Section 1 – What Is Economics?

OBJECTIVES:

- **Explain why scarcity and choice are basic problems of economics.**
- **Identify land, labor, and capital as the three factors of production, and identify the two types of capital.**
- **Explain the role of entrepreneurs.**
- **Explain why economists say all resources are scarce.**

Scarcity and Choice:

- People cannot have everything they need and want.
- *Needs* – Air, Food, Shelter, Water

"necessary for survival"

- *Wants* – iPhone, makeup, jeans, car, etc…

"not essential for survival"

- *Economics* – The study of how people seek to satisfy their needs and wants by making choices.

Individuals

Groups (businesses)

Governments

- Why do we have to make choices? The answer: Scarcity

SCARCITY:

- *Scarcity*…where resources are always limited compared with the number and variety of wants people have
  - Limited quantities of resources to meet unlimited wants
  - Not based on the total amount of resources in a society, but on the relationship between wants and the resources available to satisfy them
  - Example: Japan and land, United States and land

- Choices about resource use
  - Businesses, farmers, governments, etc…

- *Goods* – physical objects such as clothes or shoes
- *Services* – Actions or activities that one person performs for another

- Scarcity is not the same as a shortage

- *Shortage* – a situation in which a good or service is unavailable
    - Where producers will not, or cannot, offer goods or services to consumers
    - Could be temporary or long term.

- Scarcity always exists.
    - Our needs and wants are always greater than the resource supply
    - Goods and services are scarce because they are all made from resources that are scarce.

<u>FACTORS OF PRODUCTION:</u>

- *Factors of production*…The resources people have for producing goods and services to satisfy their wants
    - *Economists*…the people who study how economies work

The three basic factors of production: Land, Labor, Capital

- **Land** – made up of the many natural resources that are needed to help produce goods and services (soil, minerals, water, timber, fish and wildlife, energy resources, etc…)
- **Labor** – time and energy, including the knowledge and skills required to work a job.
- **Capital** – anything produced in an economy that is saved to be used to produce other goods and services.
  – tools, buildings, or machines used to produce goods are used as capital, and are called capital goods
  – Money can also be capital, but only when it is not used for buying something now but is saved to be used for production sometime in the future

- Physical capital – all human made goods that are used to produce other goods and services (tools and buildings)

- *Human capital* – the knowledge and skills that a worker gains through experience and education
- *Entrepreneurs* – ambitious leaders who decide how to combine land, labor, and capital resources to create new goods and services.
    - They take risks to develop new ideas, start businesses, create new industries, and fuel market economies (Steve Jobs, Bill Gates)
      example: *Shark Tank*

- People in any economy face three major economic decisions:
  <u>What</u> goods and services should be produced, and <u>how much</u> of them?

  <u>How</u> should these goods and services be produced?

  <u>Who</u> will get the goods and services that are produced?
- In our economy, the people who own or can get the resources decide what to produce.

1. <u>What and How Much to Produce</u>

- In our economy, the people who own or can get the resources decide what to produce.
    - Any decision about what goods or services to produce is based on a prediction of what people will want to consume.

- How much to produce is also decided by the owner of the resources.

- The resources of labor, land, and capital must be combined in a process called *production*, in order to produce goods and services.
    - Example: Farmers produce food by combining soil, water, and sunlight (land) with seed and machinery (capital). They also use their knowledge, skills, time, and energy, as well as their workers (labor).

- *Distribution* is the process by which goods and services are made available to the people who want them.
- *Consumption* is the act of buying or using goods and services.

- There are never enough resources in any society to produce all the goods and services people want.
    - People must make choices about which of their wants will be satisfied and which will not.

- Cost and Benefits
    - Must look at the cost of each possible choice

- The major cost is giving up the benefits you would have received from the next best alternative
    - Must also look at the benefits of each choice

2. How to Produce Goods and Services
    - In what way will land, labor, and capital be combined to produce the goods and services people want?
    - In making decisions about how to produce, people usually want to choose the combination of resources that will be the least costly.
        - This has lead to the growth of technology

    - The Role of Technology
        - Plays an increasingly important part in the decision that people make about how to produce goods and provide services.
        - Example: seeds which are engineered to produce larger crops, electronic advancements which gave us robots to use in factories, etc…
        - Computers keep records, make calculations, and speed up many jobs.
3. Who Will Get What Is Produced
    - People must find a way to decide how all the goods and services will be divided up.
    - Wants are always greater than the resources available to satisfy them…this leads to a very important and difficult choice of who gets what.
        - Should goods and services be divided equally among all people?
        - Should people receive goods and services on the basis of what they say they want?
        - Should a small group of people decide who is to receive which goods and services?
        - Should people who own more resources and produce more products get more goods and services than people who own or produce less?

Section 2 – Opportunity Cost

OBJECTIVES:

- Describe why every decision involves trade offs.
- Explain the concept of opportunity cost.
- Explain how peoiple make decisions by thinking at the margin.

- All individuals, businesses, governments, and large groups of people make decisions that involve trade-offs.

- *Trade-off*…an alternative that we sacrifice when we make a decision.
  - Individuals and trade-offs – ex. Spending time at work, means giving up time playing video games or playing sports
  - Businesses and trade-offs – ex. A farmer choosing to plant broccoli cannot use the same land to grow wheat. A factory that produces chairs instead of cabinets.
  - Society and trade-offs – ex. 'Guns or Butter'
    a country that decides to produce more military goods ("guns") has fewer resources available to devote to consumer goods ("butter")

- *Opportunity Cost*…the most desirable alternative given up as the result of a decision.
  - Ex. A family that buys a computer cannot spend the money on a vacation.
  - The vacation is the OPPORTUNITY COST of the computer
- Your decision depends on the opportunity cost…whatever you were willing to sacrifice.
  - Sleep late or wake up early for a ski trip?
  - Sleep late or wake up early to eat your breakfast?
  - Sleep late or wake up early to study for a test?
- Trade-offs are all the alternatives that we give up whenever we choose one course of action over others.

- The most desirable alternative given up as a result of a decision is known as opportunity cost.
- Always the second best choice for you is the opportunity cost
- Economists encourage us to consider the benefits and costs of our decisions.

Karen's Decision-making Grid

	Alternatives	
	Sleep late	**Wake up early to study**
Benefits	• Enjoy more sleep • Have more energy during the day	• Better grade on test • Teacher and parental approval • Personal satisfaction
Decision	• Sleep late	• Wake up early to study for test
Opportunity cost	• Extra study time	• Extra sleep time
Benefits forgone	• Better grade on test • Teacher and parental approval • Personal satisfaction	• Enjoy more sleep • Have more energy during the day

When you decide how much more or less to do, you are <u>thinking at the margin.</u>

Options	Benefit	Opportunity Cost
1st hour of extra study time	Grade of C on test	1 hour of sleep
2nd hour of extra study time	Grade of B on test	2 hours of sleep
3rd hour of extra study time	Grade of B+ on test	3 hours of sleep

Section 3 – Production Possibilities Curves

<u>OBJECTIVES:</u>

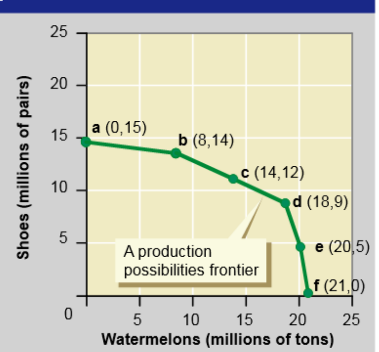
- **Interpret a production possibilities curve.**
- **Demonstrate how a production possibilities curve shows efficiency, growth, and cost.**
- **Understand that a country's production possibilities depend on its available resources and technology.**

- **What is a production possibilities curve?**
- **How do production possibilities curves show efficiency, growth, and cost?**
- **Why are production possibilities frontiers curved lines?**

  - A <u>*Production Possibilities Curve*</u> (or graph) shows alternative ways that an economy can use its resources.
  - The production possibilities <u>*frontier*</u> is the line that shows the maximum possible output for that economy.

Production Possibilities Graph

Watermelons (millions of tons)	Shoes (millions of pairs)
0	15
8	14
14	12
18	9
20	5
21	0

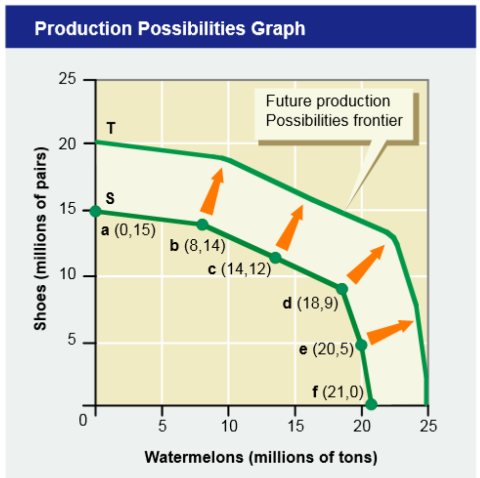


Efficiency:

- Efficiency means using resources in such a way as to maximize the production of goods and services.
- An economy producing output levels on the production possibilities frontier is operating efficiently.

Growth:

- Growth - If more resources become available, or if technology improves, an economy can increase its level of output and grow.
- When this happens, the entire production possibilities curve "shifts to the right."



Cost:

- A production possibilities graph shows the cost of producing more of one item. To move from point c to point d on this graph has a cost of 3 million pairs of shoes.

Production Possibilities Graph

Watermelons (millions of tons)	Shoes (millions of pairs)
0	15
8	14
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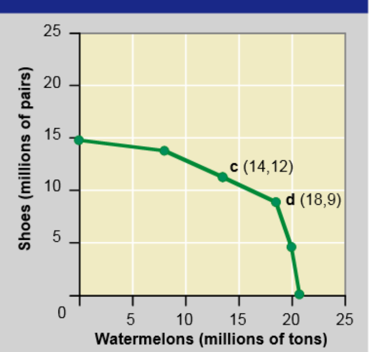

- PPC's will always have an inverse relationship: The more of this means the less of that.

The Law of Increasing Costs:

- The more we shift from one item to the other the more it costs
- This is why the PPC's have a bend
- PPC's can also show us what we value