

ECONOMICS

AIMS (objectives) OF THE SUBJECT

According to the Economics curricula (Generalitat de Catalunya, Decret 82/1996), there are two aims: to give a global view of the economic system and to introduce the students to economic reasoning.

My own aim is to help the students to love Economics.

CONTENTS

1. The Economic problem
2. How markets work
3. Market failure
4. Government intervention in markets
5. Measures of economic performance
6. The international economy
7. Managing the economy

METHODOLOGY

There will be a combination of many different activities: theoretical explanations, individual exercises, exercises in group, games, role playing, debates, projection of movies and other audiovisuals, presentations, use of the computer room (preparing or manipulating economic data, Internet research, simulations, etc.) and visits outside the school.

The activity and the participation of all the students will be promoted with a positive atmosphere.

ASSESSMENT CRITERIA

The mark (or score) will be composed of the following items:

- Final exam: _____ %
- Exams during the term: _____ %
- Homework: _____ %
- Behaviour (punctuality, attendance, effort, participation and interest): _____ %

ACTIVITY 1: Individually, decide the % for each item with one condition: the sum has to be 100 % and the final exam has to represent 50 % or more. When you finish, compare your % with other students.

There will be an exam during the next term of each credit and another exam in the end of the course in order to improve the failed credit or increase marks.

BIBLIOGRAPHY (optional)

AS *Economics*, SJ Grant, Pearson Longman Ed., 2006.
<http://www.xtec.es/~nsarsane>

UNIT 1: THE BASIC ECONOMIC PROBLEM

CHOOSING ON A DESERT ISLAND¹

You and your three English friends are the only four survivors of an airplane accident. You have half an hour to decide what to take from the airplane to the desert island (where you think you are). (*)



You and your friends can carry only 400 pounds (182 kilos) before the airplane sinks in the Pacific Ocean. What will you take?

 <p>14 legs of ham 15 pounds each</p>	 <p>8 water bottles 15 pounds each</p>	 <p>50 tins of milk 12 pounds each</p>	 <p>4 medical kits 10 pounds each</p>	 <p>5 tool boxes 24 pounds each</p>
 <p>30 hens 10 pounds each</p>	 <p>7 tents 12 pounds each</p>	 <p>20 cans of tuna 1 pound each</p>	 <p>16 bags of apples 11 pounds each</p>	 <p>20 ropes (30 feet) 8 pounds each</p>
 <p>6 female pigs and 6 male pigs 80 pounds each</p>	 <p>2 bags of money 13 pounds each</p>	 <p>10 saws 5 pounds each</p>	 <p>9 rolls WC tissues 0.5 pounds each</p>	 <p>10 saks of wheat 20 pounds each</p>
 <p>2 heaters 35 pounds each</p>	 <p>10 ingots of gold 6 pounds each</p>	 <p>7 handguns 1 pound each</p>	 <p>6 drills 5 pounds each</p>	 <p>10 shovels 7 pounds each</p>

(*) Note: all the images of this students' book are free of copyright from the website <http://www.clipart.com>

ACTIVITY 2

¹ Source: Idea adapted from the text book "Economía", Teide Ed., Carbonell, E. and Prat, V.
Núria Sarsanedas

In groups of three or four, fill the chart below with a pencil (remember that the weight has to be less than 400 pounds).

Name of the good (item)	Quantity you take	Weight each	Weight amount
SUM			

In order to discuss and justify your choices in your group, use the sentences below:

We should take (quantity) (good's name)	because it can be very useful. in order to have food / drink.
We should not take	any (good's name)	because it is not useful. because we don't need it.
I agree. I think so.			
I disagree. I don't think so.			

Example: Student 1: We should take one handgun because it can be very useful.
Student 2: I disagree. We should take two handguns.

UNIT 1
The Basic Economic Problem:
Scarcity

The Basic Economic Problem



ACTIVITY 3: *Fill the slides with examples.*

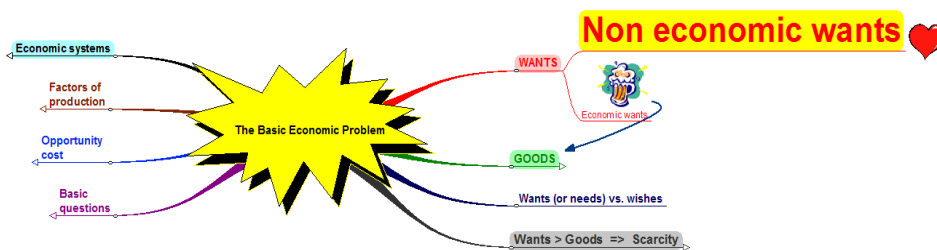
WANTS (or needs)



Wants (or needs) are unlimited (we always want more). Examples: _____

There are two kind of wants: Non-economic wants and economic wants.

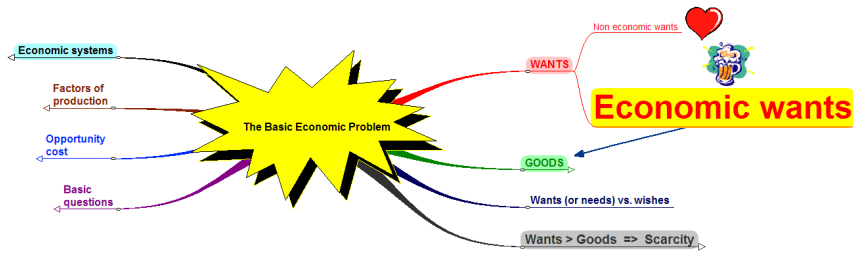
Non-economic wants



Non-economic wants can not be satisfied by goods.

Examples: _____

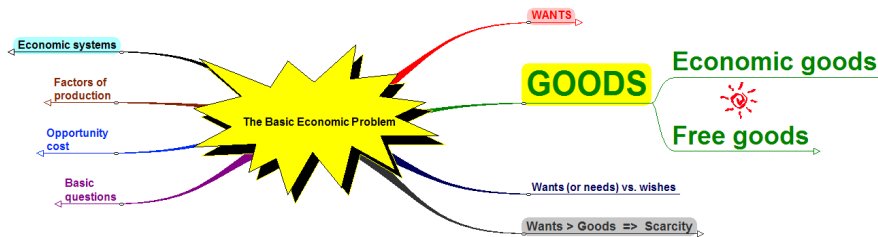
Economic wants



Economic wants can be satisfied by goods.

Examples: _____

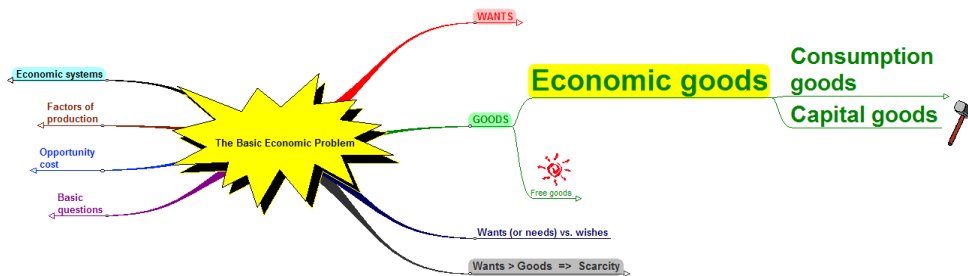
GOODS



Goods are the things or services that can satisfy the economic wants.

There are two kind of goods: economic goods and free goods.

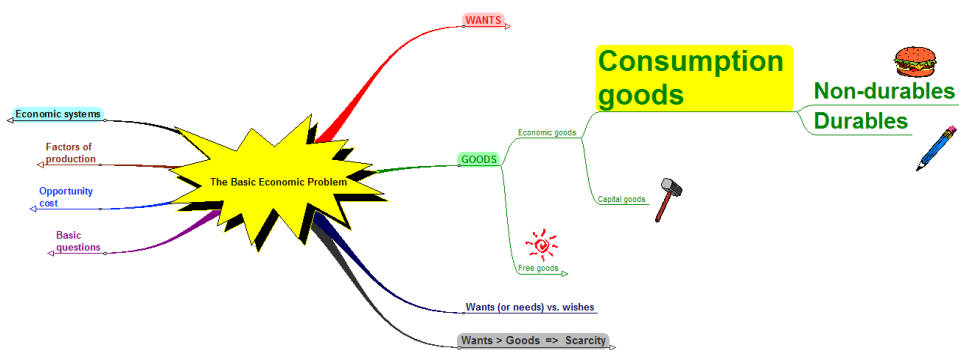
Economic goods



Economic goods are scarce (limited) and have a cost, so usually have a price.

Examples: _____

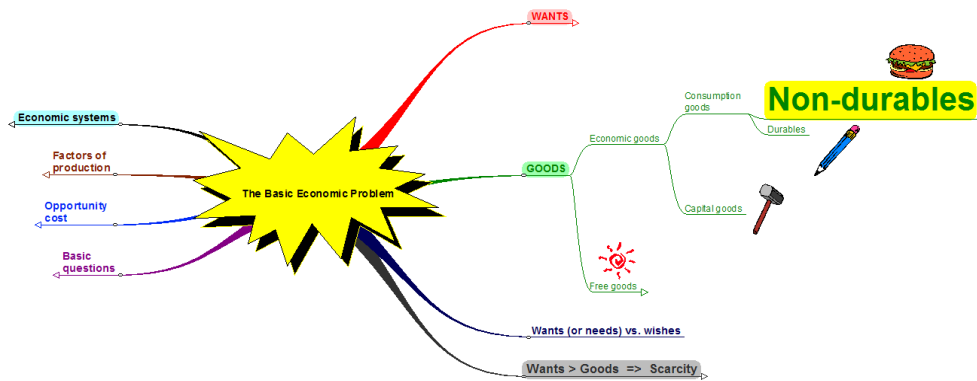
Consumption goods



Consumption goods can satisfy a wish directly.

Examples: _____

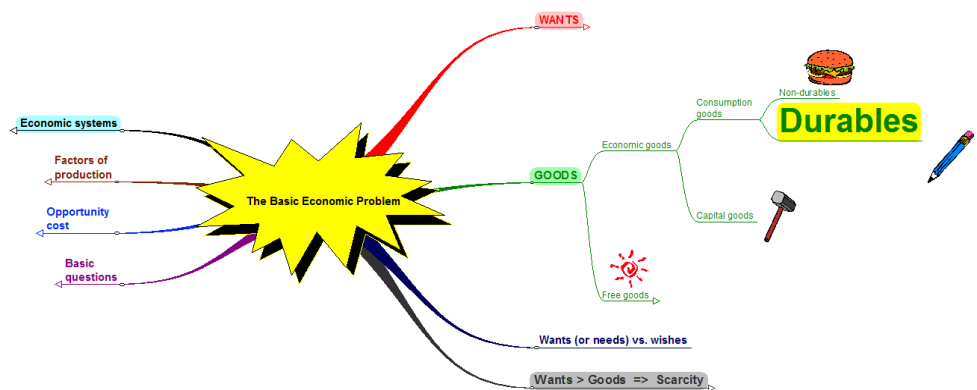
Non-durables



Non-durable goods satisfy a want directly, but can be used only once (one time).

Examples: _____

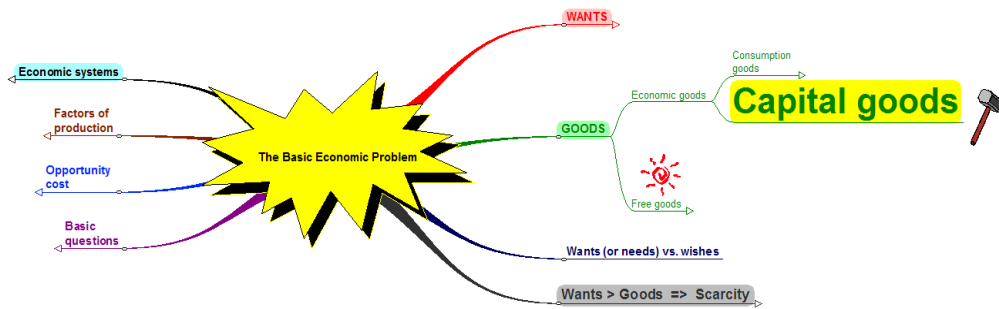
Durables



Durable goods satisfy a want directly and can be used many times.

Examples: _____

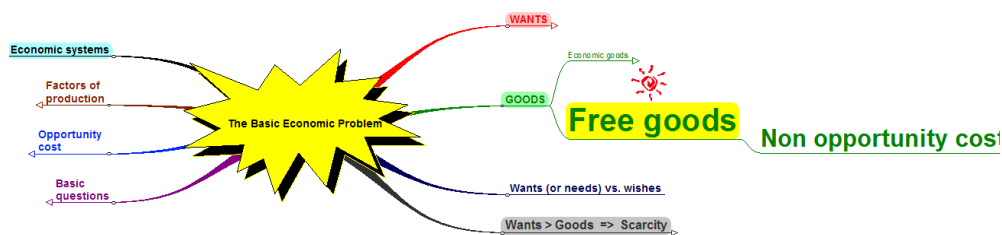
Capital goods



Capital goods don't satisfy a want (or need) directly. They are used to produce other goods and services.

Examples: _____

Free goods



Free goods are not scarce and they don't require resources to make them, so they do not involve an opportunity cost.

Examples: _____

ACTIVITY 4: *Classify the goods of the airplane (activity 1) filling the chart below with ticks with all the possibilities.*

	Economic good	Free good	Capital good	Consumption good	Durable	Non-durable
Legs of ham						
Water bottles						
Tins of milk						
Medical kits						
Tool boxes						
Hens						
Tents						
Cans of tuna						
Bags of apples						
Ropes						
Female pigs						
Male pigs						
Bags of money						
Saws						
Rolls WC tissues						
Saks of wheat						
Heaters						
Ingots of gold						
Handguns						
Drills						
Shovels						

Wants (or needs) vs. wishes



Wants (or needs) are feelings, while wishes are the specific goods we desire. We think that our wish will satisfy our want or need.

ACTIVITY 5: *Identify each picture as a want or as a wish. Then match every want with its wish.*

 beer	 hunger	 cold	 Hot dog and pizza
 pullover	 thirst	 basket	 boredom

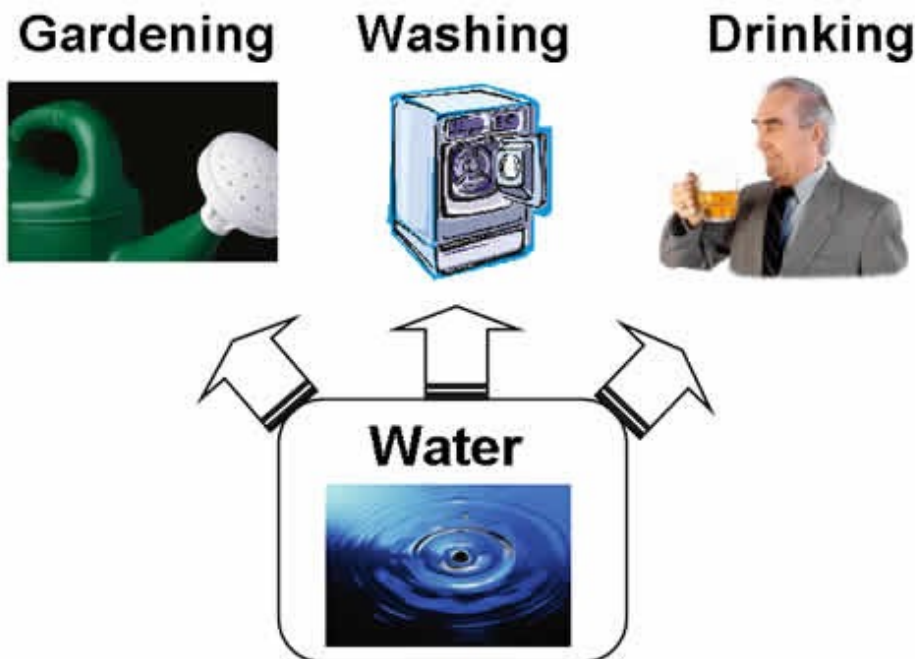
Wants > Goods => Scarcity



The **basic economic problem** is about **scarcity** and **choice** since there are only a limited amount of resources available to produce the unlimited amount of goods and services we desire.

Scarce Resources²

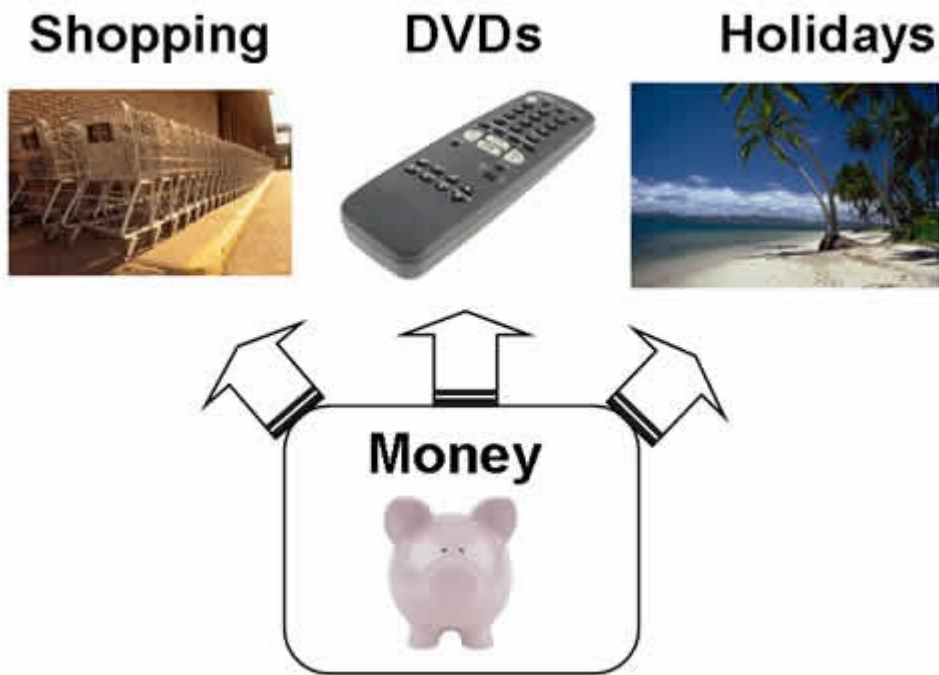
There are only a limited number of resources such as workers, machines, factories, raw materials, etc. But there are a number of different ways in which they could be used.



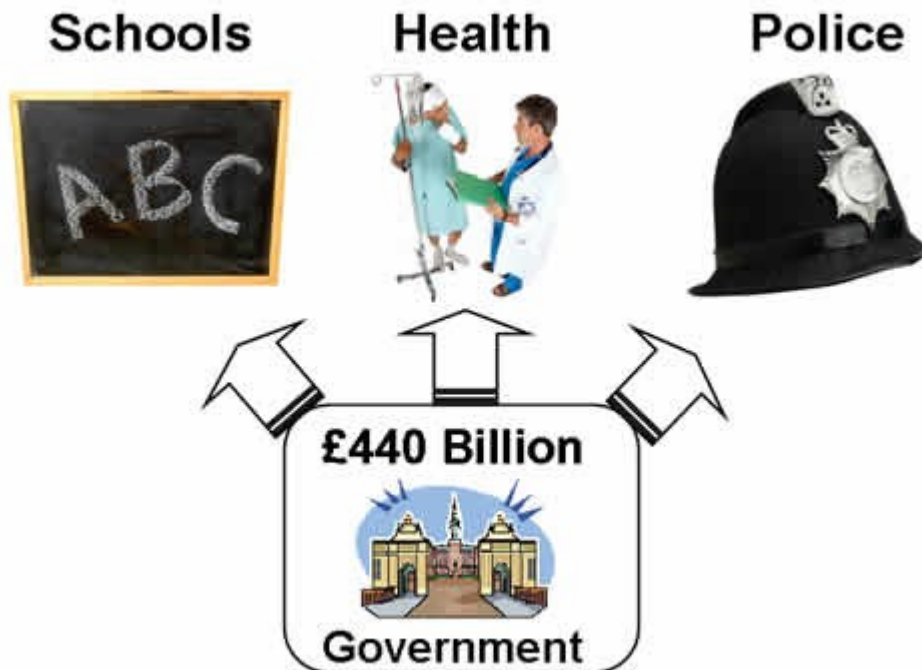
² Source: Text and drawings adapted from the website <http://www.tutor2u.net>
Núria Sarsanedas

Students' book

Similarly, people only have a limited amount of money. But they have lots of **needs** and **wants** to satisfy.

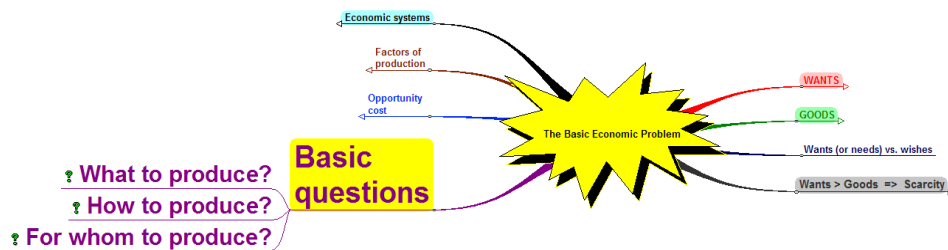


Also the Government has a limited amount of money. However, it is unable to satisfy all its wants.



Scarcity, the basic economic problem, appears because **resources** are **scarce**, but human **wants** are **unlimited**.

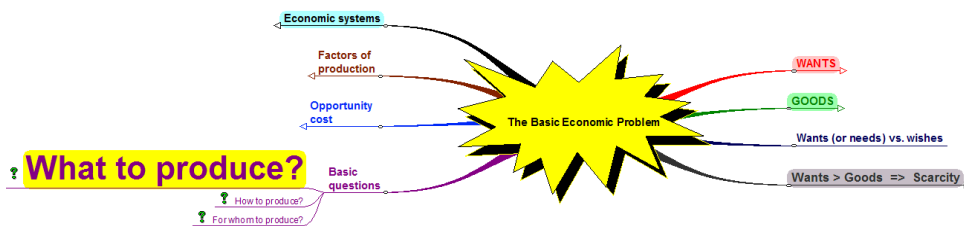
Basic questions



As resources are limited and wants are unlimited, every society has to decide what, how and for whom to produce.

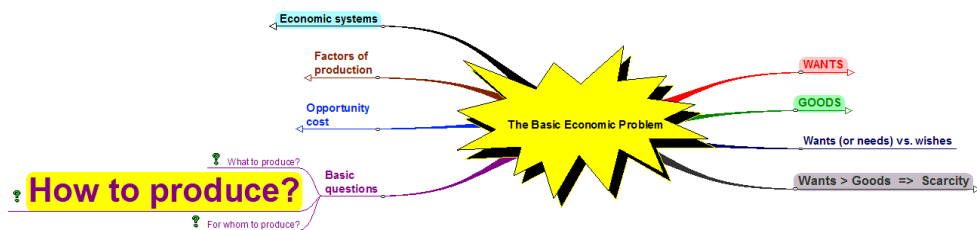
The economic system responds to these questions.

What to produce?



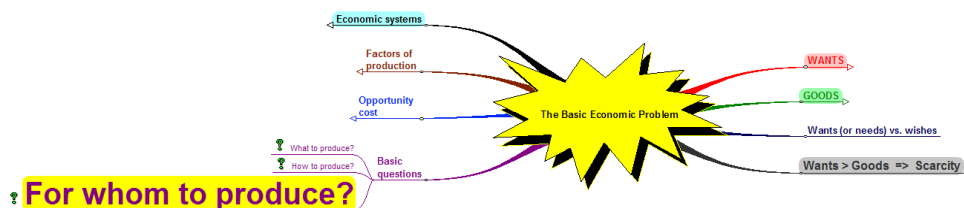
What goods and services to produce: Does the economy use its resources to operate more hospitals or hotels? Do we make iPod Nanos or produce more coffee? Does the National Health Service provide free fertility treatment for thousands of couples without children?

How to produce?



How best to produce goods and services: What is the best use of our scarce resources of land labour and capital? Should school playing fields be sold off to provide more land for affordable housing? Or are we contributing to the problem of obesity by selling off these playing fields?

For whom to produce?



Who is to receive goods and services: What is the best method of distributing products to ensure the highest level of wants and needs are met? Who will get expensive hospital treatment - and who not? Should there be a minimum wage? If so, at what level should it be set?

ACTIVITY 6: *fill the gaps with the words of the box*:³

decisions resources choices wants scarcity
--

Economic resources are limited, but **human needs and _____ are infinite**. Indeed the development of society can be described as the **uncovering of new wants and needs** - which producers attempt to supply by using the available factors of production. For a perspective on the achievements of countries in meeting people's **basic needs**, the Human Development Index produced annually by the United Nations is worth reading. Data for each country can be accessed and cross-country comparisons can be made.

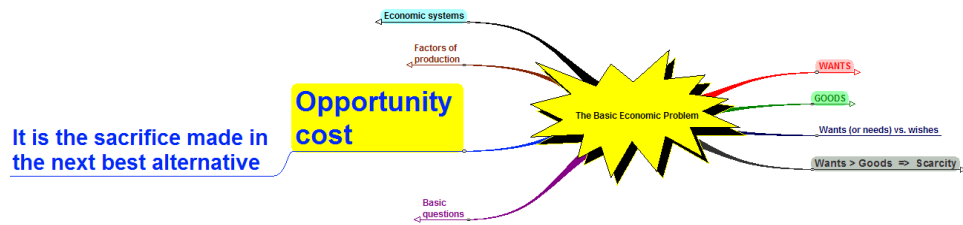
Making choices

Because of _____, _____ have to be made on a daily basis by all consumers, firms and governments. For a moment, just have a think about the hundreds of millions of decisions that are made by people in your own country every single day.

Take for example the choices that people make in the city of London about how to get to work. Over six million people travel into London each day, they have to make choices about when to travel, whether to use the bus, the tube, to walk or cycle – or indeed whether to work from home. Millions of _____ are being taken, many of them are habitual (we choose the same path each time) – but somehow on most days, people get to work on time and they get home too! This is a remarkable achievement, and for it to happen, our economy must provide the _____ and the options for it to happen.

³ Source: Adapted from the website <http://www.tutor2u.net>
Núria Sarsanedas

Opportunity cost



Opportunity cost is the **sacrifice** made in the next best alternative.

In every decision there is an opportunity cost.

ACTIVITY 7: Put the following parts of sentences together to build one or two paragraphs with the right explanation of scarcity and necessity to make choices.

opportunity cost - is the benefit that is everything they want - having more of one thing normally resources. It is the next best alternative.
 lost in making a choice between two competing uses of scarce people make choices because they cannot have means having less of something else

Students' book

ACTIVITY 8: *Think of an opportunity cost that you have experienced recently and fill the gaps below.*

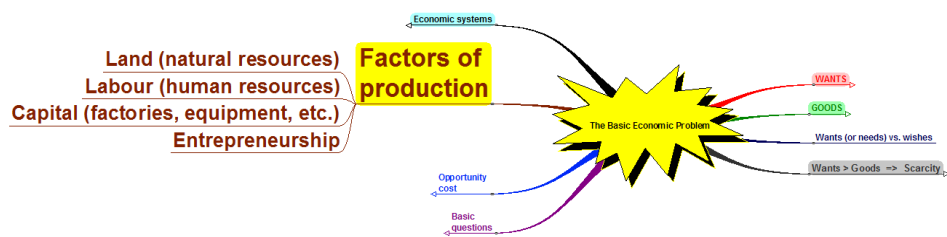
Example: I wanted to buy a book and a DVD. I bought a book, so the opportunity cost of that book was the DVD I wanted.

a) *with money:* I wanted _____ and _____. I bought _____, so the opportunity cost of _____ was _____ I wanted.

b) *with your time:* Last Saturday afternoon I wanted to _____ and to _____. Finally, I _____, so the opportunity cost of _____ was _____

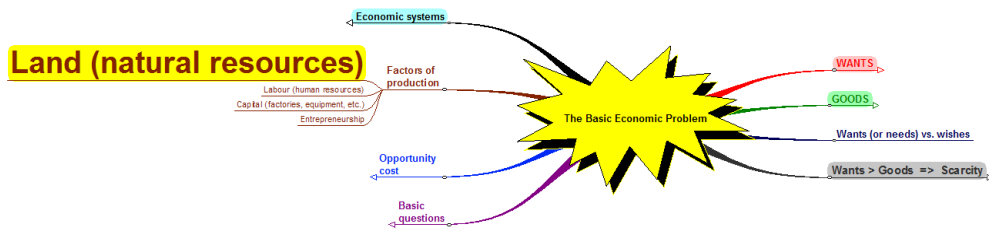
ACTIVITY 9 (**HOMEWORK**): build your own dictionary English/Spanish/Catalan with all the key words and other vocabulary you don't know of this entire first unit (15 words minimum). You can do it with a computer or by hand in a sheet of paper. For the next week.

Factors of production



Factors of production are the resources of LAND, LABOUR, CAPITAL and ENTREPRENEURSHIP used to produce goods and services.

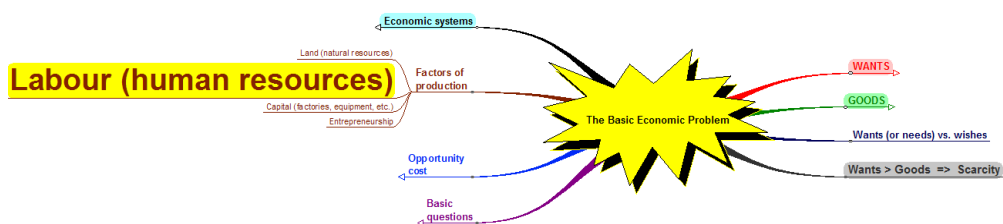
Land



Land is the natural resources of the planet. It includes space on the ground, hills, lands, mines, air, etc

The reward for landlords for allowing people to use their property is **rent**.

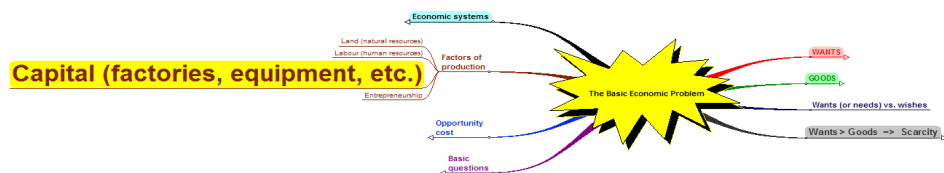
Labour



Labour is the human input (workers, managers etc) into the production process.

The reward for the time of workers to help create products is **wages** or salaries.

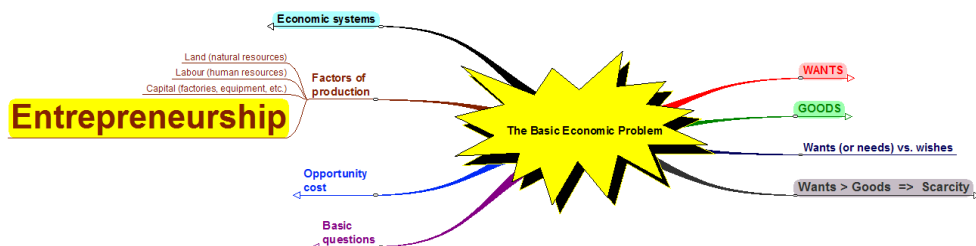
Capital



Capital goods are used to produce other goods and Services. Examples: _____

The reward for creditors lending money is **interest**.


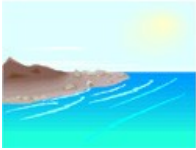





Entrepreneurship






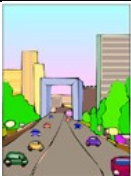



The entrepreneur provides the initial ideas. They risk their own resources in business ventures. They also organise the other 3 factors of production.

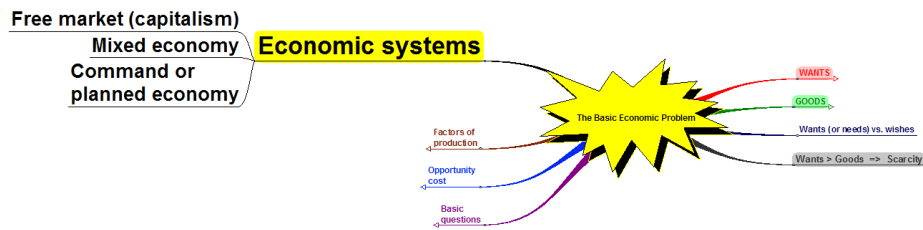
The reward for entrepreneurship is **profit**.
Unsuccessful firms make **losses**.

ACTIVITY 10: Tick on the following charts:

	Land	Labour	Capital	Entrepreneur
 Agreement				
 Sea				
 Computer				
 Coast				
 Teacher				
 Factory				
 Machines				

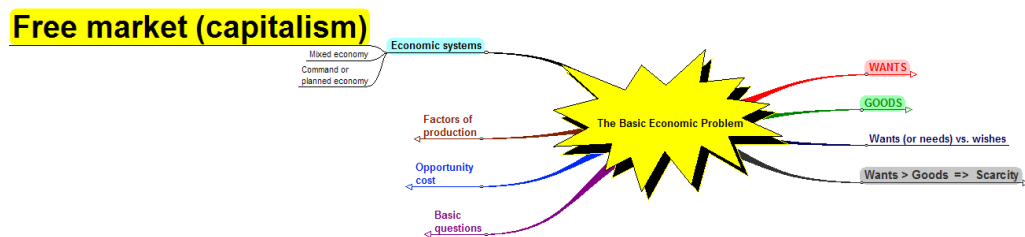
	Land	Labour	Capital	Entrepreneur
 River				
 wrenk				
 idea				
 Doctor				
 Bridge				
 Road				
 Plumber				

Economic systems



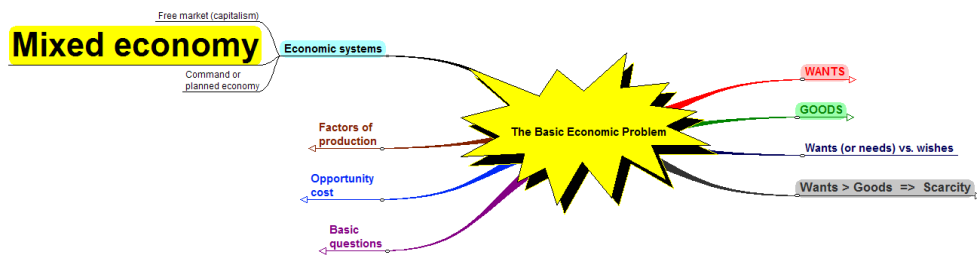
An economic system resolve the basic problem of what, how and for whom to produce.

Free market



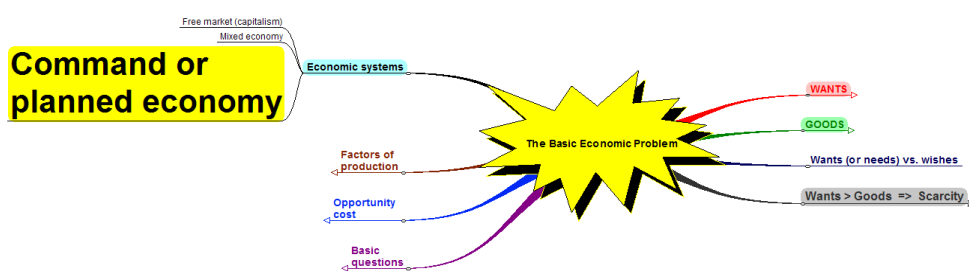
Free market economy: Where households own resources and free markets allocate resources through the workings of the **price mechanism**. An increase in demand raises price and encourages firms to switch additional resources into the production of that good or service. The amount of products consumed by households depends on their income and household income depends on the market value of an individual's work. In a free market economy there is a limited role for the government. Indeed in a highly free market system, the government limits itself to protecting the **property rights** of people and businesses using the legal system, and it also seeks to protect the value of money.

Mixed economy



Mixed economy: In a mixed economy, some resources are owned by the public sector (government) and some resources are owned by the private sector. The public sector typically supplies public, quasi-public and merit goods and intervenes in markets to correct perceived market failure. We will come back to all of these concepts later on in our study of microeconomics.

Command or planned economy



Planned or command economy: In a planned or command system typically associated with a socialist or communist economic system, scarce resources are owned by the state (i.e. the government). The state allocates resources, and sets production targets and growth rates according to its own view of people's wants. The final income and wealth distribution is decided by the state. In such a system, market prices play little or no part in informing resource allocation decisions and queuing rations scarce goods.

ACTIVITY 11: *Fill the gaps using the words of the box.*⁴

systems	economic system	economy	mixture	equity	basic
economic questions	society	tradition	market	planning	market

An _____ is the way society organizes the production and consumption of goods and services. Every economic system answers three _____: What to produce? How to produce? And for whom to produce? How a _____ answers the three basic economic questions determines the society's economic system.

Historically, there are three types of economic systems—tradition, command, and market (price) system. These economic systems answer the basic economic questions in different ways. In an economic system based on _____, decisions are based on past behavior. In a command economy, decisions about production and consumption are made by a central _____ unit, such as the government.

A _____ (price) system answers the basic economic questions in the marketplace. A **market** _____ is an economic system where most goods and services and resources are exchanged through transactions by households and businesses.

Most economies contain some features of all three _____, because a _____ best satisfies the economic goals of a society (such as economic freedom, _____, and economic security).

ACTIVITY 12: *Fill the following chart from the text above:*

Economic system	How respond to the basic economic questions

⁴ Source: Adapted from the website <http://www.tutor2u.net>
Núria Sarsanedas

ACTIVITY 13: Fill the chart below from the Internet sources, like

<http://www.google.com>, <http://www.wikipedia.org>, <http://www.tutor2u.net> and <http://www.revisionguru.co.uk>.

	Free market	Mixed economy	Planned economy
Equality			
State companies			
Intervention of the government			
Opportunities			
Creativity			
Entrepreneurship			
Public services			
Who respond to the basic questions			
Security			
Poverty			
Taxes			
Owner of factors of production			
Efficiency			
Unemployment			
Countries			

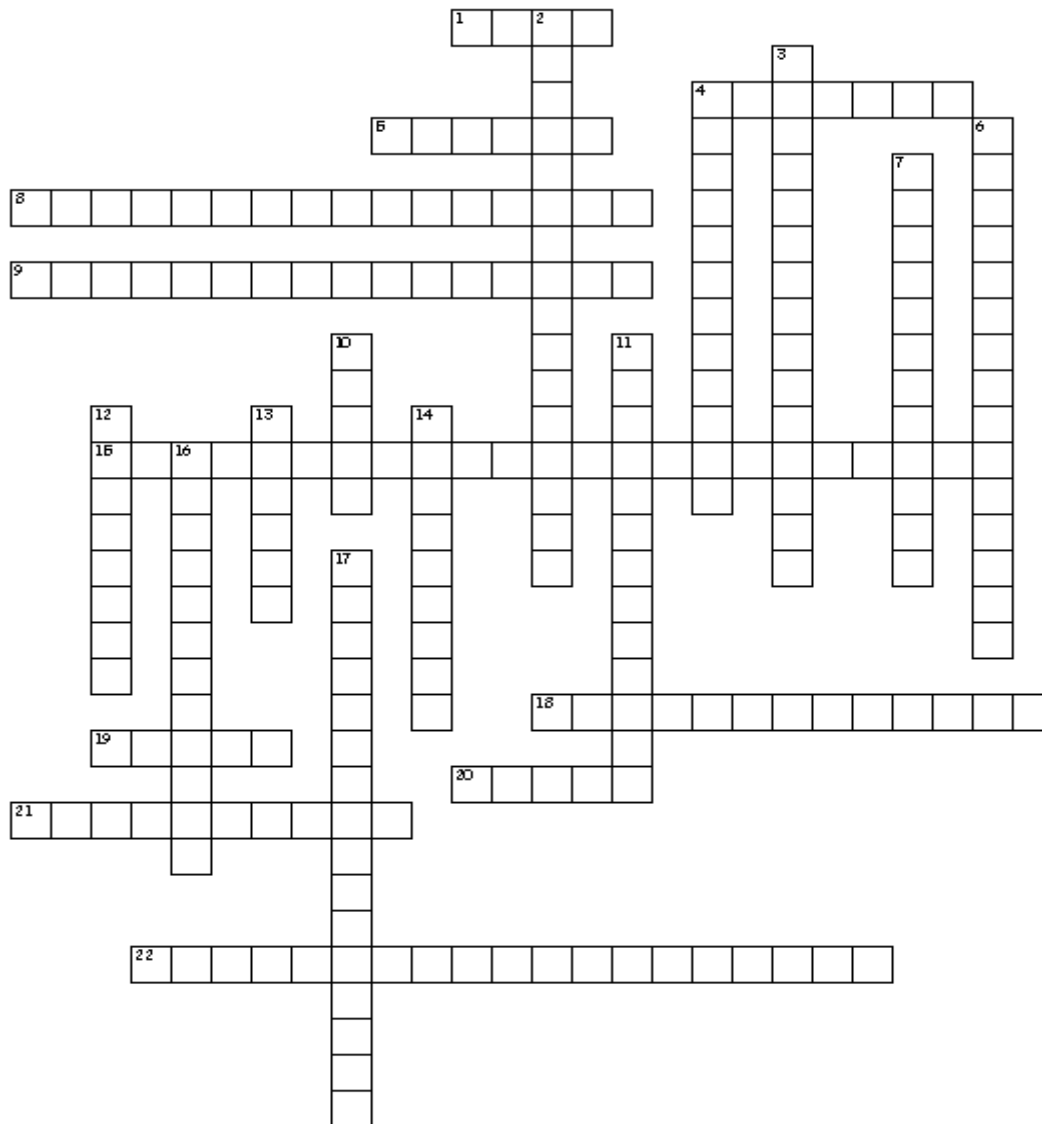
ACTIVITY 14: Compare your homework with the homework of other students and add the words you don't have. Then give it to the teacher.

ACTIVITY 15: Find 22 words (or phrases) of this first unit and write them down below.

The Basic Economic Problem Puzzle

Y G E T R B V L S F X Q B S N Z S N U Z
G M W N S R E J R U B I D E O Y T O H W
D P O V T S Z E Y W D O S P I S N N X M
W D X N E R E T E C O B P T T D A D R I
K T U H O M E Y Y G N O W N C P W U E X
L Y S R A C H P C X R Z A H U J C R Y E
C I T R A L E I R T O W G T D O I A W D
W L K I A B M D U E C C A D O U M B T E
H E U N C O L N N I N R V E R E O L O C
T I D P N R I E M A L E N F P U N E O O
N K K O B T A O G K M V U E F O O G P N
E V C Z Y E N C X O J M A R O F C O L O
E E L C S O P K S G O V O Z S H E O A M
D O O G C L A B O U R D T C R H A D T Y
S S N E Y F P W J E Q Q S Q O A I S I O
T Y N S D O O G E E R F Y W T W V P P M
B O M E T S Y S C I M O N O C E A H A Q
N C A P I T A L G O O D S I A E K N C W
X U T S A Q T I P D Y T R C F E C A T U
C O N S U M P T I O N G O O D S J W Y S

ACTIVITY 16: Fill the following crossword of the basic economic problem:



Across

1. Natural resources on the planet.
4. Used to produce other goods and services (they don't satisfy a wish directly).
5. To have a desire for; Good or service we desire to satisfy a wish or need.
8. They can satisfy a wish or need directly.
9. Can satisfy a want directly, but can be consumed only once (one time).
15. The state (i.e. the government) answers the basic economic questions.
18. Wants that can be satisfied by consuming a good or service.
19. Feeling of necessity of something. They are unlimited.
20. Necessity of something.
21. Markets (price mechanism) answer the basic economic questions.
22. Resources used to produce goods and services.

Down

2. Wants that can not be satisfied by goods.
3. Cost of any choice in terms of the next best alternative foregone.
4. Don't satisfy a want (or need) directly. They are used to produce other goods.
6. Every society have one in order to answer the basic questions of the economy.
7. Can satisfy a want directly and can be used many times.
10. Things or services that can satisfy the economic wants.
11. They are limited and have a cost, so usually have a price.
12. It's the basic economic problem.
13. Human time of work (workers).
14. They are not scarce and do not have an opportunity cost.
16. Economic system between free market and planned economy.
17. Ideas and organisation of the other factors of production.