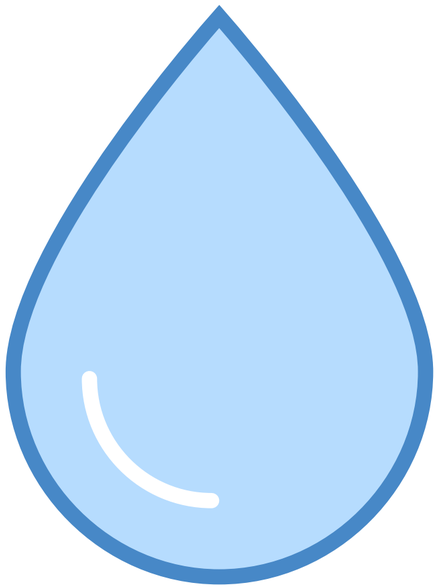
What is Economics?

1.1



The 9 Central Concepts

Match the concept to the symbol you feel is correct

Efficiency

Scarcity

Choice

Interdependence

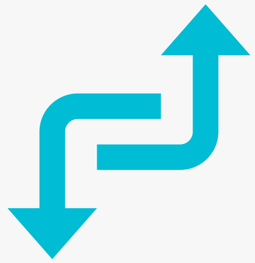
Equity

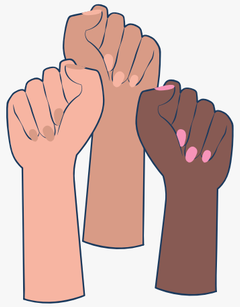
Sustainability

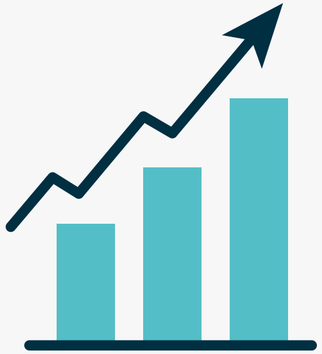
Economic Well-Being

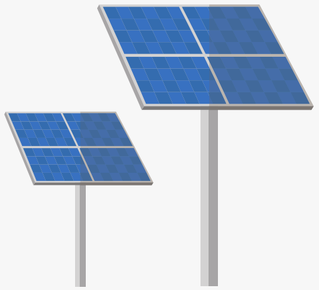
Intervention

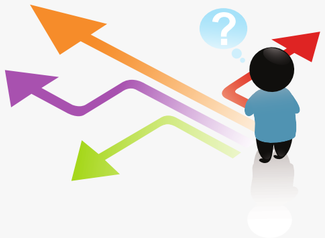
Change









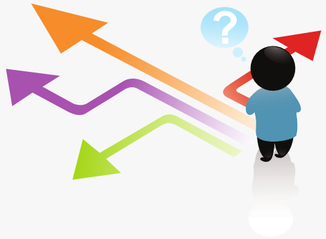


The 9 Central Concepts

Scarcity

Efficiency

Choice



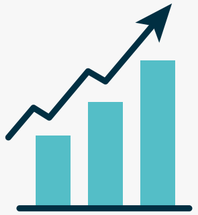
ECONOMICS

Sustainability

Interdependence

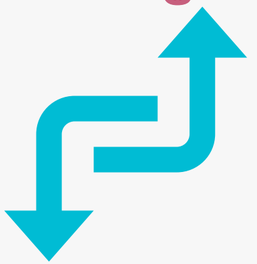
Equity

Economic Well-Being



Intervention

Change



Key Concept Activity

Pick two Key Concepts and find a news article written within the last year that fits with the concept! Write a few sentences explaining why.

Two Branches

Microeconomics

- studies the behavior of individual economic agents such as consumers, households, firms, industries, and the government, and how they make economic decisions.

Macroeconomics

- studies the economy as a whole, focusing on countries' fundamental economic goals.

Discussion

Without any prior knowledge, define economics.

Definition

Economics is

- a social science.
- the study of people in society
- the study of rationing systems: how scarce resources meet the infinite wants of individuals.

Textbook Definition

Economics is the study of how societies use their scarce resources, which are needed to produce goods and services, to fulfill the unlimited needs and wants of the population, and distribute these goods and services among different groups.

At the heart of economics is ..

Scarcity

Scarcity

Scarcity – we have unlimited wants but limited resources

Due to scarcity, we are unable to have everything we desire. Therefore, we must make **Choices** about what resources we consume and which we give up. (**Trade-Off**)

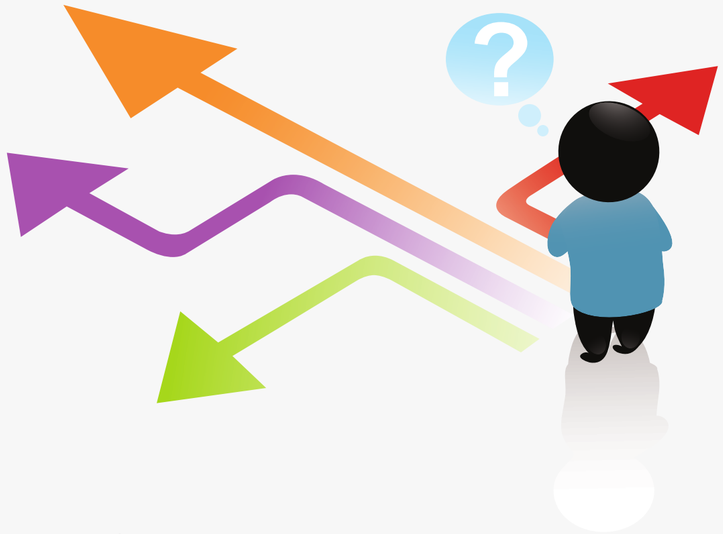
Economics is the study of choices. In this section, we will study the choices of individuals, firms, and governments.

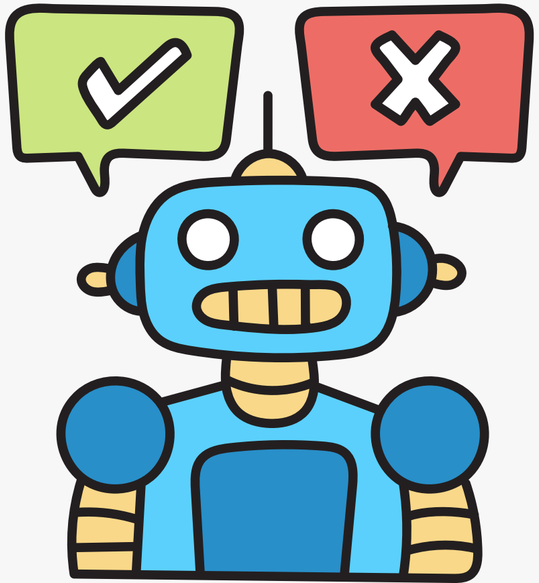
Costs

Due to scarcity, individuals, firms, and governments must make choices. All choices come with a trade-off.

Trade-Off: All the alternatives that are given up when a choice is made.

Opportunity Cost: The next best-alternative that is given up when a choice is made.





Opportunity Cost

Scarcity leads to choices. Choices lead to trade-offs. But not all trade-offs are equal.

Opportunity Cost

The next bext choice/alternative given up when a decision is made

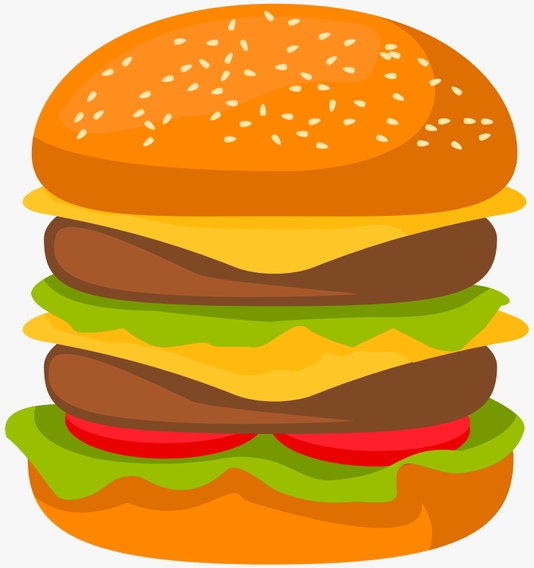
Example

You and your friends are deciding what you would like to eat. You decide you want Italian food. At the restaurant, you are debating between pizza or pasta. You choose pizza.

What is your opportunity cost?

Factors of Production

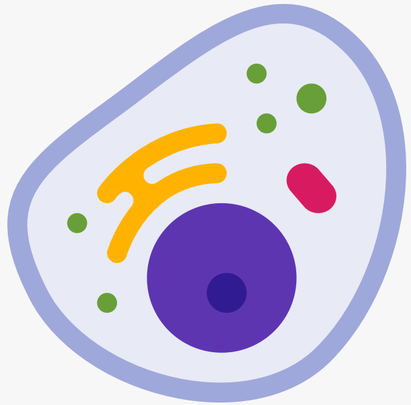
Think of a good or service you purchase regularly purchase. List out all the resources used to make that product or service. Be EXTENSIVE!



Resources

All Resources can be classified into one of the **Factors of Production**

CELL



Capital

Labour

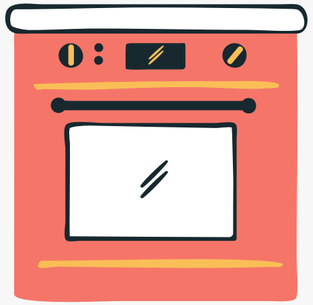
Entrepreneurship

Land

Capital

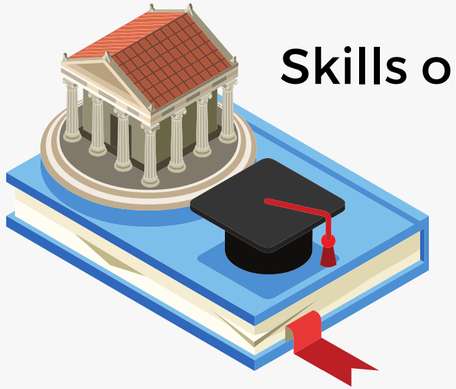
Physical Capital

Any Human-made resource used to create other goods or services.



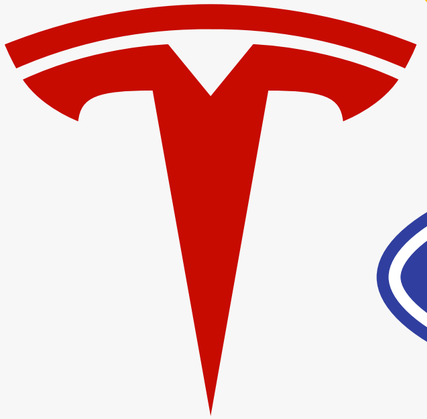
Human Capital

Skills or knowledge gained through education or experience



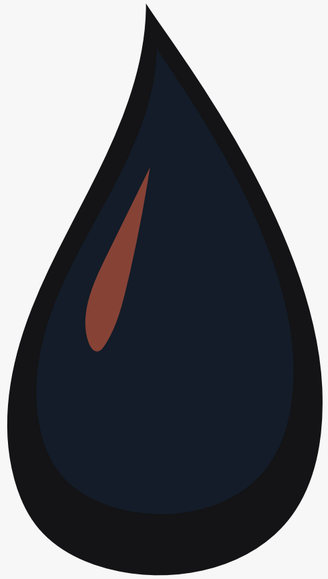
Entrepreneurship

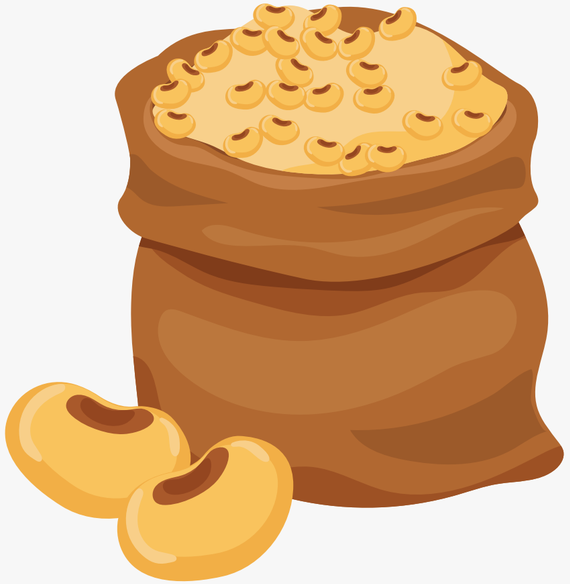
Leaders who bring together other factors of production to create goods and services. Their primary motivation is **PROFIT**



Land

Any Natural Resource used to produce goods or services. Anything that comes naturally from the Earth





Labour

A person who devotes effort to a task and who is usually paid.

Decision Making

When analyzing choices, economists will "Thinking on the Margin" (Marginal Analysis) which simply put, means making decisions based on increments.

Examples

- 1 additional hour of study time
- 30 more minutes of TV Time
- 1 additional slice of pizza to eat

Three Basic Economic Questions

Three Basic Questions

- What to Produce?
- How to Produce?
- For Whom to Produce?

How a society answers these questions determines what **economic system** they use.

Economic Systems

Shoe Activity

Instructions

Round 1

Get out a sheet of paper. You will have one minute to draw a shoe. I will then walk around and provide payment to shoes I would like to purchase with my budget of $20. Go!

Instructions

Round 2

Flip over to the other side of your paper. You will now draw another shoe however, this time, everyone in the class will receive $1 regardless of how great or terrible your shoe is. Go!

Reflection

With a partner or a group, discuss some of the key differences and takeaways from the two rounds.

Reflection

Round 1

Free Market Economy

Capitalism

Incentive for innovation

Variety of choice

Incentive to create a quality product

Inequality – not everyone gets money

Round 2

Centrally Planned Economy

Communism

Equality

Organized

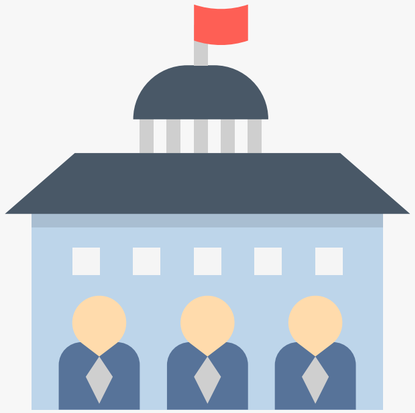
Lack of incentive

Lack of innovation

Economics Systems

Centrally Planned

- All economic decisions made by the government
- The government owns all Factors of Production.
- The government decides what to produce.
- The government decides how resources are used (including labour) and how to distribute goods within society.



Free Market

- All economic decisions are made by consumers and producers in the free market.
- Individuals and private firms own all Factors of Production.
- Entrepreneurs and profit decide what is produced.
- Firms employ individuals and seek the most efficient use of resources for higher profit.
- Price determines who is able to pay for and purchase goods.
- Theoretically, no government intervention.

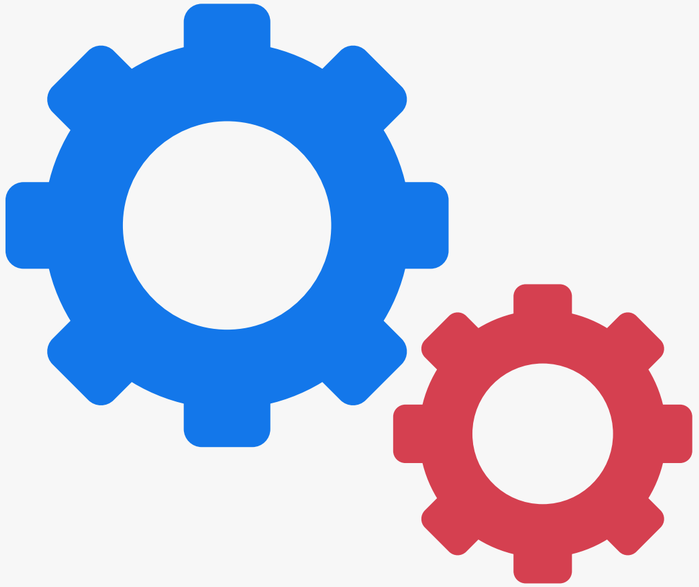
Economics Systems

Mixed Market

In reality, all countries do not follow the extreme view of no government intervention (Free-Market) or full government intervention (Centrally Planned).

Most economies in the world today are mixed economies. They incorporate some government intervention and some free-market principles.

Production Possibilities Curve



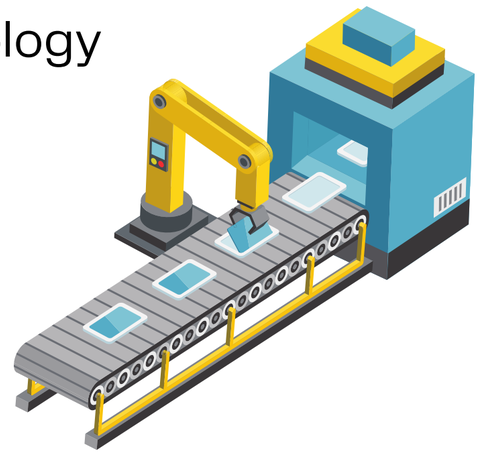
PPC (PPF)

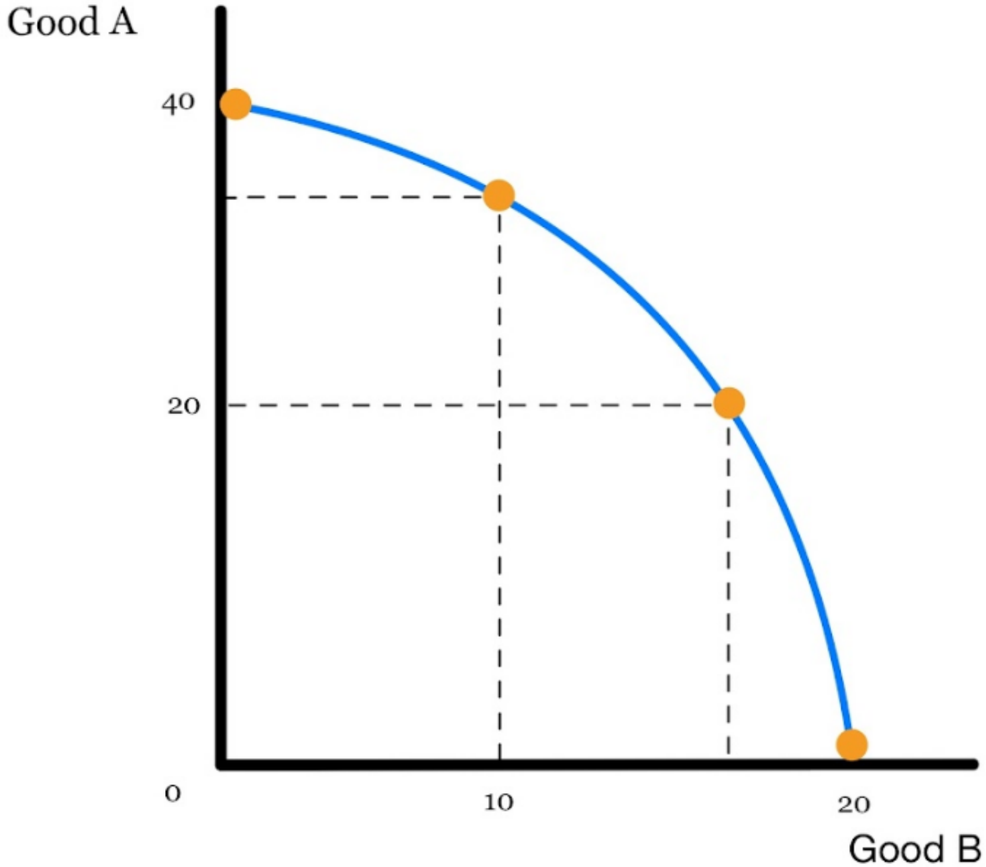
Production Possibilities Curve/Frontier

A model designed to show the alternative combinations a firm or country can produce using their maximum resources.

Assumptions of the PPC

- Only 2 goods can be produced
- Full Employment (All possible jobs are filled)
- Fixed Resources
- Fixed Technology

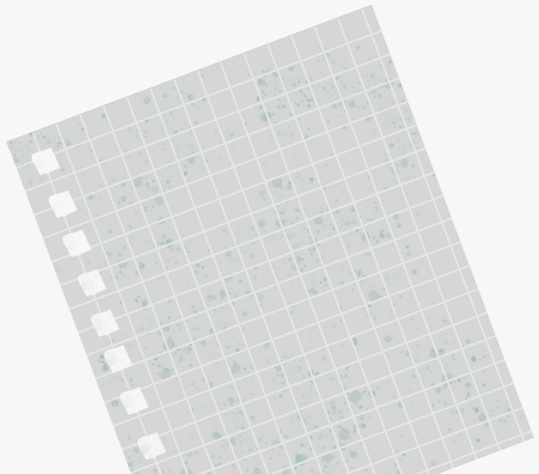




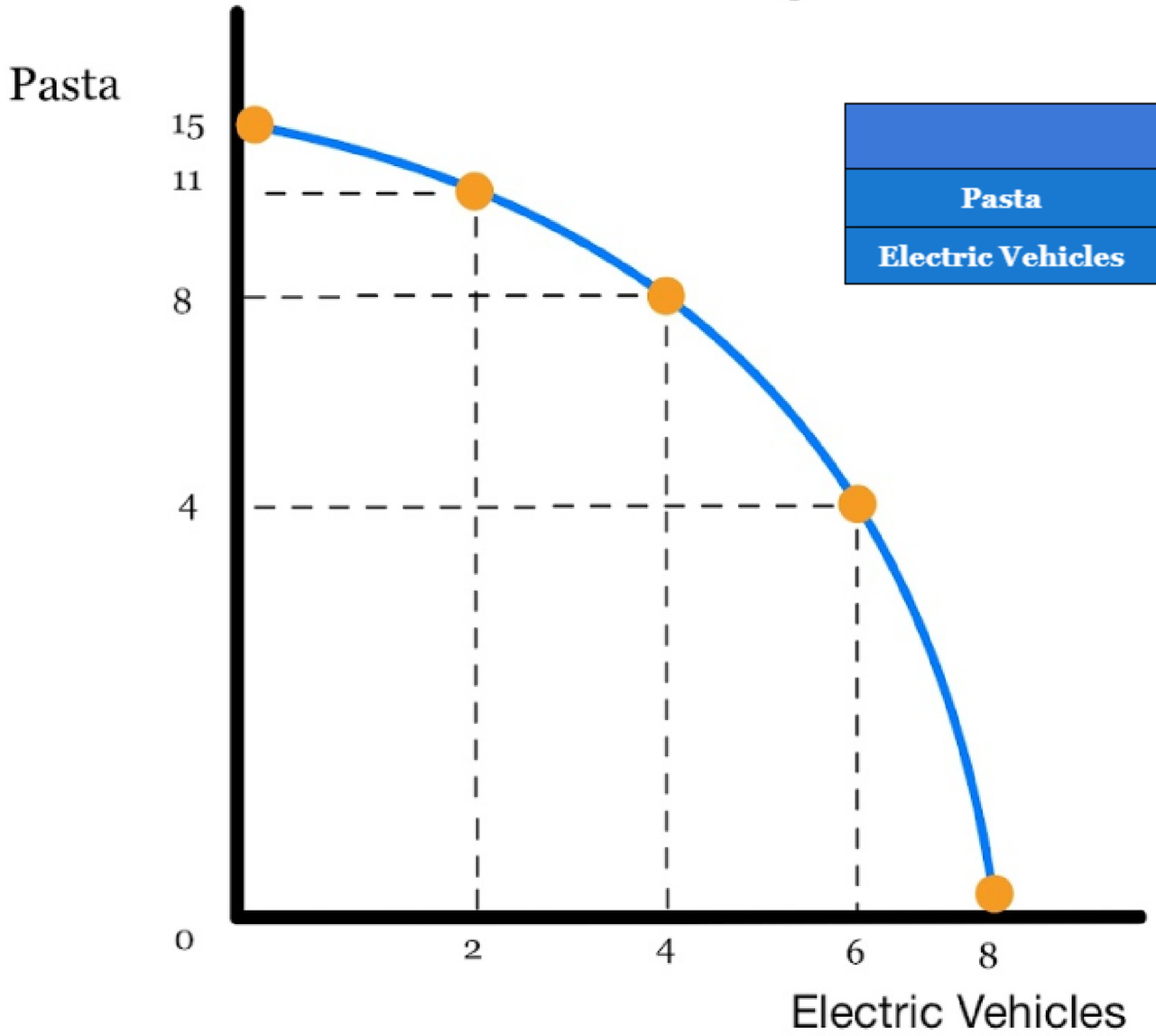
Plotting a PPC Curve

Attempt to construct a PPC curve from the information below

	A	B	C	D	E
Pasta	15	11	8	4	0
Electric Vehicles	0	2	4	6	8



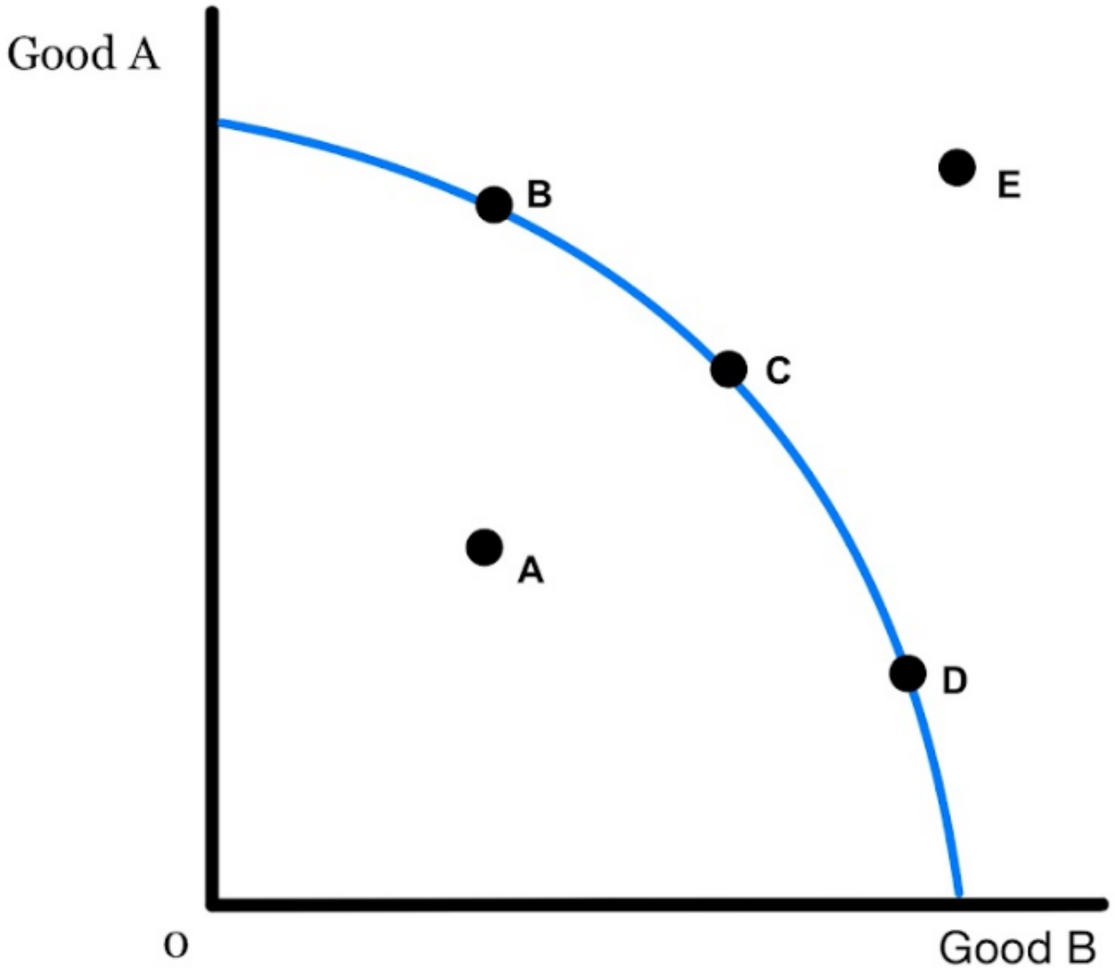
Plotting a PPC Curve



	A	B	C	D	E
Pasta	15	11	8	4	0
Electric Vehicles	0	2	4	6	8

Efficiency

Efficiency



Efficiency – resources are being used in the best possible way. There is no waste and no improvements to be made.

Point B, C, and D – Efficient. All resources are used at their maximum potential.

Point A (Any point inside the curve) – Inefficient as all resources are not being used to the fullest and efficiency could be improved by moving to point B, C, or D.

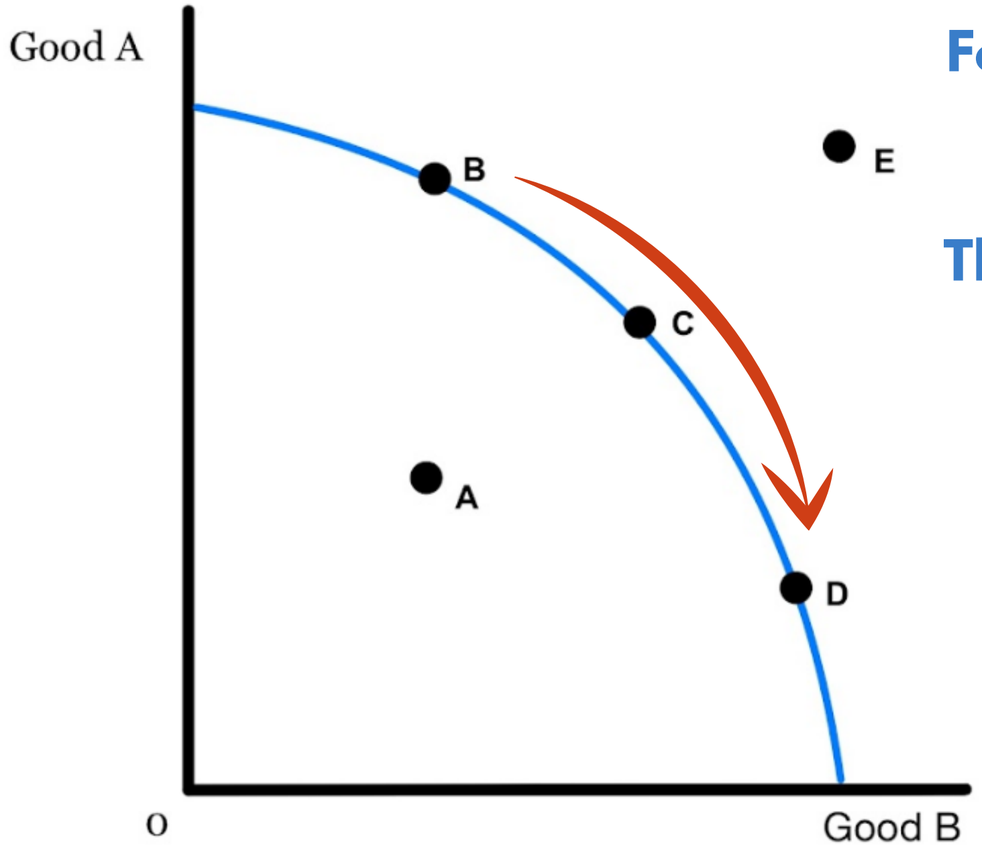
Point A can also represent an inefficiency due to unemployment.

Point E (Any point outside the curve)– Impossible or unattainable given current resources.

Opportunity Cost, Scarcity, and Choice

Opportunity Cost

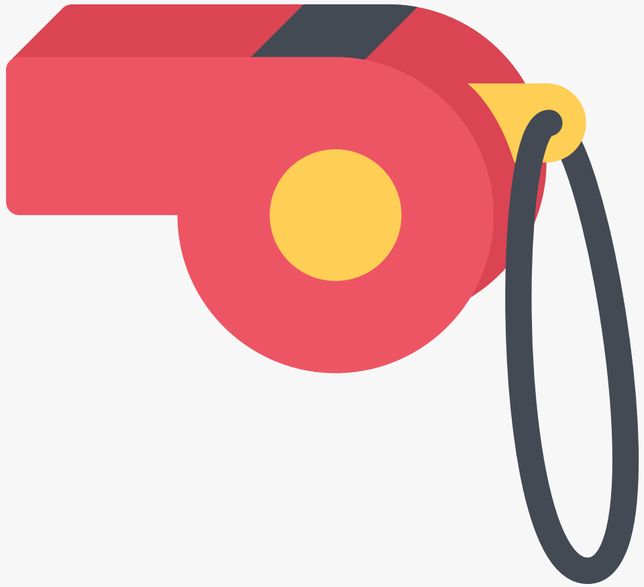
The PPC model is great for analyzing the concept of opportunity cost.



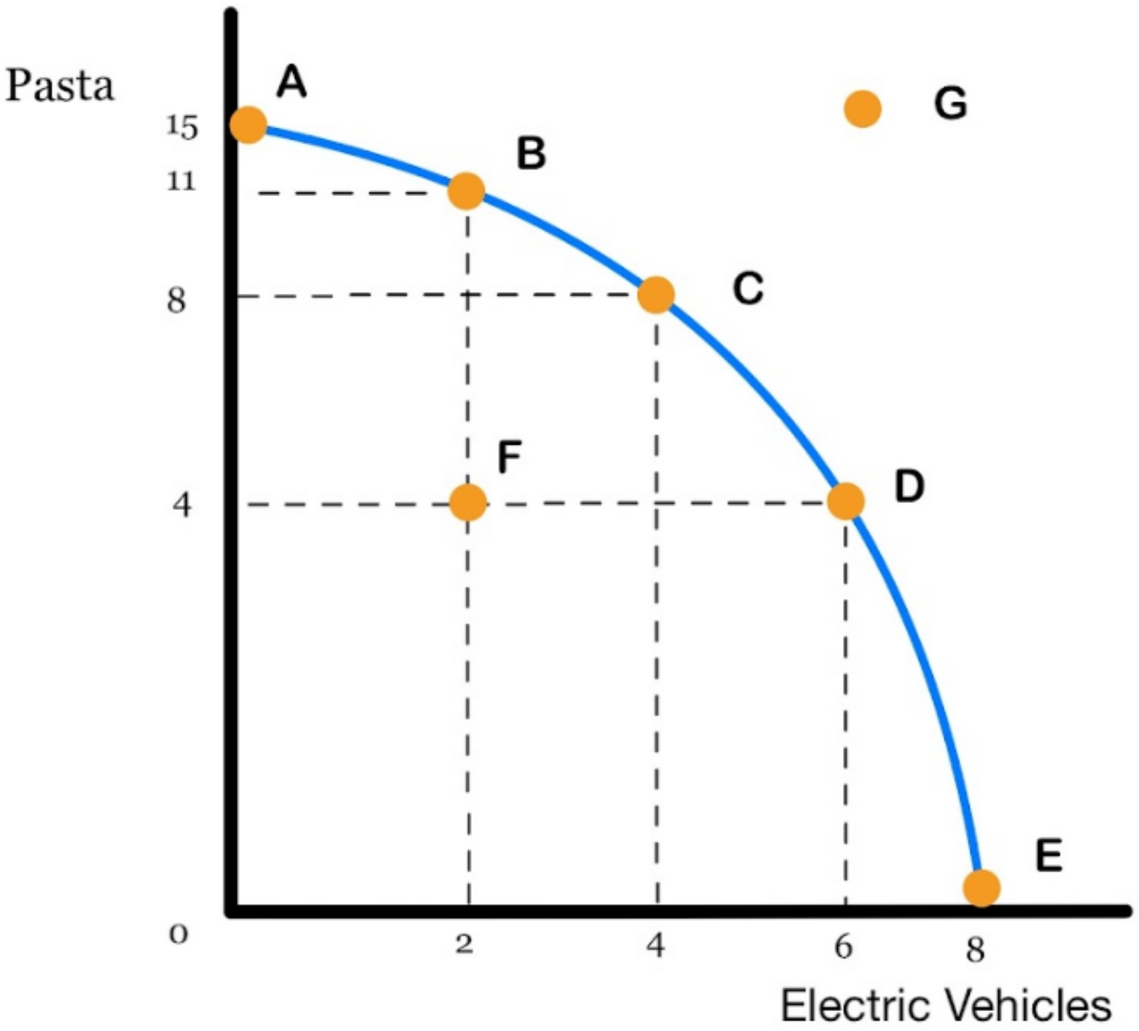
For example, a movement from point B to point D would represent an increase in the production of Good B.

The opportunity cost would be some quantity of Good A.

Opportunity Cost Practice



Opportunity Cost Practice



What is the opportunity cost of moving from point C to D?

What is the opportunity cost of moving from point D to A?

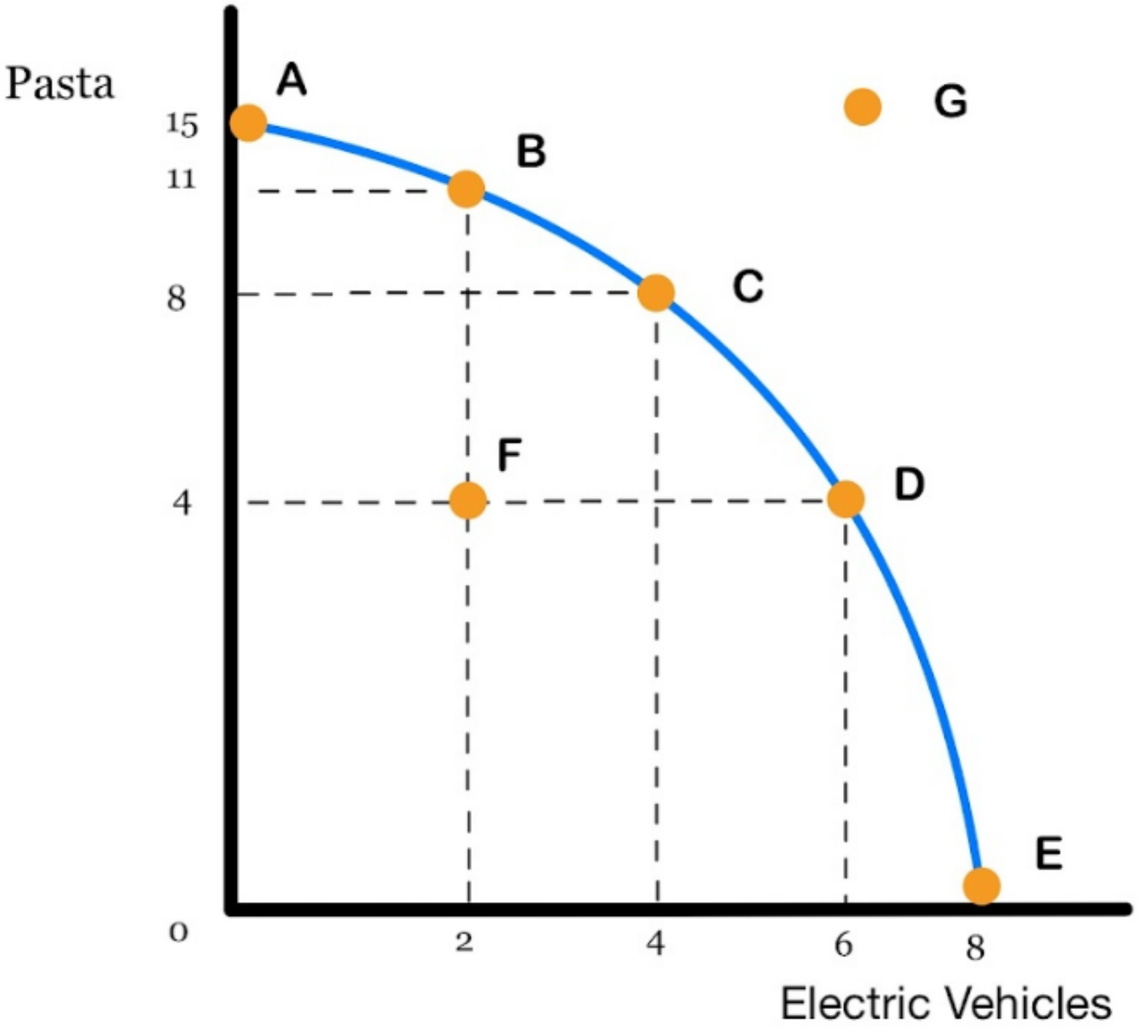
What is the opportunity cost of moving from point F to D?

What is the opportunity cost of moving from point A to E?

What can be stated about point G?

What can be stated about point F?

Opportunity Cost Practice



What is the opportunity cost of moving from point C to D? 4 Pasta

What is the opportunity cost of moving from point D to A? 6 Vehicles

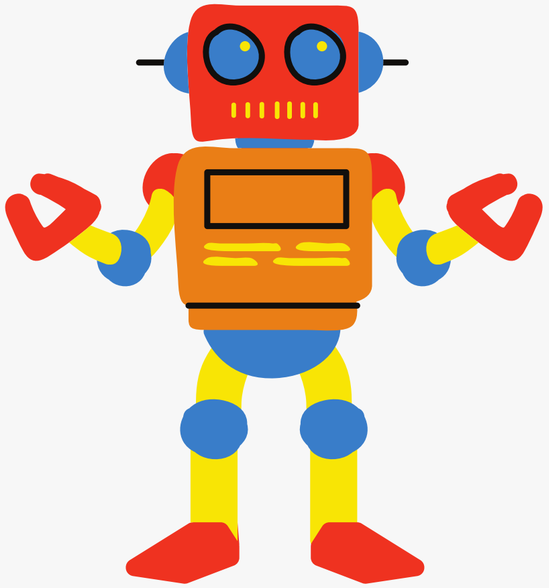
What is the opportunity cost of moving from point F to D? No Opportunity Cost

What is the opportunity cost of moving from point A to E? 15 Pasta

What can be stated about point G? Unattainable

What can be stated about point F? Inefficient

Increasing vs Constant Opportunity Cost

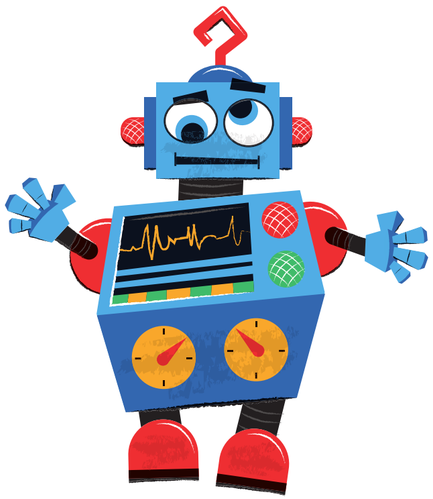


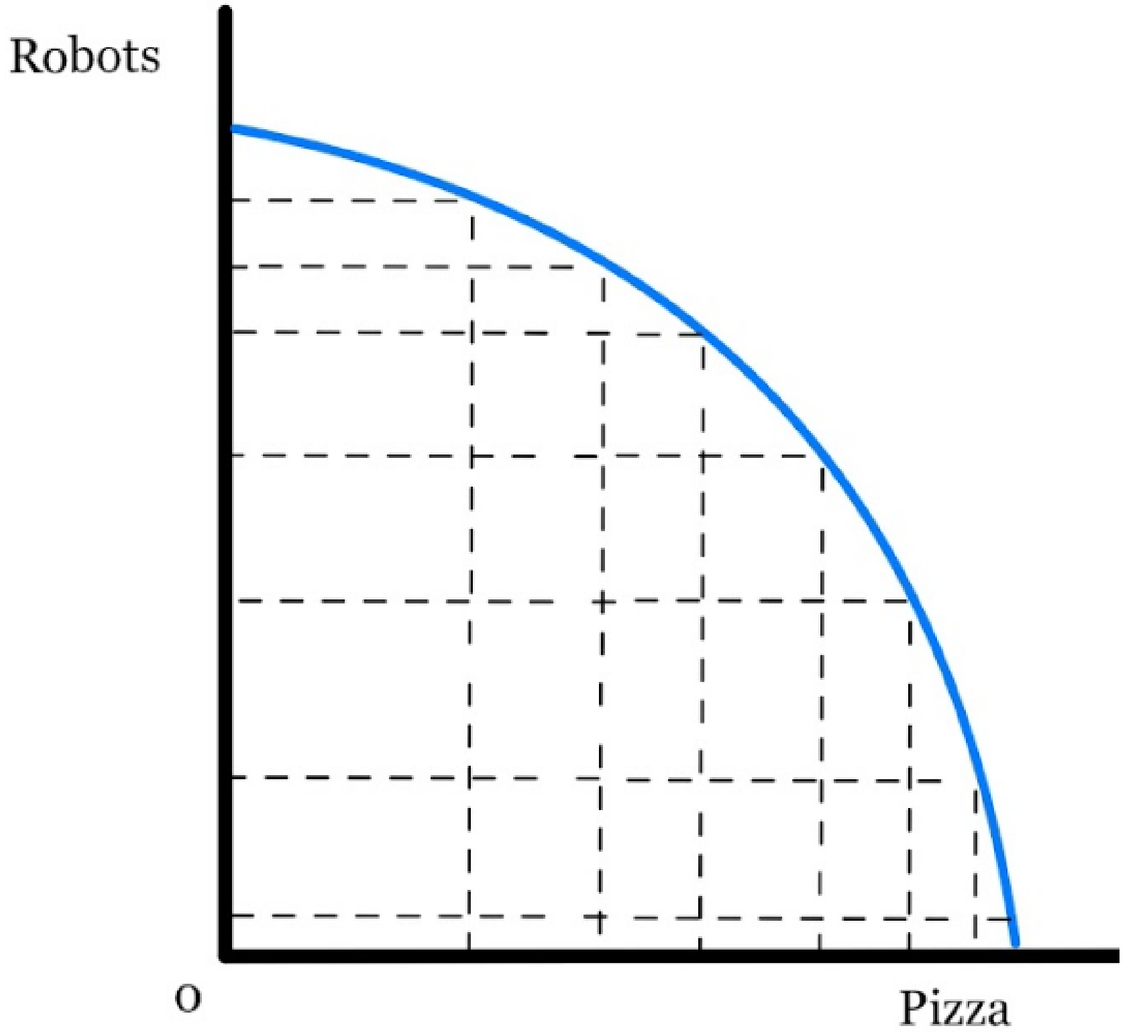
Increasing Opportunity Cost

As you produce more of one good, the opportunity cost increases.

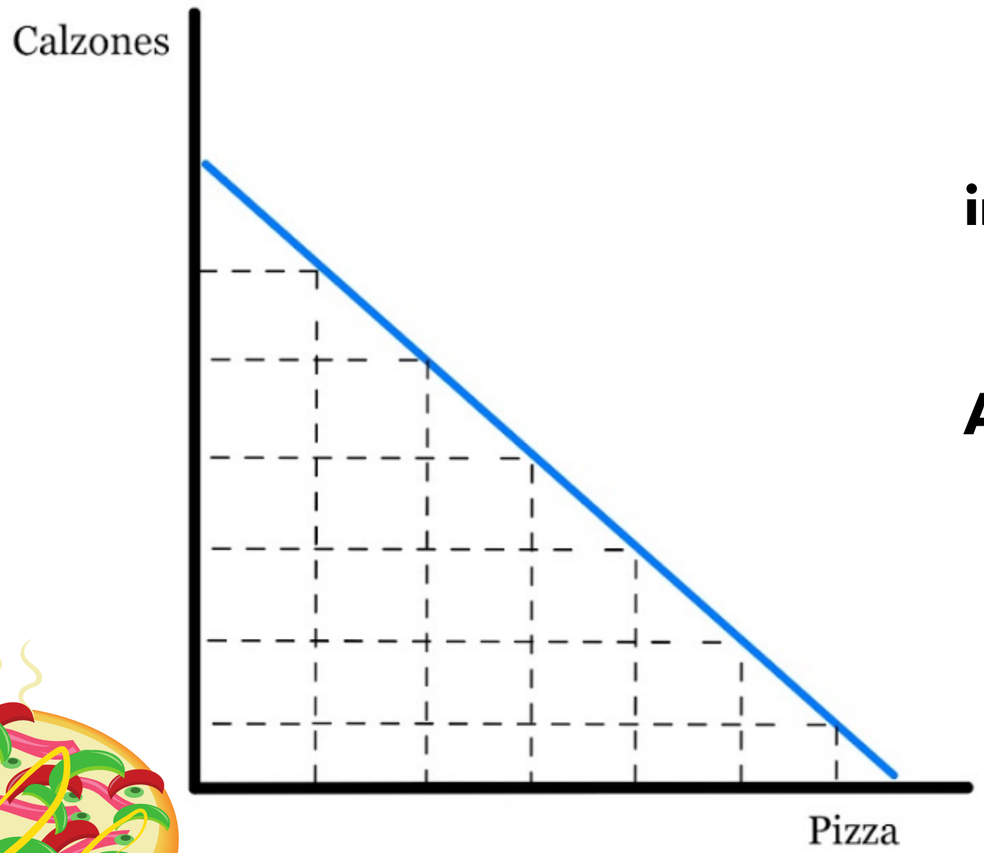
Why? Not all resources are equally suited for the production of both goods.

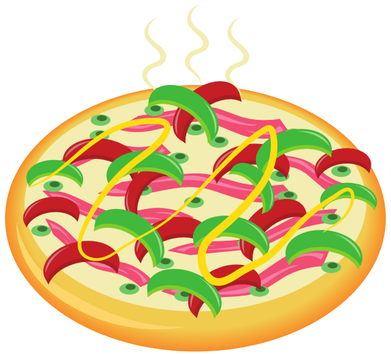
The result of this leads to a 'bowed out' curve.





Constant Opportunity Cost

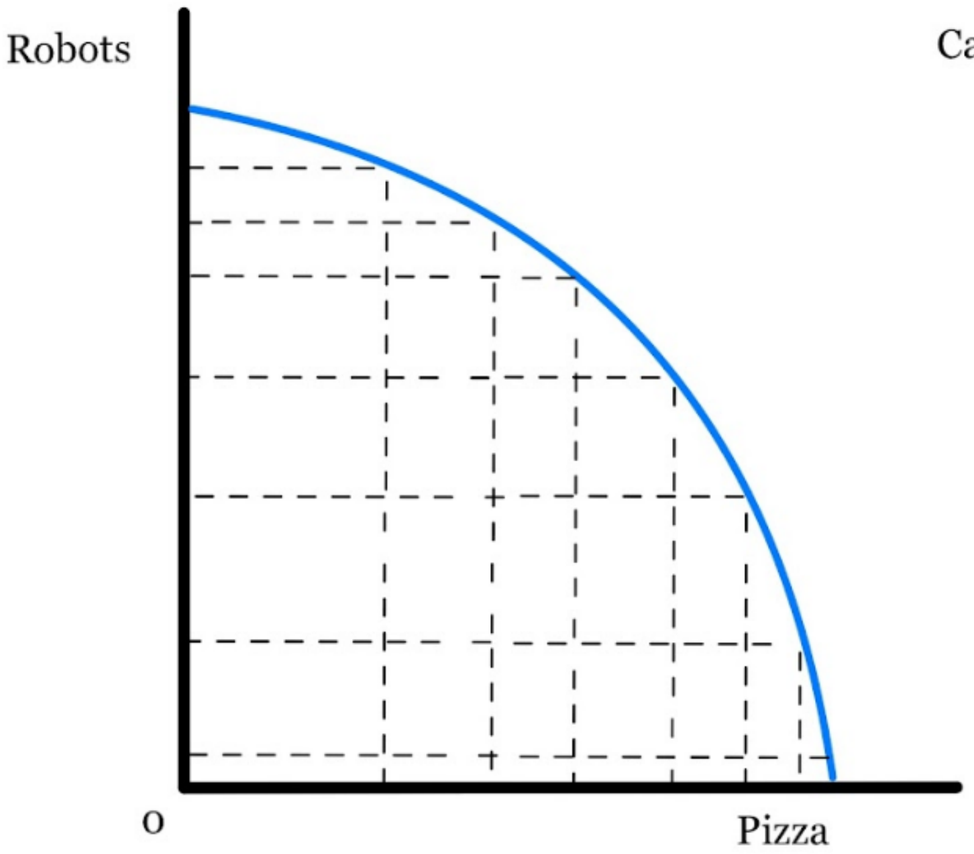


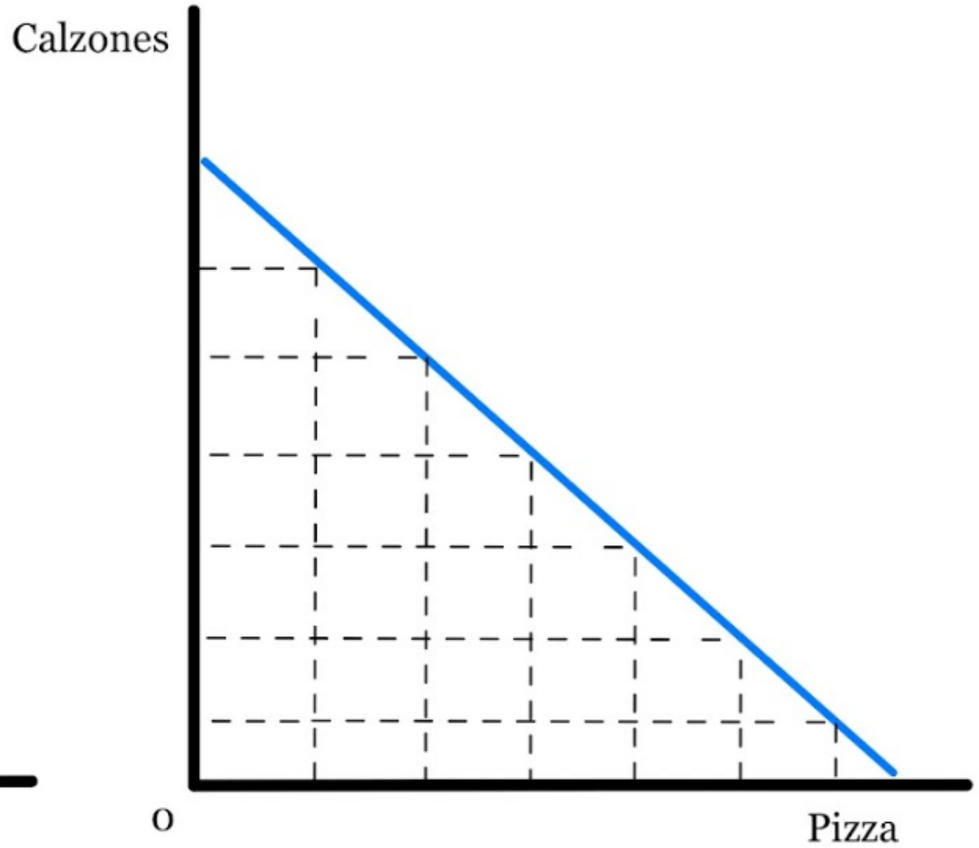


Sometimes, resources can be easily interchanged to produce either good leading to a constant opportunity cost.

A constant opportunity cost results in a straight line PPC.

Increasing vs Constant



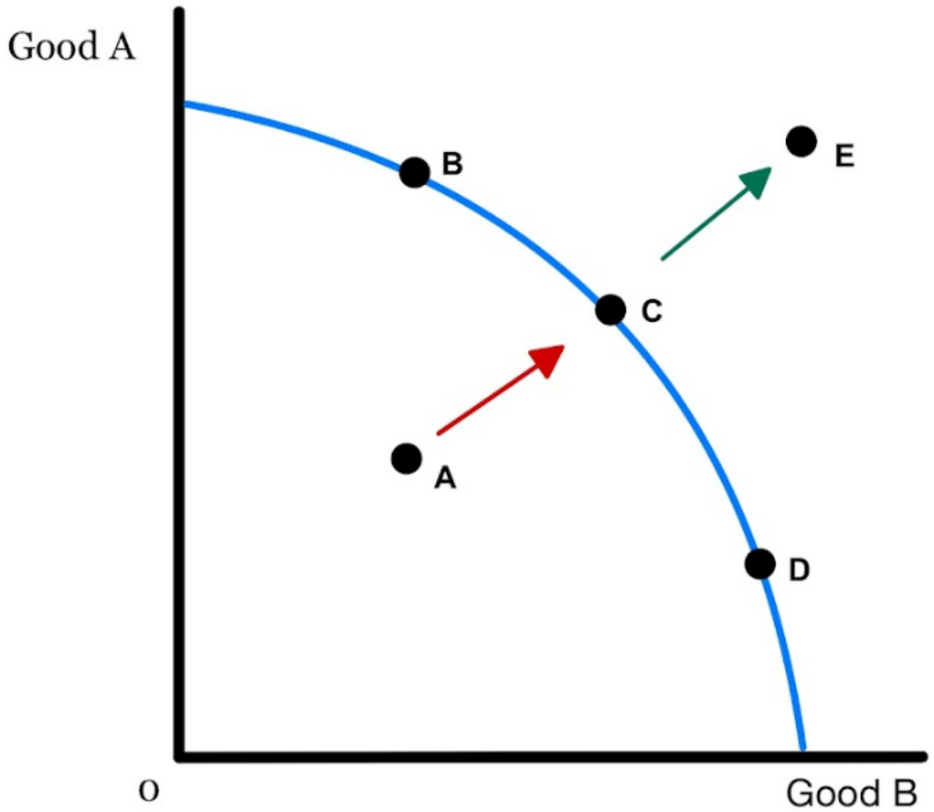


Potential vs Actual

Actual Growth

A movement from point A to Point C illustrates **ACTUAL GROWTH**.

ACTUAL GROWTH - When growth/efficiency is achieved by making better use of resources.



This is growth that can **ACTUALLY** happen given current resources.

Potential Growth

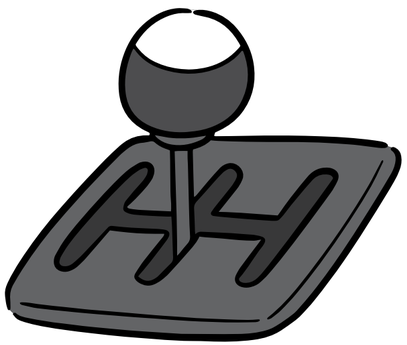
An increase in the maximum amount that can be produced is **POTENTIAL GROWTH**.

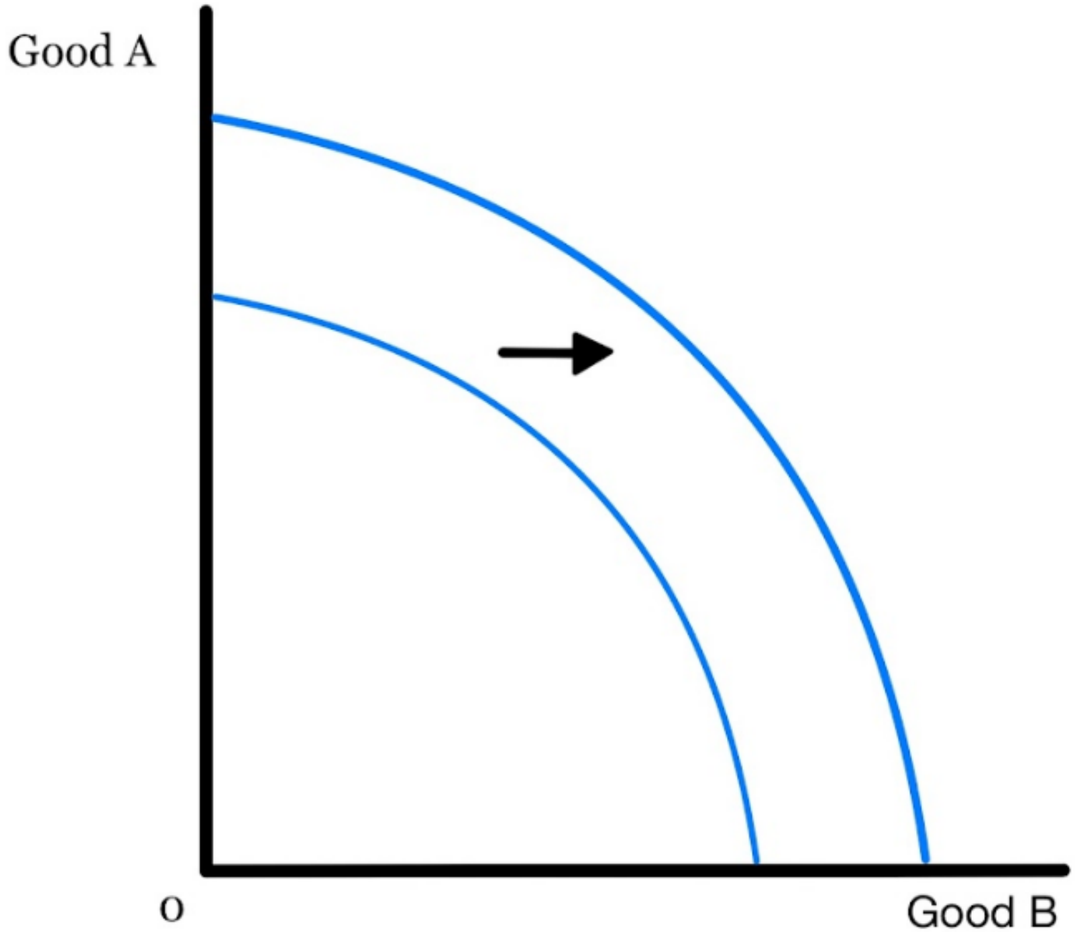
POTENTIAL GROWTH results in a shift of the PPC. A few things cause the shift of PPC.

Shifters of the PPC (Potential Growth)

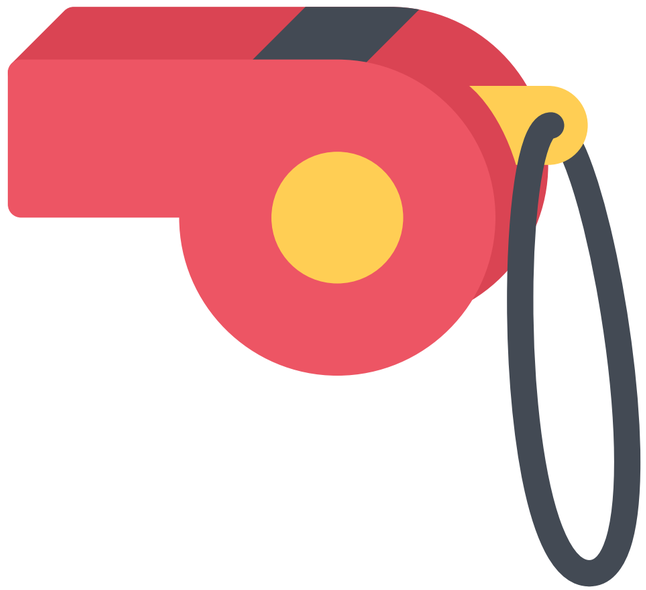
1. Change in quantity or quality of Factors of Production

2. Improvement in Technology





PPC Practice

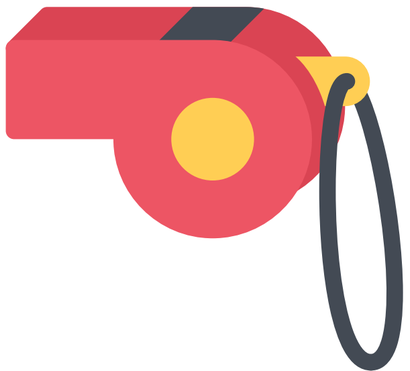


PPC Practice

Draw a PPC diagram comparing Cars and Ice Cream. Draw the changes for the following:

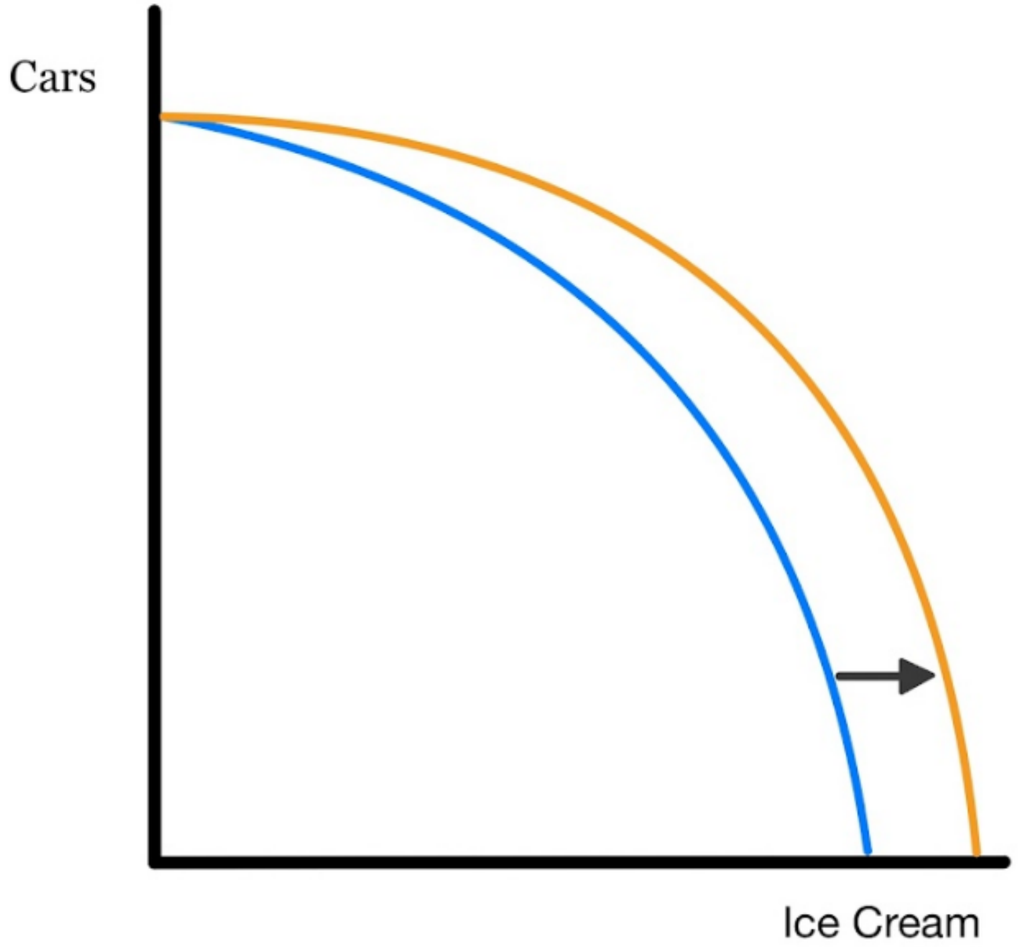
Note: You should draw a PPC diagram for each question
Be sure to also list the which shifter changes the curve

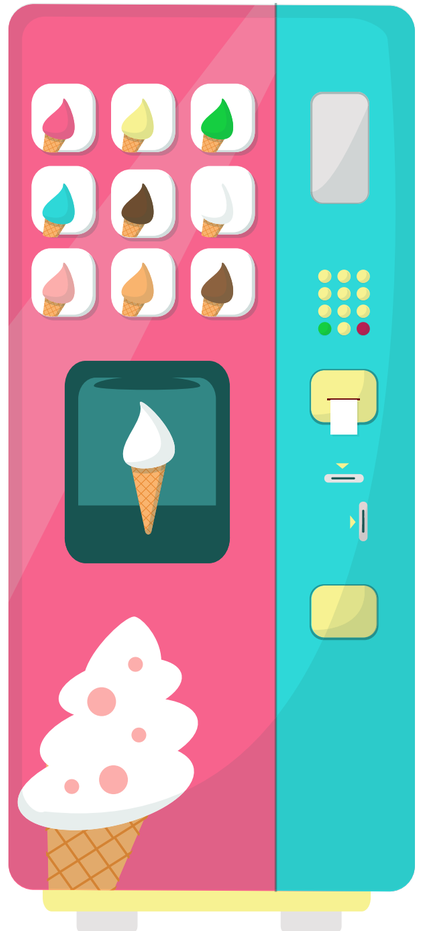
1. New Ice Cream Machinery Created
2. Metal shortage worldwide
3. An increase of the general population and labour force
4. Summer time! Ice Cream demand increases
5. Dairy farms hit by natural disaster



PPC Practice

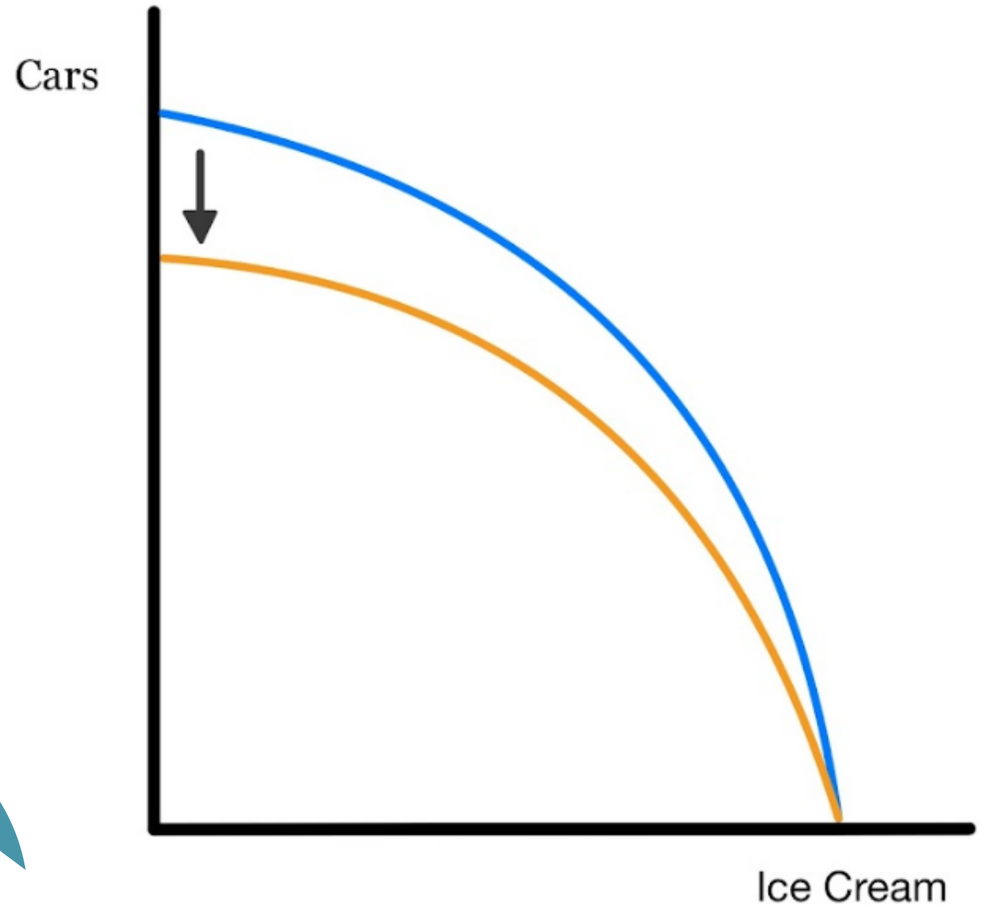
1. New Ice Cream Machinery Created





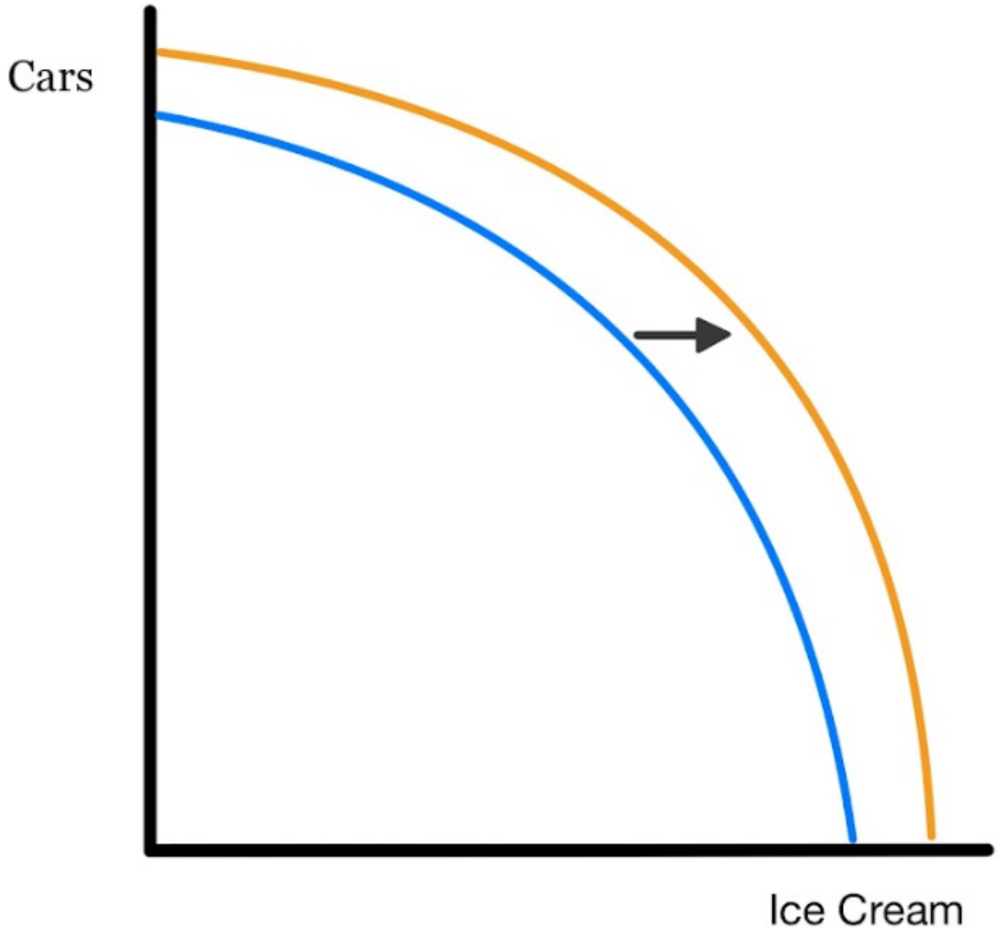
PPC Practice

2. Metal shortage worlwide



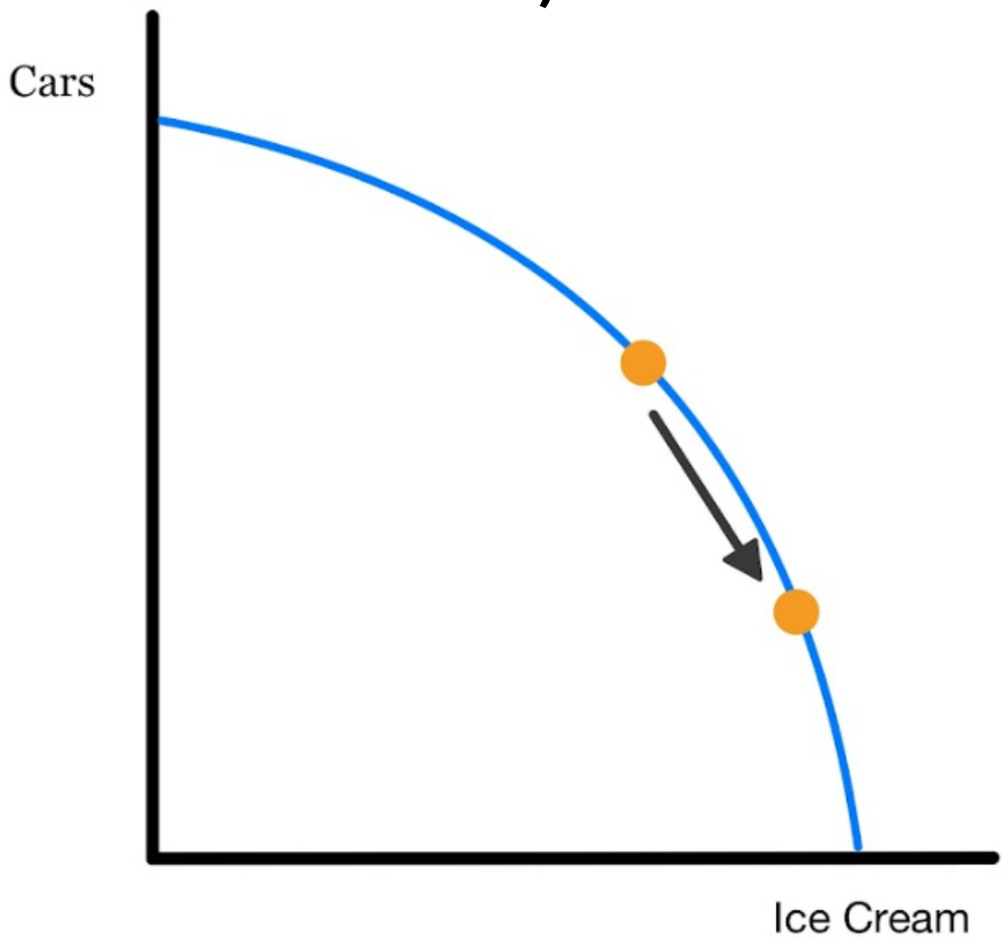
PPC Practice

3. Increase in general population and labor force



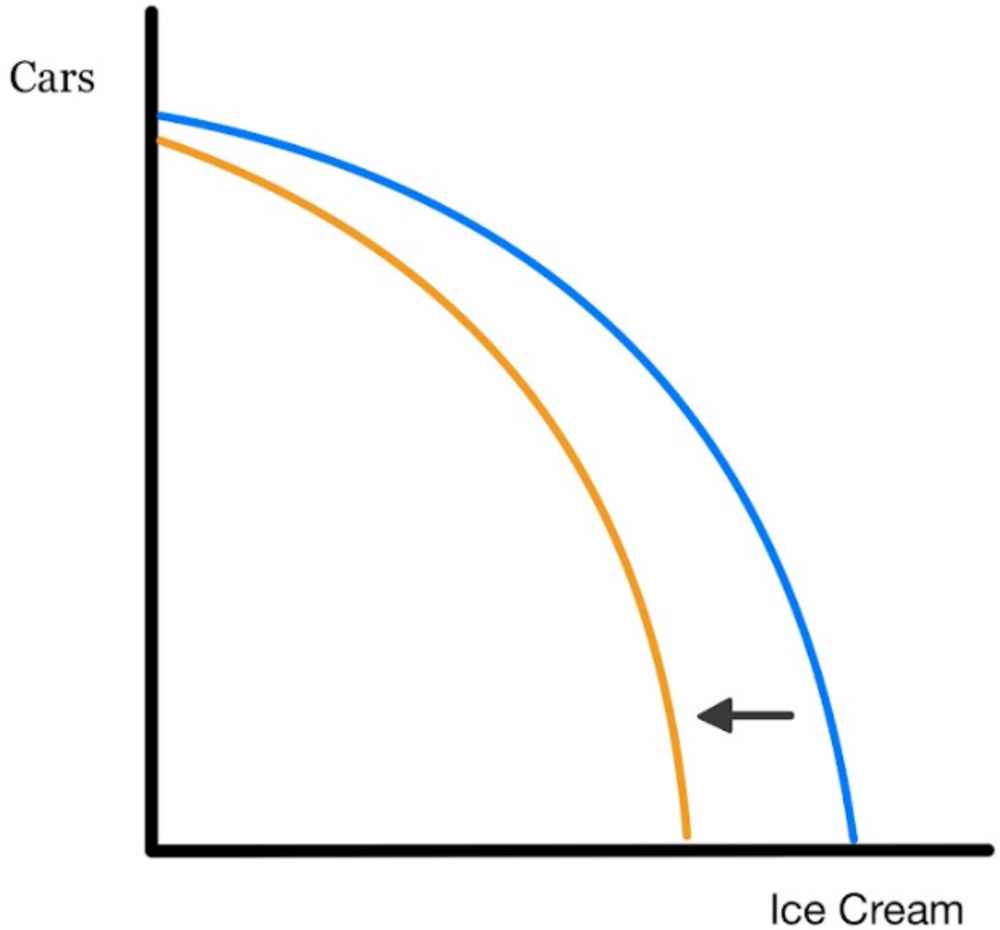
PPC Practice

4. Summer time! Ice cream demand increases
(NO SHIFT = Demand is not one of the shifters)

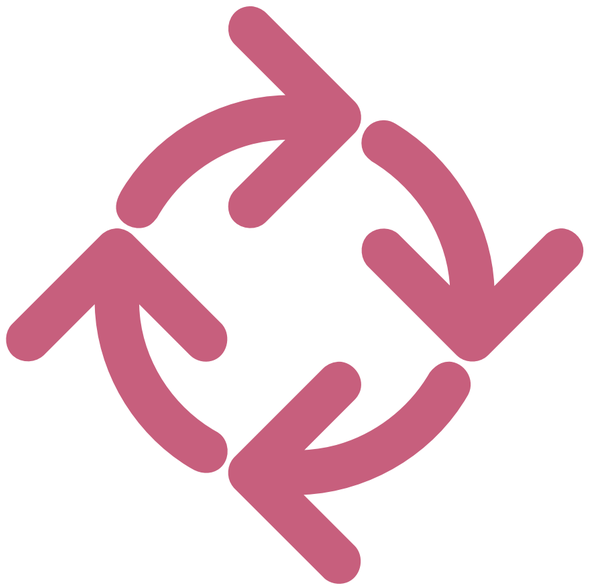


PPC Practice

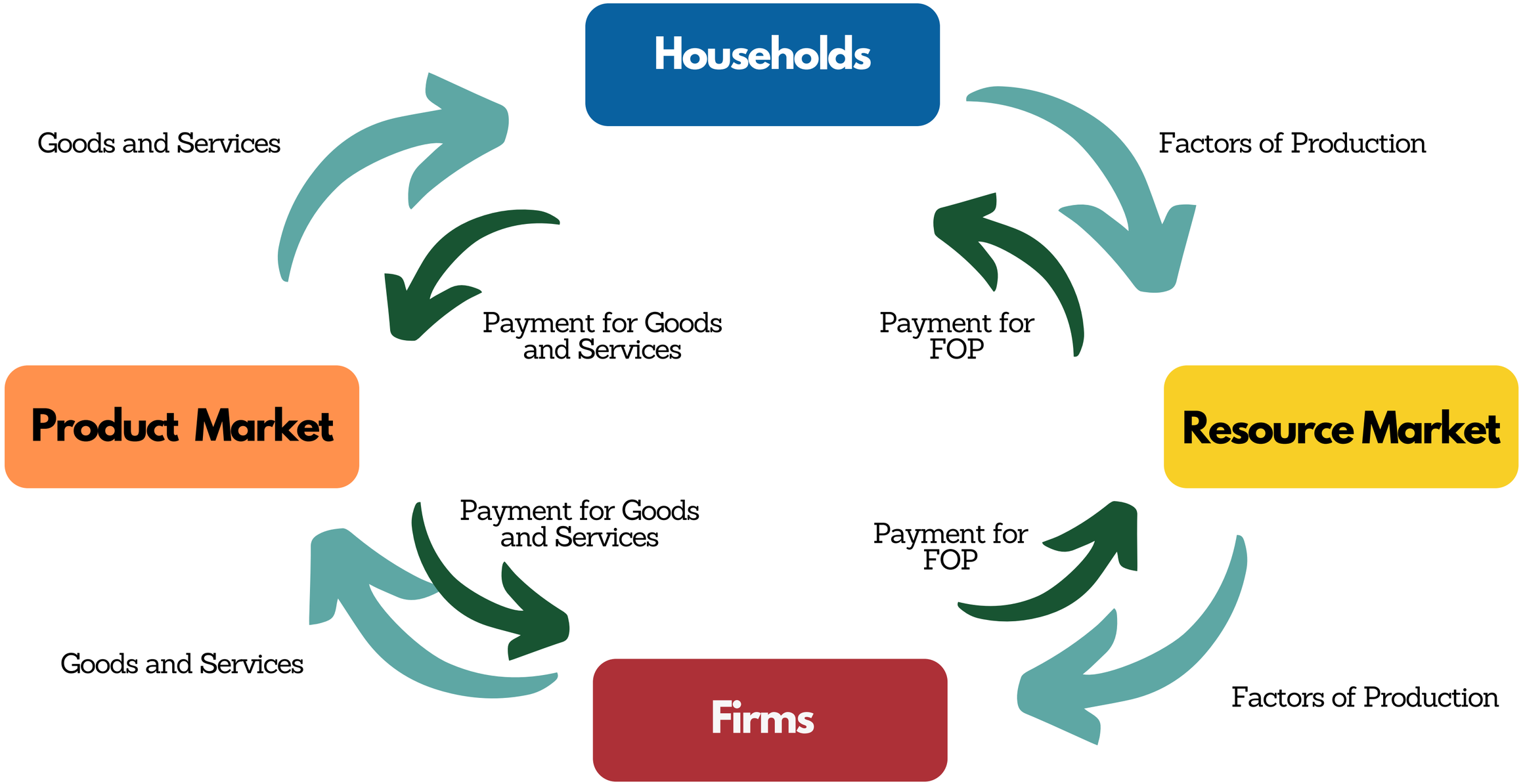
5. Dairy farms hit by a natural disaster



Circular Flow



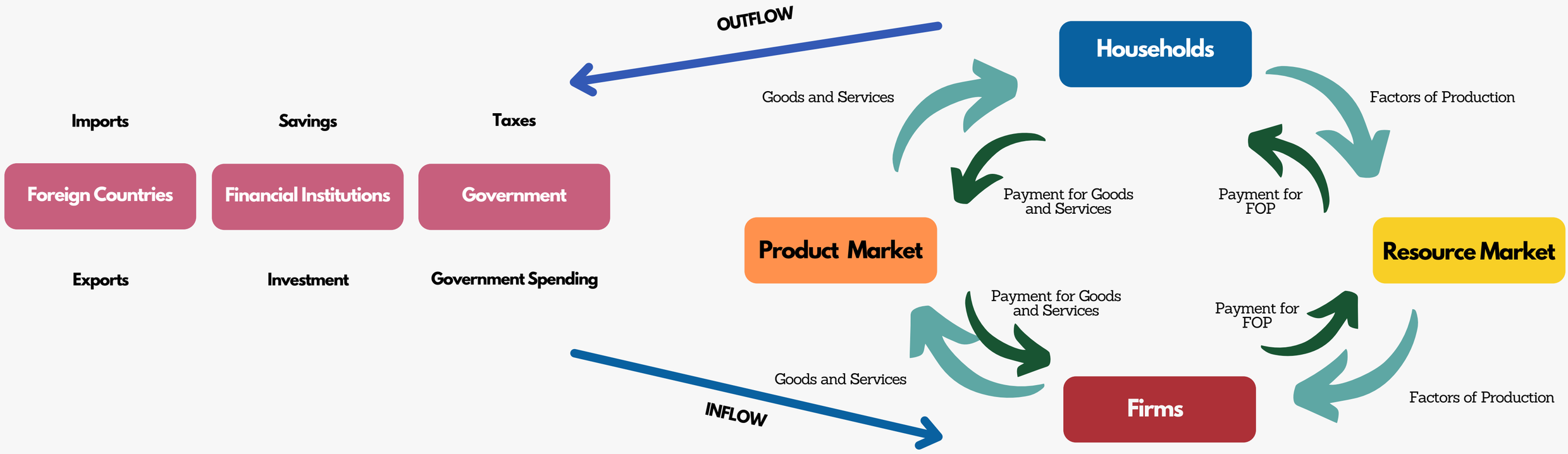
Closed Circular Flow



Open Circular Flow

Leakages – Money that flows out of an economy (Savings, Taxes, Imports)

Injections – Money that flows into an economy (Investments, Government Spending, Exports)



Practice Question

Paper 1 Part A

N09/3/ECONO/SP1/ENG/TZ0/XX

Using at least one production possibility curve diagram, explain the concepts of scarcity, choice, opportunity cost and resource allocation.

Paper 1 Part A

1. (a) Using at least one production possibility curve diagram, explain the concepts of scarcity, choice, opportunity cost and resource allocation. ***[10 marks]***

Answers **should** include:

- explanations of scarcity, choice, opportunity cost and resource allocation
- at least one production possibility curve diagram
- explanation of the way the production possibility curve diagram illustrates the concepts of scarcity, choice, opportunity cost and resource allocation.

Answers **may** include:

- explanation of the importance of the shape of the production possibility curve
- explanation of the significance of shifts of the production possibility curve.

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

Paper 1 (SL/HL)

Part (a) 10-mark question

Marks 0–10	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1–2	• The response indicates little understanding of the specific demands of the question. • Economic theory is stated but it is not relevant. • Economic terms are stated but they are not relevant.
3–4	• The response indicates some understanding of the specific demands of the question. • Relevant economic theory is described. • Some relevant economic terms are included.
5–6	• The response indicates understanding of the specific demands of the question, but these demands are only partially addressed. • Relevant economic theory is partly explained. • Some relevant economic terms are used appropriately. • Where appropriate, relevant diagram(s) are included.
7–8	• The specific demands of the question are understood and addressed. • Relevant economic theory is explained. • Relevant economic terms are used mostly appropriately. • Where appropriate, relevant diagram(s) are included and explained.
9–10	• The specific demands of the question are understood and addressed • Relevant economic theory is fully explained. • Relevant economic terms are used appropriately throughout the response. • Where appropriate, relevant diagram(s) are included and fully explained

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