

Introduction to Economics

In today's lesson we will be looking at the following:-

- ✚ What kind of subject is Economics?
- ✚ What do we study in Economics?
- ✚ What is the difference between microeconomics and macroeconomics?
- ✚ Why is there an Economic Problem?

1. Economics is a Group 3 Subject and one of the social sciences.

a) What do you understand by the term "**Social Science**"?

b) In more general terms what do you understand by "**Economics**"?

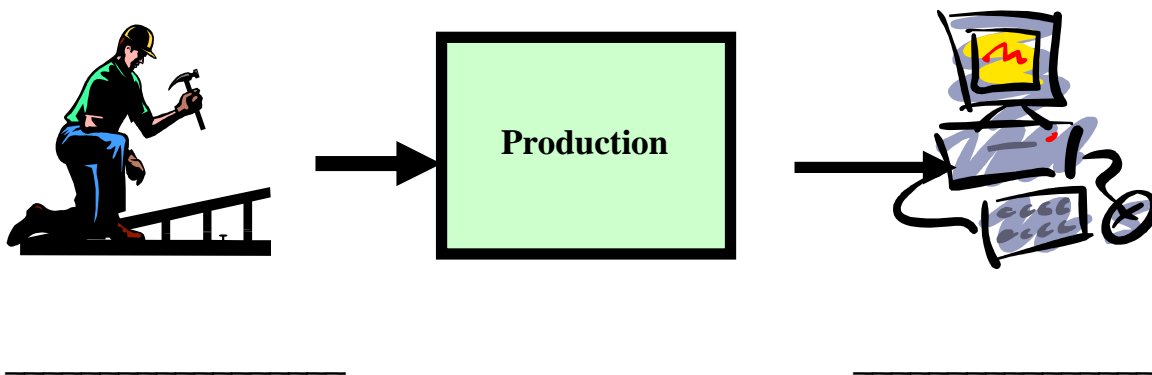
- ✚
- ✚
- ✚

c) What is the accepted **definition** for economics?





d) Look in the table below and explain in a little more detail what is meant by some of the terms in the above definition.

Allocation	
Scarce	
Resources	

e) Complete the diagram below.



f) Below make a list of economic **resources**.

-  _____
-  _____
-  _____
-  _____

g) How would you describe people's demand for **goods and services**?

h) If money were no object what you would you buy?

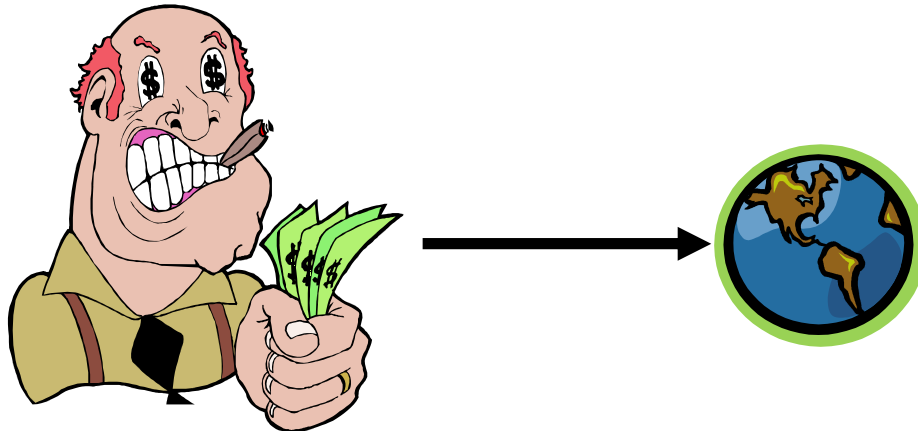


i) Therefore how would you describe demand for the **resources** that make those goods and services or outputs?

j) Are there **enough** resources to provide for the **wants** of everybody?

k) How would you describe the amount of resources that are available on the planet?

l) Using the diagram below explain the **problem** that economists face.



n) There are some resources that can be used for production that are **not** considered **scarce**. Can you think of any non-scarce resources?

o) What do Economists call these resources?

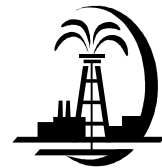
p) Why are economists **not concerned** with these types of resources?

r) Look at the pictures below. Identify which of the resources are **scarce** and which are **free** goods.



Seawater _____

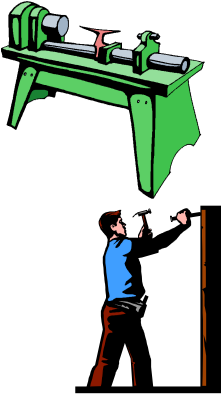
Oil _____



Gold _____

Air _____





Machine _____

Sunlight _____

Worker _____

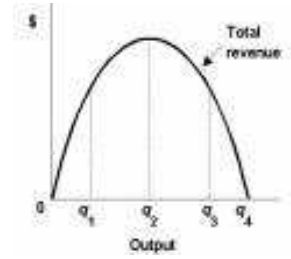


s) Choose one of the free goods that you selected from above and explain why you think that it might not remain a free good for very much longer.

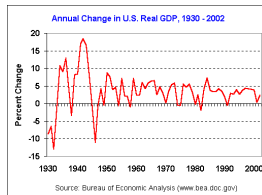
t) What is the difference between microeconomics and macroeconomics? In the table below can you identify those areas that would be regarded as **macroeconomics** and those that would be considered **microeconomics**?

Topic	Microeconomics/Macroeconomics
✚ The central bank decide to change the base rate of interest	
✚ A firm increases the wages of its workers	
✚ A country enters a single currency	
✚ The government increases VAT	
✚ There is an increase in demand for jeans	
✚ The government introduces a subsidy for milk producers	
✚ The government increase public spending to reduce cyclical unemployment	

u) Give a definition for **microeconomics**.



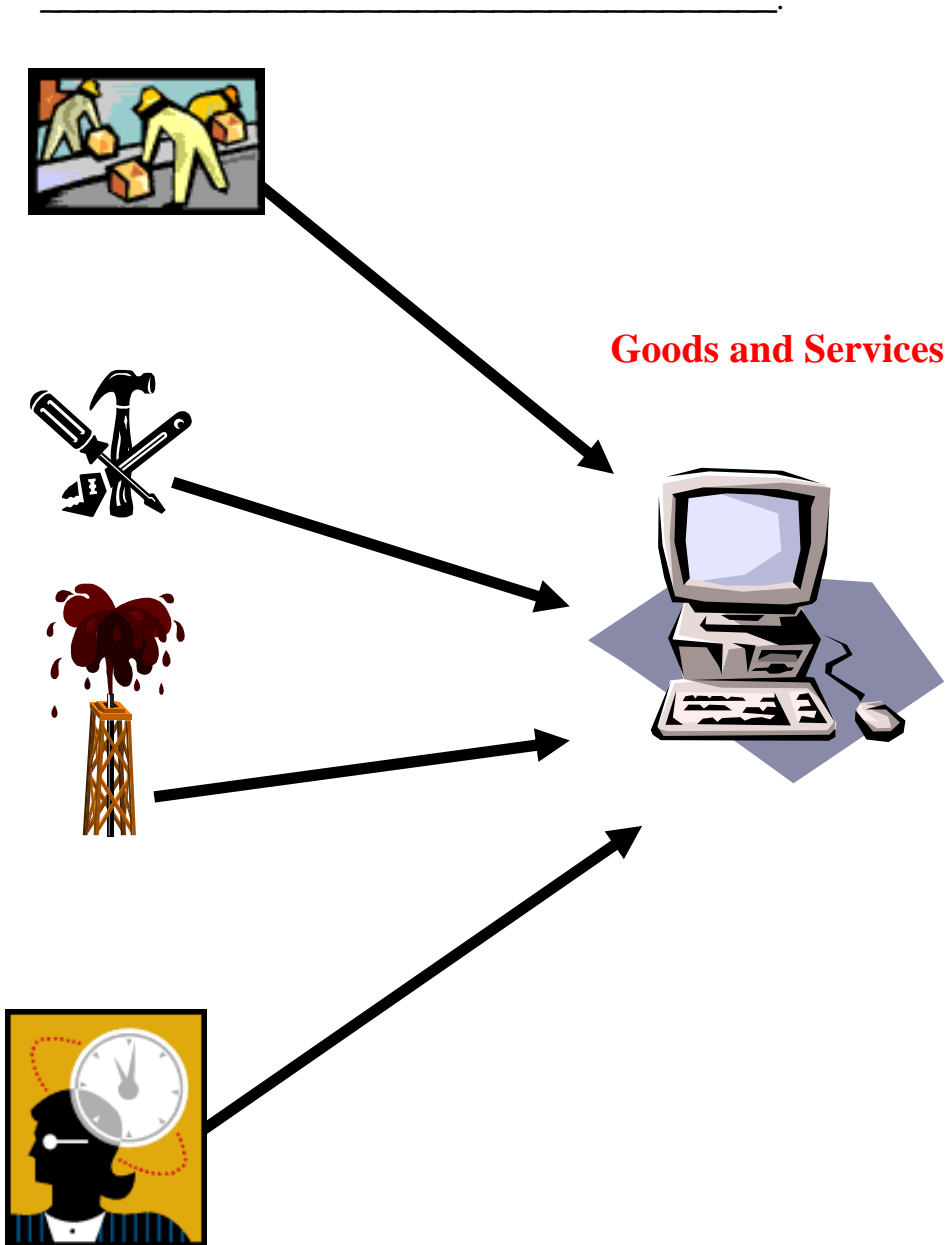
v) Give a definition for **macroeconomics**.



Factors of Production

- 1) Name all of the factors of production
- 2) Give examples of the different factors of production
- 3) Identify the different factors of production used to make different goods and services

✚ The scarce resources that are available for use in the production of goods and services to satisfy human wants are called



✚ From looking at the diagram above can you guess what the four factors of production are:-

✚ _____

✚ _____

✚ _____

✚ _____

✚ Fill in the blank spaces to complete the paragraphs below (use the terms below).

◆ people	◆ human	◆ chemicals and gases	◆ enterprise
◆ tools	◆ oil	◆ man-made	◆ rivers
◆ fertile soil	◆ pens	◆ seas	◆ natural resources
◆ coal	◆ animals	◆ enterprise	◆ minerals

Land includes the following

The _____ vital to the growth of plants, minerals such as _____, _____ and _____ for their meat and skins, are known as _____, but to simplify an economist calls all of these **land**. Land therefore includes the _____ of the world, _____, all manner of _____ from the ground, and _____ from the air and earth's crust.

Labour . Nothing can be produced without _____. They provide the physical and mental effort to make goods and services. People who work with the hand and the mind are _____ resources, or what is termed labour.

Capital. To make the task of production easier, man has invented many _____. _____ to write with, computers to calculate, screwdrivers, spanners, shovels etc. On a larger scale engines, tractors, ships. Plus factories and offices have been built to house many man-made tools and machines. These _____resources which help to produce many other goods and services are known as capital. Sometimes it is called **non-human capital**.

Entrepreneur. Business know-how, or the ability to run a production process, is known as _____. People who have _____ and can control or manage firms are known as entrepreneurs.

Task - Look at the list of resources below and classify them as either 1) **natural resources - land** 2) **human resources - labour** 3) **man-made resources - capital**

<i>Coal</i>	<i>Business Computer</i>	<i>Richard Branson</i>
<i>Wood</i>	<i>Plumber</i>	<i>Teacher</i>
<i>Electrician</i>	<i>Hammer</i>	<i>Tractor</i>
<i>Iron</i>	<i>Bill Gates</i>	<i>Diamonds</i>
<i>Alan Sugar</i>	<i>Bauxite</i>	<i>Doctor</i>

LAND	LABOUR	CAPITAL	Entrepreneur

1. What is a factor of production?

2. What is the difference between human capital and non-human capital?

3. Why does the factor of production "labour" not include the whole population of the France for example?

4. What is the role of the **entrepreneur** in the economy?

✚ Look at the photos on the **next page** and answer the following questions

✚ Make a list of the factors of production for each economic activity.

Hairdresser	Farming land	A Paper Factory
Land	Land	Land
Capital	Capital	Capital
Labour	Labour	Labour

✚ What factors of production are used to provide you with education

- ✚ To what extent can factors of production be **substituted** for each other in each of the industries below e.g. Can machines be used instead of labour in farming?



Farming

Hairdressing



Paper factory

Choice

+ Choice
+ Decisions that need to be made by Economists



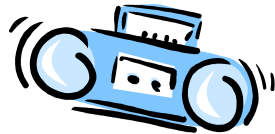
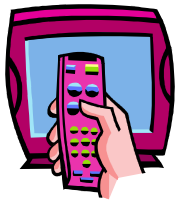
Recap

1. What is the basic economic problem?
2. How would you describe people's wants?
3. How would you describe the resources of the world?
4. Why are economists not concerned with Free Goods?
5. How would you classify economics?

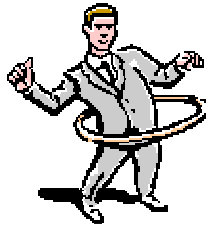
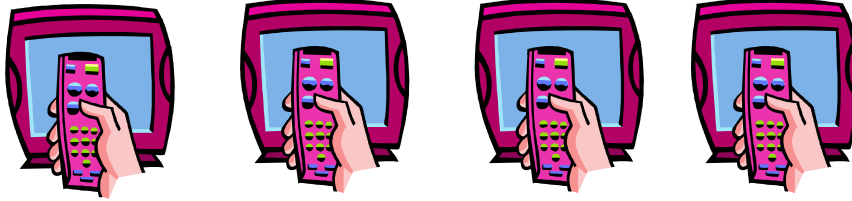
a) We have already discussed that human wants are _____ and economic resources are _____.

Therefore as a society what do we have to do?

b) What choices must a society make?







c) What choices do you have to make in your everyday lives when it comes to allocating your own resources?

d) Imagine that I have three laptops to distribute to the class. I only have enough resources to produce three computers and I have to make a choice about who gets them.

⇒ What is the **first problem** that I face as an Economist?

⇒ How might I decide **who** gets the laptops?

✚ _____

✚ _____

✚ _____

- e) Look at your answer for the previous question. Which response involves somebody having to make a judgement based upon their emotions or what they feel?

- f) Which response is based upon something that can be measured?

- g) In economics we can allocate resources in several different ways.

- ✚ Firstly resources can be allocated in terms of peoples' ability to **pay** for the goods and services that are produced using resources. Which economic system uses this approach?

- ✚ **Or** resources can be allocated according to the **needs** of the population. Everybody receives what the state believes they need in terms of goods and services. What do you call this approach?

- h) If resources are allocated according to **perceived needs** or an economist makes a decision based upon **feelings or emotions** then this is known as :-

- i) If Economists make a decision or allocate resources on the basis of things that can be measured (proven to be **right or wrong**) then this is known as :-

j) Look at the list of phrases below and decide whether they are positive or normative.

1. If the government increases taxation then unemployment will fall.
2. I believe that the poor should receive greater benefits from the state.
3. Every person in the world should have enough to eat.
4. If the government increases spending then the rate of inflation will rise to 4%.
5. People who work for the state should receive an increase in their salaries.
6. If you increase the price of tomatoes less will be bought.

Opportunity Cost

- ✚ What is meant by Opportunity Cost.
- ✚ How the concept of Opportunity Cost arises everyday in our lives.
- ✚ How we can illustrate Opportunity cost.

1. In the previous lesson we discussed that **choices** have to be made by society because of the **Economic Problem**. What are those choices?

✚ _____

✚ _____

✚ _____

✚ _____

2. Making choices can be difficult. If I **choose** to produce one thing and devote resources to its production what does this mean?

3. If you go to a cafeteria and purchase a bottle of **Ice-Tea** what price do you pay?



4. What would be the '**Opportunity Cost**' of the bottle of **Ice Tea**?

5. What do you think is meant by the term **Opportunity Cost**?

6. In the table on the next page identify the **opportunity cost** of each item
(There will be more than one right answer for each one!)

Item	Opportunity Cost
 A Mars Bar	
 Choosing Economics at IB	
 The Government building a road	
 Buying a Television	
 Spending 2 hours watching a DVD	

The Production Possibility Frontier

7. A diagram called a production possibility frontier can be used to illustrate the concept of **opportunity cost**. Let us start with a simple example where a student has 10 hours to spend studying each week.

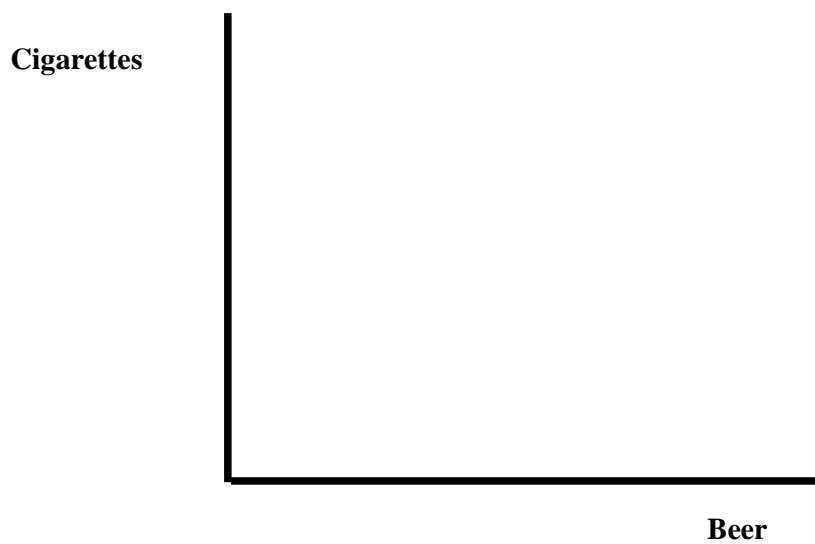
- ✚ Let us imagine that the student can study either economics or maths or a combination of both.
- ✚ Illustrate the above using a production possibility frontier.



8. A production possibility frontier can also be used to illustrate the opportunity cost faced by an economy. (We will explain later why the shape is different).

- ✚ On the x-axis write **Beer**
- ✚ On the y-axis write **Cigarettes**

- ✚ An economy can produce either 5000 boxes of cigarettes or 1000 crates of beer.

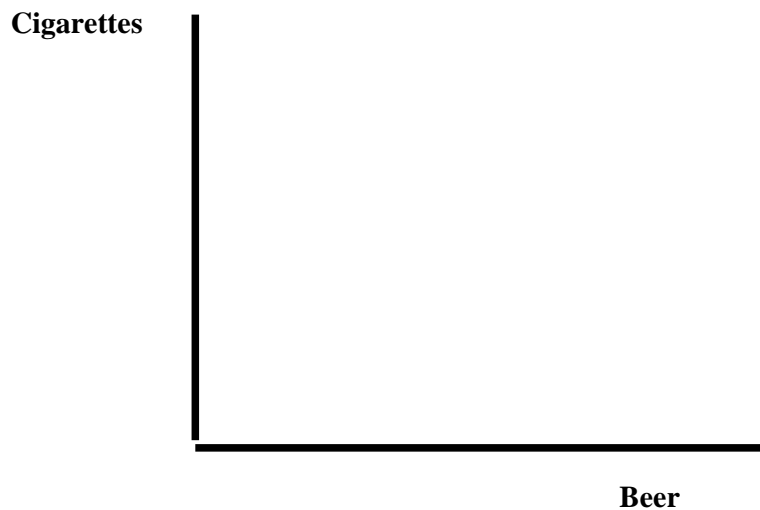


9 What is shown by the **Production Possibility Frontier**?

10. If society devotes all of its resources to the production of beer what is the **Opportunity Cost**?

11. If society devotes all of its resources to the production of cigarettes what is the **Opportunity Cost**?

12. On the diagram below illustrate a situation whereby society is producing a combination of cigarettes and beer.



13. If **OA** cigarettes are produced what is the **opportunity cost**?

14. If **OB units of beer** are produced what is the **opportunity cost**?

15. On the diagram below illustrate what would happen if there were an increase in the amount of resources available to the economy.

Cigarettes



Beer

16. At what point would the economy operate if some of its labour force were unemployed?

Cigarettes



Beer

17. Using the concept of opportunity cost explain the difference between a **free good** and an **economic good**.

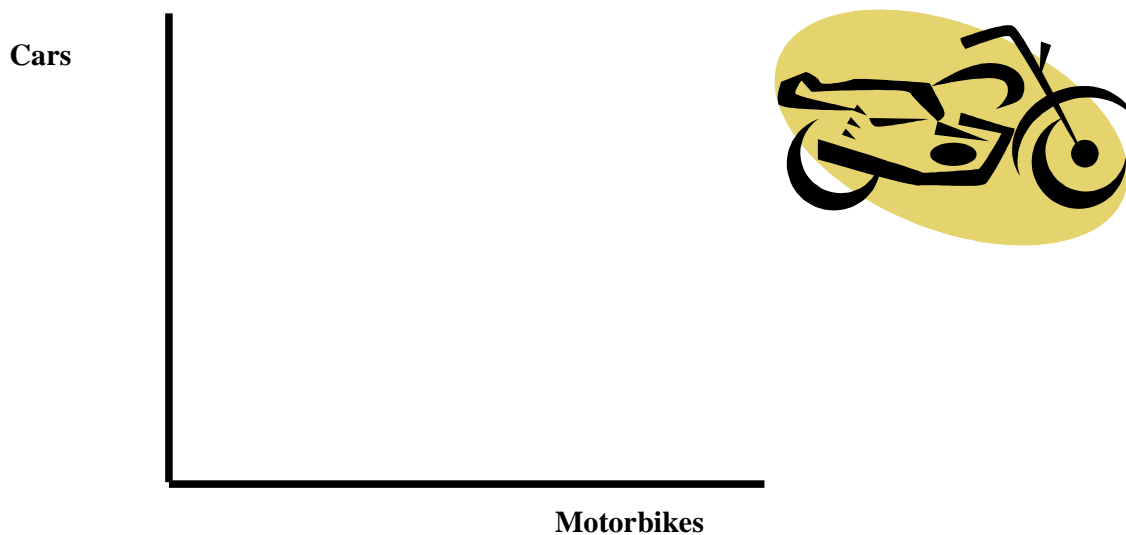
18. Give an **example** of a free good and an economic good and state the opportunity cost of each.

Opportunity Cost 2

- ✚ **Illustrating opportunity cost using a production possibility frontier.**
- ✚ **Looking at the concept of Economic Growth using a PPF**
- ✚ **Looking at the difference between Economic Growth and Economic Development.**

1. Imagine that a country produces two goods, cars and motorbikes.

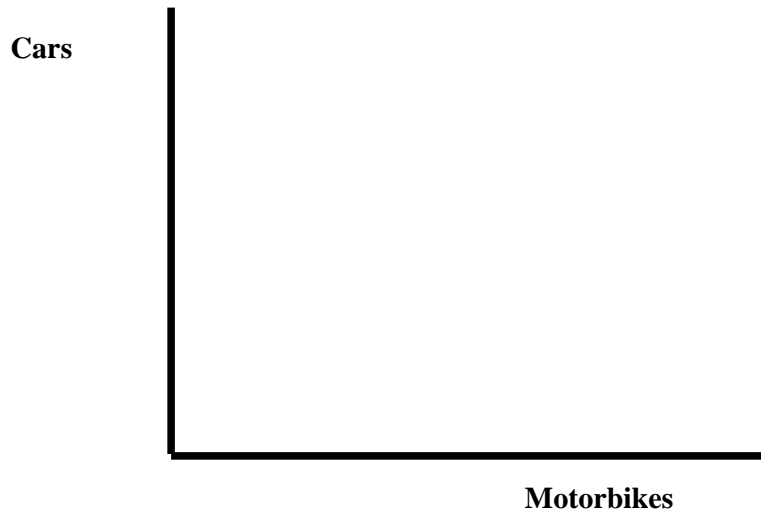
Draw a production possibility frontier below to illustrate this. The economy can either produce **200 cars** or **300 motorbikes**.



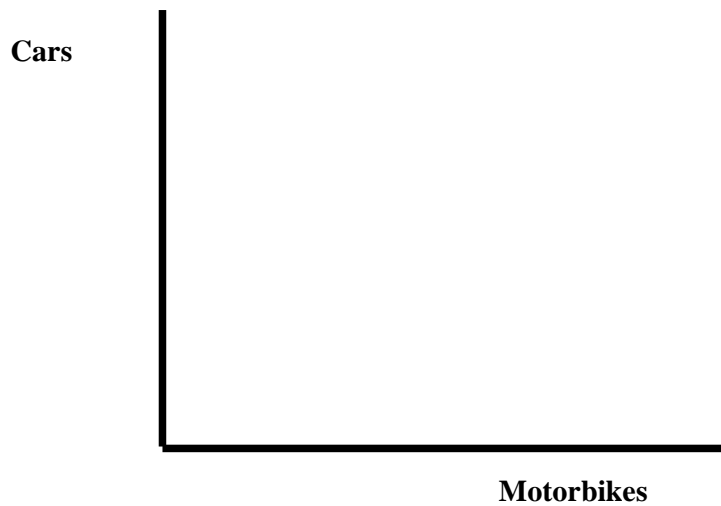
2. If the economy produces 100 cars what is the opportunity cost?

3. If the economy produces 200 motorbikes what is the opportunity cost?

4. On the production possibility frontier below illustrate a **point** that would represent an economy that had **unemployed resources**.

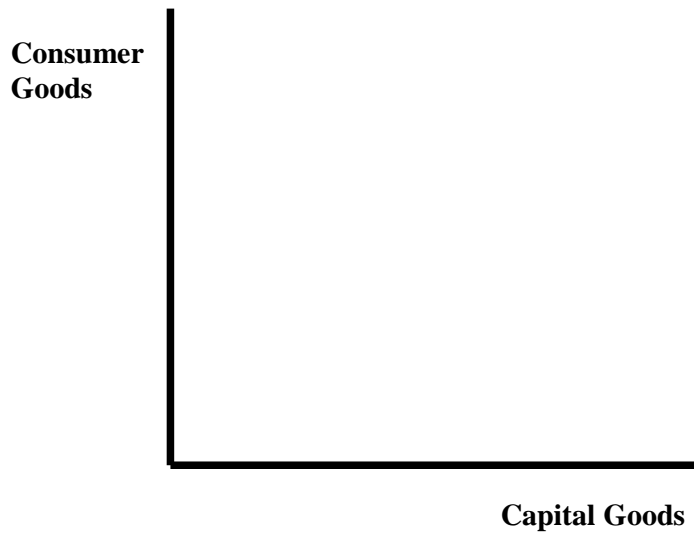


5. **Illustrating economic growth using a PPF.** What factors would lead to an outward shift in the PPF?



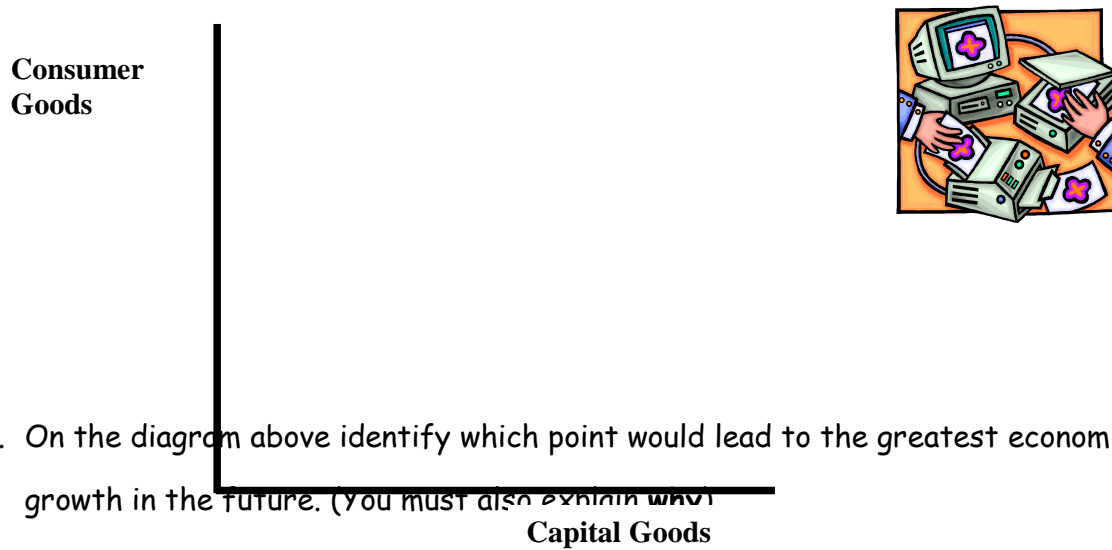
-  An outward shift of the PPF represents **Economic Growth**.

6. On the PPF below illustrate what would happen if there was an **increase in productivity** in the consumer good industry and the capital good industry remained the **same**.



7. What do you understand by the term '**Consumer Good**'?

8. What do you understand by the term '**Capital Good**'?



9. On the diagram above identify which point would lead to the greatest economic growth in the future. (You must also explain why)

Capital Goods

10. Look at the PPF below. The economy produces merit goods (**health, education etc.**) and consumer goods.

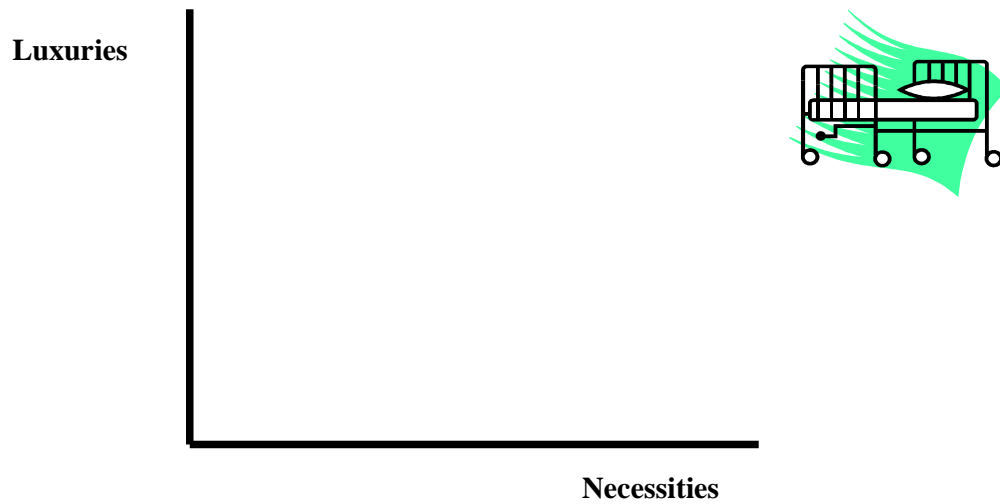
- ✚ Which movement would represent an economy that was experiencing **economic development**?



11. When does **Economic Development** occur?

12. Therefore what is the difference between **economic growth** and **economic development**?

13. Sometimes an alternative production possibility frontier diagram is used to illustrate the concept of economic development.

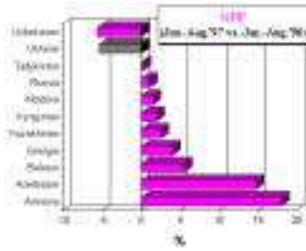


✚ Draw a production possibility frontier and illustrate a movement that would illustrate economic development.

14. On the diagram below, illustrate a situation whereby the economy has experienced both economic growth and economic development.



15. As well as using a production possibility frontier to illustrate **economic growth** and **economic development** you also need to be able to define these terms.



Economic Growth

Economic Development



16. Therefore what does it mean if a nation has achieved **sustainable development**? (Hint : think in terms of its **economic resources**)

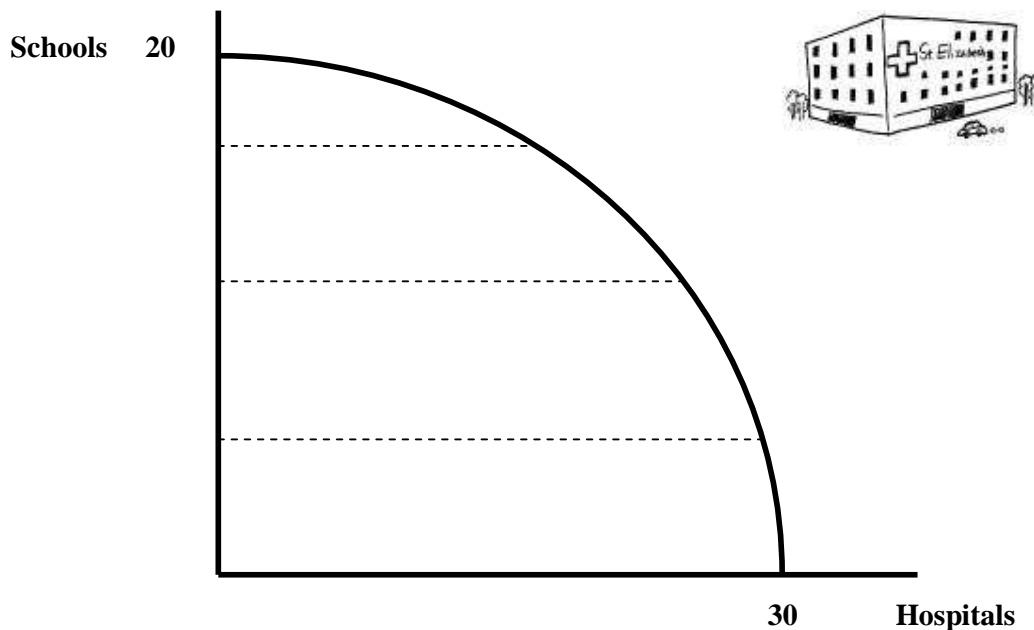
17. Do you think it is possible for a nation to achieve *economic development* and not growth?

18. We will now consider why the PPF is **concave** to the origin.

✚ What does '**concave to the origin**' actually mean?

19. Using the diagram below we shall consider why the PPF is concave to the origin.

✚ Imagine that the government of a nation can either build schools or hospitals from its budget.



a) If a government decides to build **30 hospitals** how many schools can it build?

b) Now imagine that the government starts to build **schools**. If it builds **5 schools** how many hospitals will not be built? (**the opportunity cost**)

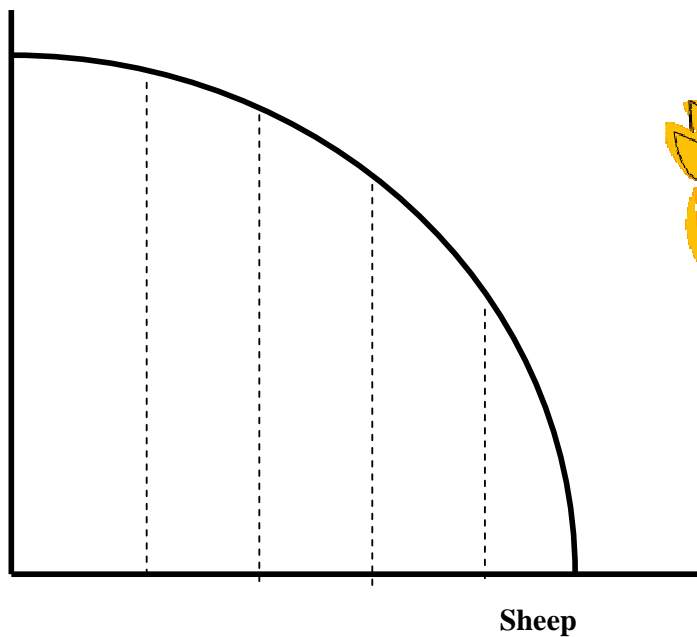
c) If it builds **10 schools** how many hospitals will not be built? (**the opportunity cost**)

d) If it builds **15 schools** how many hospitals will not be built? (**the opportunity cost**)

18) Therefore what do you notice about the **opportunity cost** of building schools as the number of schools build **increases**?

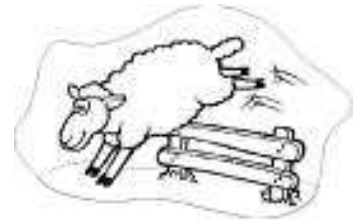
19) We will now try to explain why this is the case using the example of a country that can either use its land for producing **wheat** or **rearing sheep**

Wheat



- ✚ Initially a country produces only wheat. All the land in the country is devoted to wheat production. What would happen if some of the land was transferred to the rearing of sheep?

- ✚ Why is the **opportunity cost** in terms of **wheat** quite small?



- ✚ What happens to the **opportunity cost** of rearing sheep in terms of wheat as more and more land is transferred from wheat production to the rearing of sheep?

- ✚ Why is this the case?

Utility and Welfare Maximisation

✚ In this lesson we will look at how consumers make choices relating to the amount of goods and services they consume.



1. **Satisfaction and Utility.**
2. **Welfare Maximisation**

1. Why do people consume goods and services?

2. What is the term used to describe this **total benefit and satisfaction**?

3. Think about the two products below.



✚ When these products are consumed a consumer gains utility. For which unit consumed will the consumer gain the most satisfaction?

✚ How much satisfaction will a consumer get **thereafter**?

✚ Can you illustrate this on the diagram below

**Additional
Satisfaction**



No. of units

4. How might a consumer use this information for their own **benefit**?

5. What do we call this process?

6. Look at the product below. How do consumers use the concept of marginal utility (**additional satisfaction**) to judge their consumption?



7. Why would you regard the above decision as **rational**?

The dictionary defines as **rational** as:-

A decision based on reasoning, using reasons or logic and rejecting explanations that involve the supernatural.

8. Why is the consumption of the product below often described as **non-rational** or **irrational**?



9. How is the concept of utility linked to consumer choice?

Economic Systems

⇒ The different types of economic system

⇒ The degrees of state involvement in different countries.



1. What is an **economic system**?

2. Using the diagram below identify the different types of **economic system**.



3. What do you understand by the term '**public sector**'?



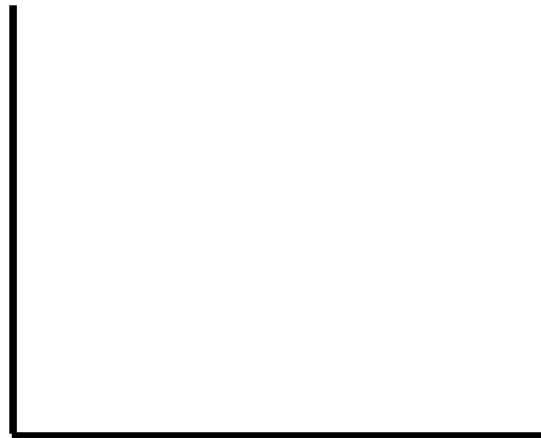
4. What do you understand by the term **private sector**?

5. In the table below identify the main **features** of each of the **systems**.

Free Market Economy	
Mixed Economy	
Command Economy	

6. On the PPF below identify the positions of the **Command, Mixed and Free Market** economy.

Public
Sector

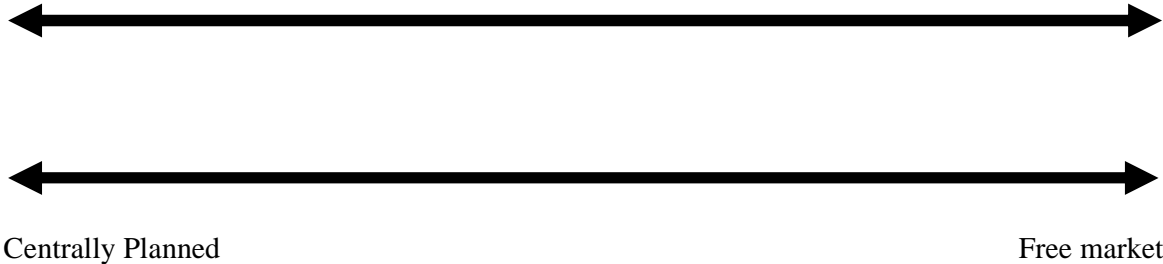


Private
Sector

7. In reality there is no such thing as a **pure free market** or a **pure planned/command** economy. The economies of the world range from almost a complete **free market** to a small number of economies that still rely on a lot of **state planning and intervention**.

📌 Look at the diagram on the **next page**.

1977



2008

✚ Label the diagram using the countries below for **both 1977 and 1997**.

North Korea

USSR (Russia)

Hong Kong

Sweden

Poland

China

USA

U.K.

8. There are actually fewer and fewer economic systems in the world that rely on central planning to allocate resources. Try to think of as many countries in the world that used to have a centrally planned economic system and are now moving towards a free market. (**transition economies**).

✚ _____

✚ _____

✚ _____

✚ _____

✚ _____

9. In the table below describe the principal features of a **Command/Planned Economy** in terms of the following:-

Feature	Explanation
✚ Centralised or decentralised economic decision making	✚
✚ Motivation of workers	✚
✚ Public Ownership	✚
✚ Planning	✚

Transition Economies

✚ **Reviewing what is meant by a Planned, Mixed and Free Market economy.**

✚ **Looking at exactly how a Planned Economy operates using the 'Ants Video'**

✚ **An in depth study of the problems experienced by the Planned Economies when they tried to convert to Free Market Economies.**



1 In the table below review the **three main types** of economic system

Type of Economy	Definition
▪ Planned	
▪ Mixed	
▪ Free Market	

2. We will be looking at the following problems that were experienced by the **Russia** when they attempted to transform their economy from centrally planned to mixed.

- ✚ **Inflation**
- ✚ **Unemployment**
- ✚ **Low levels of Economics growth**

3. Draw a diagram to show how prices were suppressed in a command economy.

Price of
Bread



Quantity demanded/supplied

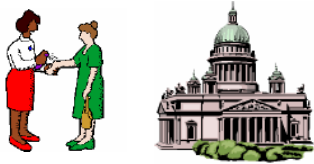
4. **Why** did the Communist government intervene in this manner and **what** was the result?

5. Explain how resources were allocated in the past and how they are now allocated.

6. Why will **inflation** be the result?

7. How might workers **react** to this increase in prices?

8. Look at two pictures below and explain what they mean in terms of the group of people that would determine what was produced in a **planned and free market economy**.



🚦 **Planned Economy**

🚦 **Free Market Economy**

9. Draw a diagram to show **consumer sovereignty** in operation in a free market economy.

Price



Quantity demanded/supplied

10. What is the level of unemployment in a **planned economy** such as Russia?

11. Why was this the case?



12. Why was there an increase in unemployment after the collapse of the Communist Planned economy and the move towards a Mixed Economy?

13. Illustrate the above point on the diagram below.



14. Because the Planning Authorities **set prices**, sometimes the country was faced with over production of a certain product. Illustrate this on the diagram below. (**It happened once with shoes**)



15. What was the result of this policy?

- 16 What is a **Parallel Market**?

17. **Why** did Parallel markets exist in the former Soviet Union?

18. For what kind of products were there **parallel markets**?



19. Why do Parallel markets **not exist** to the same extent in a mixed/free market economy?

In the table on the next page outline some of the features of the Planned Economy that we have just discussed and state how things changed when the country moved towards a **Mixed Economy**.

Feature	Planned Economy	Mixed/Free Market Economy
▪ Unemployment	▪	▪
▪ Inflation	▪	▪
▪ Consumer/Producer Sovereignty	▪	▪
▪ Allocation of Resources	▪	▪
▪ Parallel Markets	▪	▪
▪ Unsold Stocks	▪	▪

Planned Economy - Goodbye Lenin Questions

1. Why was Hanna (the mother) writing a letter and why would this not be necessary in a free market economy?
2. What was the purpose of the military parade?
3. Why were the people marching in the streets?
4. Why was the Coca-Cola Van symbolic?
5. Why did many people lose their jobs with the collapse of communism?
6. How did the installation of satellite dishes also represent a break from the planned economy and communism?
7. Why did people have to wait ten years for a phone?
8. Explain why rental prices were so low in the former East Germany (47 marks for 5 months).
9. 'Where's the other doctor?' Doctor Wagner's move to Dusseldorf also represented a difference between the capitalist free market of the west and the communist planned economy of the east. Explain how.
10. Why were the citizens of East Germany so pleased to obtain Deutschmarks?
11. How did the supermarket of the former planned economy differ from the new free market version? (Mocha Fix, Spreewald etc.)
12. Do you think that the old man is happy to be living in a free market economy?

Planned Economy Questions 2**✚ Resource allocation in a Centrally Planned Economy**

✚ I would like you to read the article attached from Anderton and answer the following questions.

1. Who made the overall decisions relating to economic priorities?
2. Who implemented these decisions ?
3. How many products and groups were structured into the plan?
4. How long were the plans?
5. Why might somebody challenge the production order/plan?
6. How did the Soviet Union ensure the transition from a market economy to a centrally planned economy?
7. What was the problem by the 1960s?
8. Why was there no incentive for workers in this kind of system?
9. What was the key to success for managers?
10. What was the feeling by the 1980s?
11. Do you think that a centrally planned economy is a good way of allocating resources?