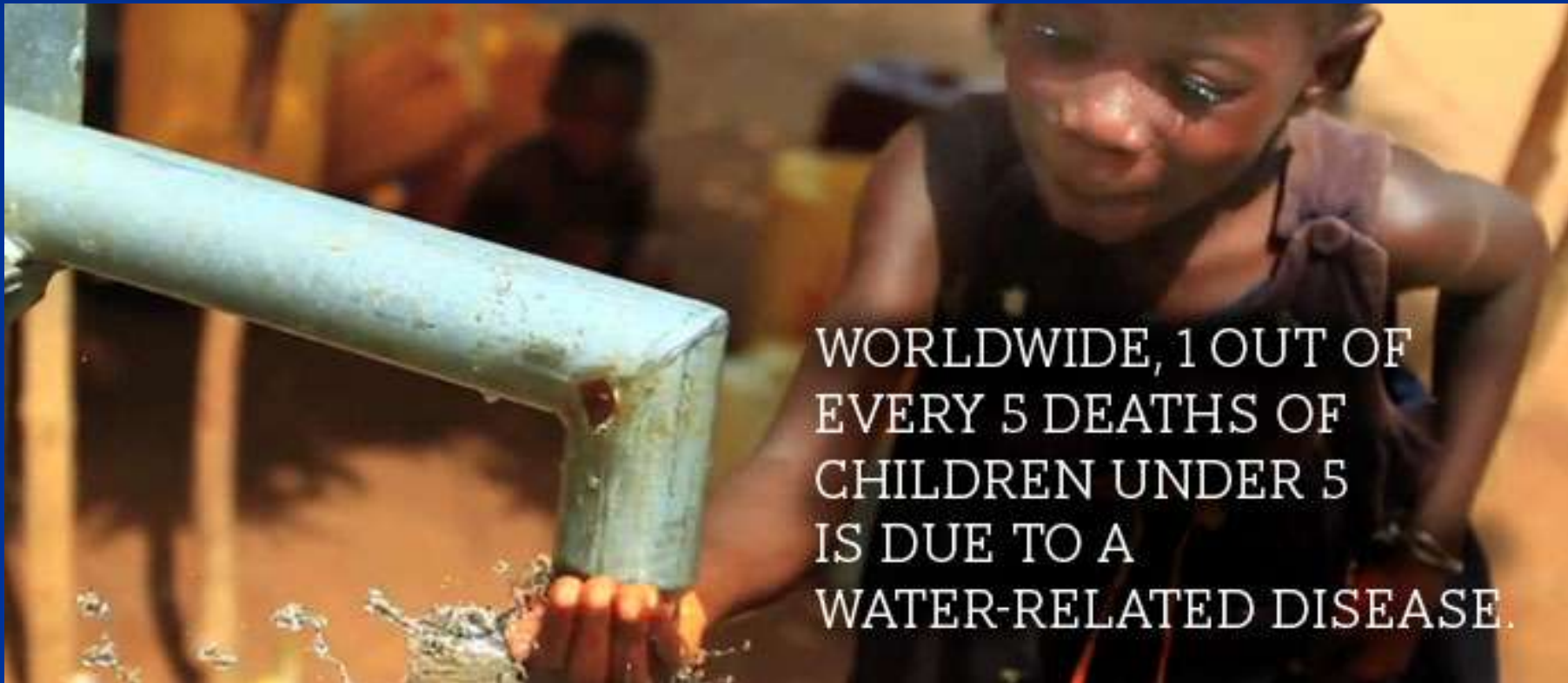
1. Scarcity and Choice

- 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



WORLDWIDE, 1 OUT OF
EVERY 5 DEATHS OF
CHILDREN UNDER 5
IS DUE TO A
WATER-RELATED DISEASE.

Scarcity

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

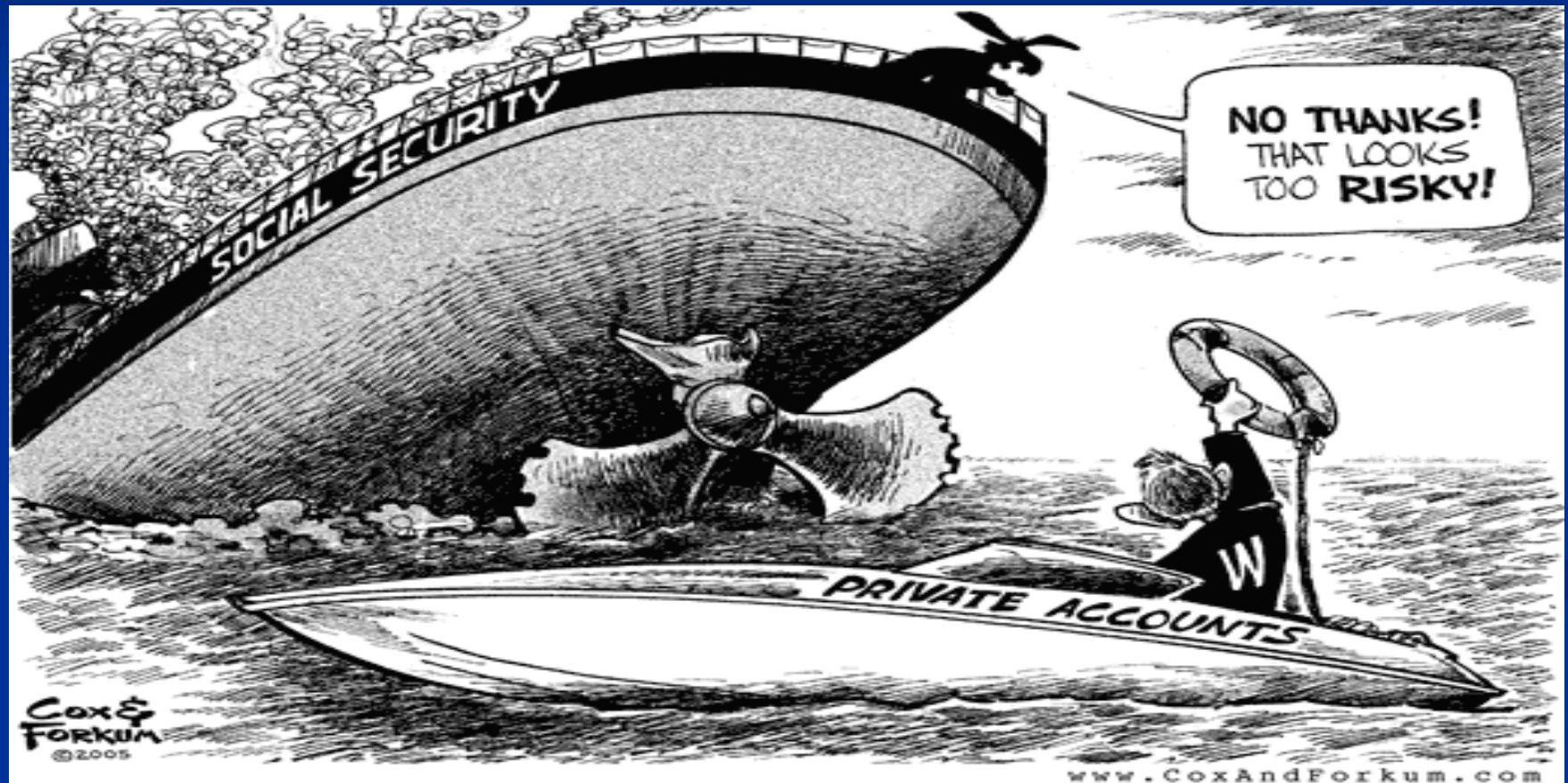
Shortage vs. Scarcity

- 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?

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"PEOPLE ARE STARVING IN ETHIOPIA? STOP TRYING TO CHANGE THE SUBJECT!"

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 materials 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, capital, 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.

- Land refers to all natural resources used to produce goods and



Land cont.

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

We Can Do It!



- *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

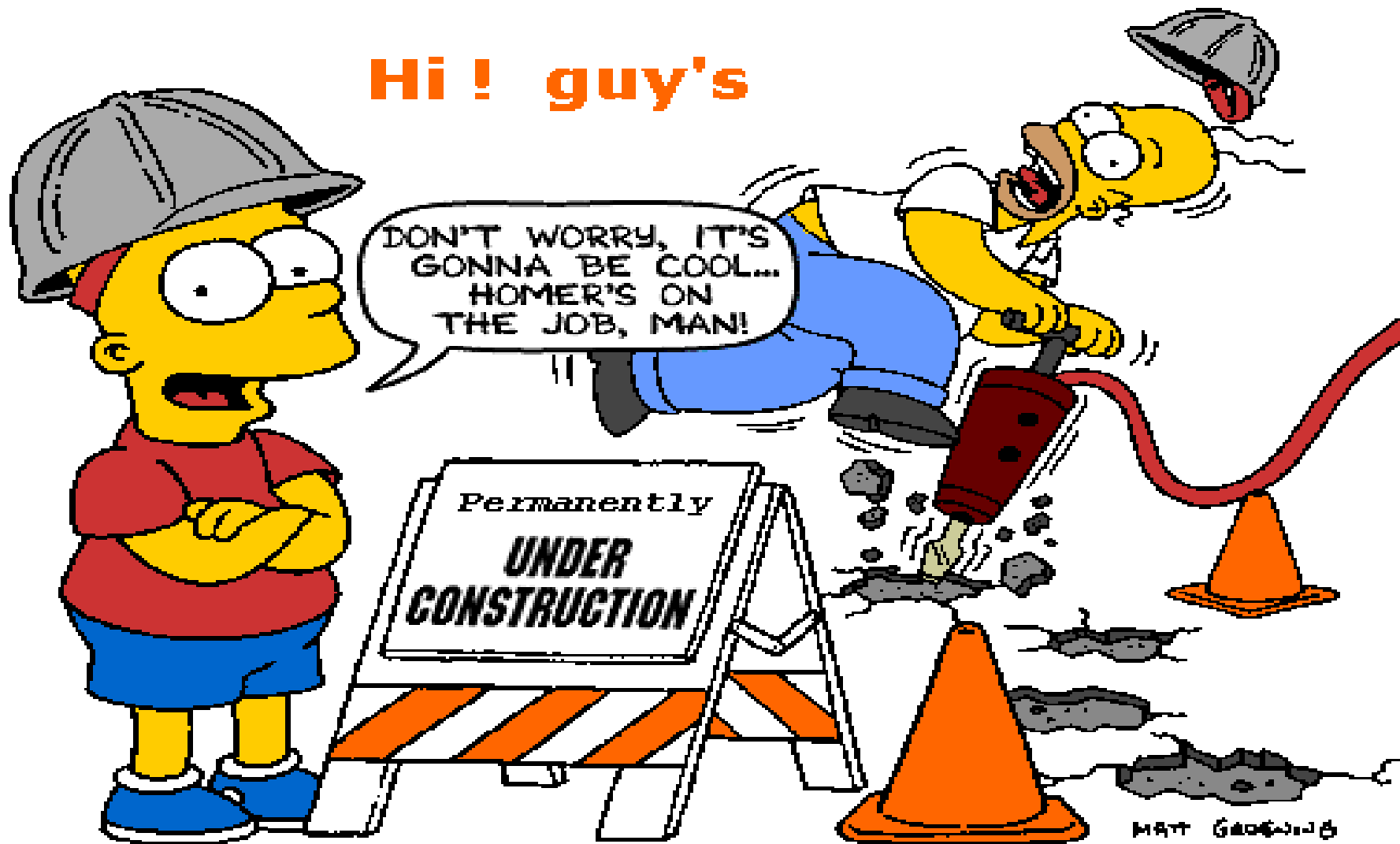
- Goods are physical objects such as shoes and shirts.
- Services are actions or activities that one person performs for another.



Thoughts:

- 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



a good ☐ or a service ☐



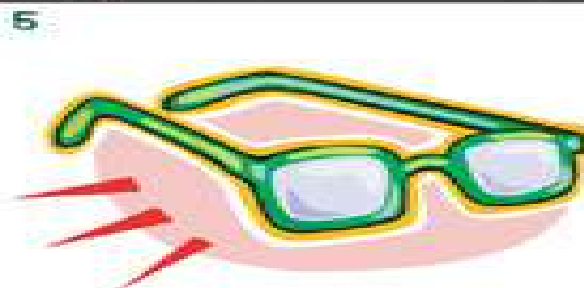
a good ☐ or a service ☐



a good ☐ or a service ☐



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a good ☐ or a service ☐



a good ☐ or a service ☐



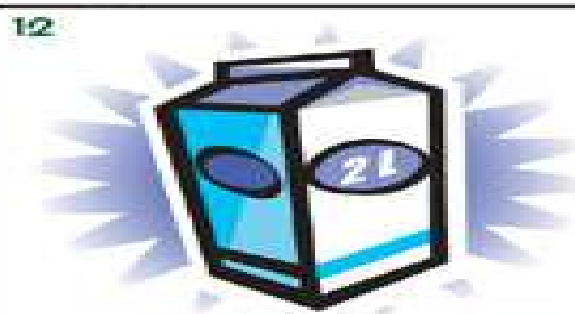
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a good ☐ or a service ☐



a good ☐ or a service ☐



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.

Strategies for allocations

- 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.

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

TRADE-OFFS



TRADE-OFFS

means getting a little *less*
of one thing in order
to get a little *more* of another.

Examples: Jared's time is limited. His time for sports, practicing football, cannot be spent studying math, and vice versa.

■ Every time people make a choice about how to use their resources, they 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.

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?



You study late night
for a final



The next day you
are very sleepy



Your opportunity cost
is a good night's sleep.

?????

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?

Stu's Views

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

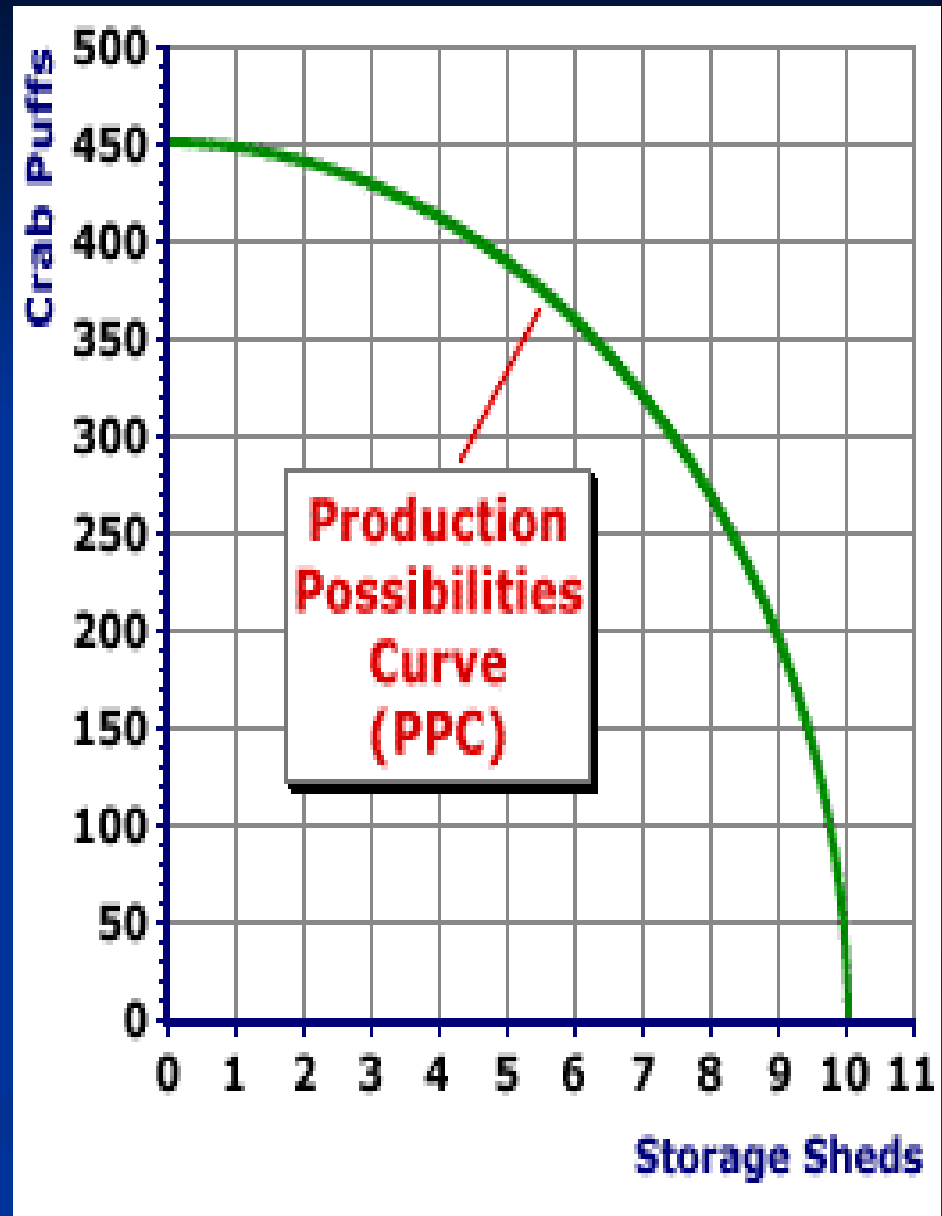
■ Every economic decision must determine which tradeoffs are most beneficial. Trade-offs involves giving up one option for another.

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 choices an economy can make with respect to its available resources



Interpreting the PPC

- All points on the curve represent the efficient 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