

LESSON ONE

LESSON ONE SCARCITY, CHOICE, AND DECISIONS

INTRODUCTION

Scarcity, choice, and cost are sometimes referred to as the fundamental trilogy of economics because of the strong interrelationships between these key concepts. Since resources are limited, compared to wants, individuals and families face the problem of scarcity in deciding how to allocate their incomes and their time. Each society must also make choices about how to use its scarce resources. And every choice involves an opportunity cost—the forgone opportunity to make a different choice and use resources in a different way.

CONCEPTS

Scarcity

Opportunity costs and trade-offs

CONTENT STANDARDS

Scarcity results from the imbalance between relatively unlimited wants and limited resources.

Scarcity requires people to make choices about using resources to satisfy wants.

Scarcity of resources necessitates choice at both the individual and the public policy levels.

Opportunity cost is the highest valued alternative that must be forgone because another option is chosen.

All economic decisions involve opportunity costs; weighing the costs and benefits associated with alternative choices constitutes effective economic decision making.

OBJECTIVES

◆ Define the opportunity cost of a decision as the most valuable forgone alternative.

◆ Analyze trade-offs involved in making spending decisions.

LESSON DESCRIPTION

This lesson provides examples of individual and group decision making with specific situations involving opportunity costs. Activity 1 is a group activity. Activity 2 can be done individually or in groups.

TIME REQUIRED

Two class periods. Day one—procedures 1 and 2. Day two—procedure 3 and Assessment.

MATERIALS

★ One copy of Activity 1 for each student

★ One copy of Activity 2 for each student

PROCEDURE

1. Tell the students to assume that for some reason they have one hour of free time this evening that they did not expect to have. For example, say a team practice or meeting was canceled. Discuss what the students would like to do with this "free" time. List ideas on the chalkboard or overhead. (Expect some rather standard suggestions such as watch TV, read, sleep, talk on the telephone, etc., and some not so standard ones, such as studying economics or various activities relating to fertility rites.) After a sizable list is developed, ask each student to write down the four or five activities he or she would most like to do. Then ask students to select the one thing to do with this hour of time by placing stars next to their first choices and circles around their second choices. Draw two columns on the chalkboard and label one column *choice* and the other *cost*. Ask three or four students for their first choices. Write each under the choice column. Place their second choices under the heading labeled cost. Ask students: "Why did I place your second choice under the column labeled cost?" (The discussion should stress the ideas that there is a *real* or *opportunity cost* in making this decision, even though money is not involved, and that the cost of the alternative selected was the *one* most valuable alternative that was not selected. Note that different people have different opportunity costs and make different choices.)

2. Distribute a copy of Activity 1 to each student. Divide the class into groups of four or five students each. Ask each group to reach a decision

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about how the funds should be used, and to prepare an answer for the question on the activity sheet. Then lead a class discussion, focusing on the trade-offs that had to be made, and how differing preferences resulted in different choices and trade-offs.

(Frequently, students choose to hire an expensive band and cut corners elsewhere. Their problem can be complicated by defining the senior class project in a way that will make the decision more difficult. For example, if the class project is defined as raising money to buy a motorized wheel chair for a disabled classmate, the project is likely to generate more support.

The problem is similar to family decisions in that difficult choices *must* be made, and compromise is necessary because of varying opinions of family members. But this problem is *unlike* family decision making in some critical ways. This is one of the few decisions students will make together, as a group. A family has to make continuous spending decisions concerning food, shelter, clothing, and transportation, as well as entertainment. Also, many family decisions must be considered with respect to their long-run effects as well as immediate impacts.)

3. Distribute one copy of Activity 2 to each student. Instruct students to review Cory's budgetary situation and then to construct their own budget. (Students' budgets and responses to the questions asked will, of course, vary greatly.)

ASSESSMENT

A discussion of some students' hypothetical budgets can be used to assess understanding of the concepts of scarcity and opportunity costs and show that different people make very different evaluations of their opportunity costs.

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ACTIVITY 1

PLANNING THE PROM

Name _____

Your class has been engaged in various fund-raising projects during the past several years, and you now have a total of \$9,635 to spend on a big bash—your last school dance. You may not spend more than this amount on the dance, but you do not have to spend all of it on the dance. Any money “left over” can be used for a class project, designed to help your school or community.

You have decided that there are three categories of expenditures for the dance: 1) hiring a band, 2) renting a place to hold the dance, and 3) providing refreshments and decorations. A committee has provided the following information:

Bands Available for Dance

Cost

- \$1,000 Tangerine Flakes—plain, loud, and cheap
- 2,500 The Jubilation T. Cornpones—good progressive country
- 4,000 Granite—good hard rock
- 5,000 The National Debt—“getting bigger every day”—a popular new group featuring mel-low rock and R & B tunes
- 6,500 Philadelphia Transit Authority (the PTA)—nationally known, 2 gold albums, rap music
- 8,000 The Bounding Rocks—well-known touring group from England—wide range of classic rock and roll

Places Available for Dance

Cost

- \$ 200 School Gym
- 600 American Legion Hall
- 1,500 Holiday Inn
- 2,000 The Hilton Hotel
- 3,000 The Knob Hill Country Club

Refreshments and Decorations for Dance

Cost

- \$ 500 Home Economics classes fix sandwiches and decorations
- 1,000 Catered—simple snacks and decorations
- 3,000 Catered—good stuff—fancy snacks and neat decorations
- 5,000 Package deal—fairly good snacks and decorations at dance, and an after-dance meal at a restaurant

Your task now is to decide, with the other members of your class, which band to hire, where to hold the dance, and what type of refreshments and decorations to provide. Your class must select one item from each expenditure category.

DISCUSSION QUESTION:

In what ways is this problem similar to the “economizing problem” faced by your family, and in what ways is it different?

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ACTIVITY 2

SCARCITY, CHOICE, AND DECISIONS

Name _____

Last year Jim Cornelius (Corny to his friends) graduated from a two-year technical training school and got a job as a lathe operator at a nearby manufacturing plant. His salary is now \$1,700 per month. He expects to get very small wage increases during the next year or two, but hopes to be promoted to line inspector in about three years, which will result in a \$200 a month raise.

Corny is sharing an apartment with a high school friend who also works at the plant. They are each spending \$365 every month for a two-bedroom apartment and utilities, including local telephone service and cable TV. Corny would like to live alone in a one bedroom apartment, but he figures that would cost about \$560 a month (including utilities).

Corny has a two-year-old compact car on which

he owes about \$3,000. His monthly car payment is \$190. He wants to buy a new car as soon as the one he has now is paid for, and he expects his car payments to be quite a bit higher then.

Corny loves to listen to music, and his stereo system is a few years old. He wants to buy a new one. He has saved \$300 over the past three months, but he figures that the system he wants will cost at least \$1,000. He has good credit, and his credit card has a zero balance. He could charge up to \$1,500, but hates to obligate himself to more monthly payments.

Look at Corny's monthly budget in the table below. What changes do you think he should make in his monthly spending? If you were earning Corny's salary of \$1,700 per month, how would you divide it up among these categories, or for other things you want?

CORNY'S MONTHLY BUDGET

Budget Category	Corny	You
Social Security Tax	\$130	\$130
Income Taxes	200	200
Housing (includes utilities, cable TV, local phone)	365	
Food—groceries	220	
Food—eating out	75	
Clothing	75	
Car payment	190	
Car—operation (gas, oil)	45	
Car—insurance	35	
Car—repairs	30	
Medical Insurance (deductibles and co-payments)	25	
Entertainment—movies, hanging out, snacks, beverages, etc.	75	
Health Club	15	
Bowling	25	
CDs	30	
Newspapers, books, magazines	15	
Gifts (birthdays, Mother's Day, etc.)	20	
Savings (for stereo)	100	
Miscellaneous (haircuts, toiletries, laundry, etc.)	30	
TOTAL	\$1,700	\$1,700

GUIDED READING Activity 1-1

For use with textbook pages 5–10

SCARCITY AND THE SCIENCE OF ECONOMICS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is the basic economic problem facing all societies? _____

2. How is need different from want? _____
3. What do the letters *TINSTAAFL* stand for, and what does the term mean to consumers?

4. What are the three basic questions societies have to answer about the way their resources are used?
 - a. _____
 - b. _____
 - c. _____
5. List the factors of production and define each one.
 - a. _____
 - b. _____
 - c. _____
 - d. _____
6. What is production? _____
7. What are the four key elements of the study of economics? Explain briefly why each one is important.
 - a. _____

 - b. _____

 - c. _____

 - d. _____

GUIDED READING Activity 1-2

For use with textbook pages 12–17

BASIC ECONOMIC CONCEPTS

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Goods, Services, and Consumers

A. Introduction—What is scarcity in an economic sense? _____

B. Goods—What is the difference between a consumer good and a capital good?

C. Services—What kind of economic product is a service?

D. Consumers—What is a consumer? _____

II. Value, Utility, and Wealth

A. Introduction—To what does value refer? _____

B. Paradox of Value—What is the paradox of value?

C. Utility—What is required for something to have value?

D. Wealth—What is wealth? _____

III. The Circular Flow of Economic Activity

A. Introduction—What is a key feature of circular flow? _____

B. Factor Markets—What is a factor market? _____

C. Product Markets—Where do individuals spend their income from the resources they sell?

IV. Productivity and Economic Growth

A. Productivity—What is productivity? _____

B. Division of Labor and Specialization—How do division of labor and specialization affect productivity?

C. Investing in Human Capital—In what ways can government, businesses, and individuals invest in human capital?

GUIDED READING Activity 1-3

For use with textbook pages 19-25

ECONOMIC CHOICES AND DECISION MAKING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

trade-offs	cost-benefit analysis	maximum combinations
free enterprise economy	standard of living	decision-making grid
production possibilities frontier	opportunity cost	fully employed

Trade-Offs and Opportunity Cost

Whenever people make economic decisions, they face **1** _____, or alternative choices. Using a **2** _____ allows consumers to consider various alternatives and decide which one comes closest to meeting their needs. **3** _____ is more than the price tag on a good or service. It is the cost of the next best alternative use of money, time, or resources.

Production Possibilities

To illustrate the concept of **4** _____, economists use a diagram representing various combinations of goods and/or services an economy can produce when all productive resources are **5** _____. By showing the various alternatives, the **6** _____ allows producers to decide how to allocate limited resources. The diagram indicates the **7** _____ of goods and/or services that can be produced. If, however, for various reasons some resources are not **8** _____, the producer cannot reach its full production potential and the **9** _____ of that failure is whatever is not produced. Economic growth occurs when more resources or increased productivity causes the **10** _____ to move outward.

Thinking Like an Economist

Economists use various methods to help people make the best choices among the many wants that compete for the use of scarce resources. One is **11** _____, a way of thinking about a problem that compares the costs of an action to the benefits received. This allows a business, for example, to choose investment projects that give the highest return per dollar spent.

The Road Ahead

The study of economics can provide a more detailed understanding of a **12** _____, where consumers and privately owned businesses, rather than government, make the majority of economic decisions. It provides an understanding of a number of factors that have a bearing on our **13** _____, which is the quality of life based on the possession of the necessities and luxuries that make life easier.