**Subject Area:** Economics

**Level:** CSEC

**Curriculum Topic:** Nature of Economics

Section 1 Objectives 1-7

**Key teaching points:**

* Define the term “economics”
* Explain the branches of economics
* Explain the meaning of an economy
* Describe the main economic agents in an economy
* Explain the concepts of scarcity, choice and opportunity cost within an economy
* Use the production possibility frontier to illustrate basic economic concepts, principles and approaches
* Describe the main factors that affect the decisions made by economic agents

**Definition of Economics**

Economics is a social science (sometimes referred to as a human science) that studies how scarce resources are allocated and how wealth is created. This involves the processes of production, distribution and consumption of goods and services and the behaviour, interaction and welfare of those involved in the process.

**Branches of Economics**

**Meaning of an Economy**

An economy decides what to produce, how to produce and for whom by organising resources for production of goods and services in order to satisfy society’s needs and wants.

**Economic Agents**

**Economic Concepts**

Think Point

Stacy received a salary of $300. She wants a new, black dress that she saw in VanityQ priced at $300. She also has flu-like symptoms and must see a doctor whose standard fee is $300 per visit.

Why can’t Stacy have both the dress and the doctor’s visit?

Why can’t Stacy have both the dress and the doctor’s visit?

In this case, resources are **scarce**. There is not enough money to satisfy all of Stacy’s needs and wants. She only has $300 and there are two needs competing for this $300. Stacy has to make a **choice** between the competing needs. Either she buys the dress or sees the doctor. She can’t do both. If Stacy buys the dress then she will forgo seeing the doctor. If she visits the doctor then she will forgo the dress. The **opportunity cos**t of visiting the doctor is the dress she will not get. The opportunity cost of buying the dress is the doctor’s visit she will not benefit from.

*Definition of Terms*

Scarcity Insufficient to fulfil wants or limited in supply. All resources are scarce since there is an insufficient amount to fulfil wants. There are unlimited wants which cannot be met by the limited resources.

Choice Since all wants cannot be satisfied, one will be fulfilled and not the other.

Opportunity Choice The alternative forgone.

Efficiency Putting scarce resources to the best use possible to minimise wastage.

Inefficiency Not putting scarce resources to the best use possible.

Free Goods Those which are not scarce, they are abundant in supply and involve no opportunity cost. For example sea water.

Economic Goods Those which are scare and where an opportunity cost is involved.

**Activity 1**

Jerri has been saving her money to purchase a cell phone. All of her friends have one and she wants one too. While chatting with her friend Sherri, Jerri finds out that the Korean Pop Band BTS is having a concert in her country and Jerri instead of buying the cell phone, purchases a ticket for the show.

1. Define the terms scarcity, choice and opportunity cost with reference to the situation in the case study above.

**Answer Key**

In this case, resources are **scarce**. There is not enough money to satisfy all of Jerri’s needs and wants. She cannot have both the cell phone and ticket to the concert. Jerri has to make a **choice** between the competing needs. Either she buys the cell phone or concert ticket. She can’t do both. If Jerri buys the cell phone then she will forgo attending the concert. If she buys the concert ticket then she will forgo the cell phone. The **opportunity cost** of attending the concert is the cell phone she will not get. The opportunity cost of buying the cell phone is the concert she will not attend.

**Production Possibility Frontier**

Press Control and Click to view the following videos. Make notes on the key points.

<https://www.bing.com/videos/search?q=production+possibilities+curve&&view=detail&mid=2286C7C9024958FDAEA02286C7C9024958FDAEA0&&FORM=VRDGAR&ru=%2Fvideos%2Fsearch%3Fq%3Dproduction%2Bpossibilities%2Bcurve%26FORM%3DHDRSC4>

<https://www.bing.com/videos/search?q=production+possibilities+curve&&view=detail&mid=36DEFBEC03EDC13FF8E336DEFBEC03EDC13FF8E3&&FORM=VRDGAR&ru=%2Fvideos%2Fsearch%3Fq%3Dproduction%2Bpossibilities%2Bcurve%26FORM%3DVDVVXX>

<https://www.bing.com/videos/search?q=shifters+of+production+possibilities+curve&&view=detail&mid=7426D383055B881BC16F7426D383055B881BC16F&&FORM=VRDGAR>

**Activity 2**

1. a) Explain the objective of the Production Possibility Curve (PPC).

b) How does the curve show that resources are scarce or limited in supply?

c) Discuss how opportunity cost is represented by the PPC.

d) Identify what the following points represent

(i) A point within/below the curve

(ii) A point on the curve

(iii) A point beyond/above the curve

e) Evaluate the following and state how the shape of the PPF is represented

(i) constant opportunity cost

(ii) increasing opportunity cost

(iii) decreasing opportunity cost

f) List two factors that can cause a PPC to shift outwards.

**Answer Key**

1. a) The Production Possibility Curve shows different combinations of two goods that can be produced using full employment of resources.

b) Production cannot take place beyond the Production Possibility Curve. You cannot produce more of both goods with the same resources.

c) Along PPC shows opportunity cost since producing more of one good means producing less of the other.

d) Responses are

(i) inefficient

(ii) efficient

(iii) unattainable

e) Responses are

(i) the same amount of Good A has to be given up to produce Good B and the same amount of Good B has to be given up to produce Good A. This will be a straight line.

(ii) More of either good has to be given up to produce more of the other. This PPC will be bowed out or concave to the origin.

(iii) Less of either good has to be given up to produce more of the other. This PPC will be bowed in or convex to the origin.

f) Increased quantity or quality of resources, improved technology, specialisation and trade.

**Factors affecting economic decisions of economic agents**

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| Economic Agents | Factors affecting economic decisions |
| Households | Income – the amount of income available in a household determines what decisions are made. High income households can purchase needs and wants. Low income households may be barely able to satisfy needs. |
| Choice – members of a household make very different choices from other households. Some households may wish to purchase luxury items. Another may choose to purchase electronic devices. It is based on their needs and wants. |
| Fads – sometimes decisions are made by emulating what others are doing (“follow fashion”). |
| Cultural norms – For households where saving is encouraged, less will be spent. Where persons like to travel, decisions will be made based on this. In Trinidad at Christmas time, many families increase purchases in preparation for the season. |
| Firms | Cost of production – The main aim of firms is profitability and depending on how costs of production affect profit making activity, different decisions will be taken. |
| Availability of resources – The greater the availability of resources the more inclined will a firm be to produce more. |
| Demand – where products are in demand, more will be produced. |
| Government | Laws – Government can legally dictate what firms can produce, where they can locate, how their products are to be made available to consumers and what wages they should pay. |
| Taxes and subsidies – to reduce production, governments can impose taxes. To increase production, governments can provide subsidies or other grants. |
| Infrastructure – governments provide roads, bridges and ports to assist with distribution and export processing zones to support production for exports. |

**Activity 3**

1. Make a list of the factors that affect monthly economic decisions in your household.
2. Determine if these factors are similar to those identified in the table above.
3. Share your findings with members of your household so they can understand the meaning of economics and why these studies are important to you. ☺☺☺