The Basic Economic Problem

# Starter: Needs and Wants

**Instructions:** Determine which of the below goods a person would NEED and which a person would WANT.



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| --- | --- | --- | --- | --- |
| Water | A Football | Food | Ibuprofen | Shelter |
|  |  |  |  |  |





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| --- | --- | --- | --- | --- |
| A Mansion | Medical Care | Gucci Sliders | Pint of Lager | Warm Clothing |
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# Presentation 1 – The Basic Economic Problem

Complete the activities below so as to have a complete set of Notes:

**Definition:** *Human Needs*

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**Definition:** *Human Wants*

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*A Problem:*Resources are scarce (Finite). However, since human wants are unlimited choices must be made as scarce resources have to be allocated between competing uses.

**Definition:** *The Basic Economic Problem*

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**Key Notes:** *Three Fundamental Choices*

To Solve the Economic Problem we must answer three fundamental choices

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# Task: Types of Economic Choice

**Instructions:**

* Read the following case studies and see if you can categorise them into a particular ‘type’ of choice.

**Case Studies**

1. *Following the election of George W. Bush in late 2000, the Whitehouse announced that it would ‘reduce the size of government’ by providing less public services, but also reducing taxation. After the 9/11 attacks, however, the US Government had to do a U-turn and increase spending on police, security and the armed forces. Eventually, a whole new government department called the Department of Homeland Security was set up to coordinate the country’s anti-terror efforts. This all meant that the US was spending record amounts of money on security.*
2. *During the 1980s, Rupert Murdoch introduced new printing technologies at his Wapping plant. This decision immediately made redundant all the lithographic workers employed by Murdoch’s firm, News International.*
3. *Since 2000, the Government of China has intensified its modernisation programme. In a bid to improve the state of its economy – most production is labour intensive – China has sent many of its citizens to western universities to study science and engineering courses. The intention is for China to become a technological power-house within 20-30 years, with its own firms using the most cutting edge production methods.*
4. *BOTH Manchester clubs are on red alert after Barcelona claimed they will NOT break the bank to keep Lionel Messi. United and City would jump at the chance of bringing the Argentina superstar, 29, to the Premier League. Lionel Messi could leave Barcelona after it was revealed they will struggle to afford his mega-money new deal And Barca CEO Oscar Grau admitted: “We have to be very strict with the budgets, we can’t go crazy.”*
5. *Upon winning the 1979 general election, the Tory Government began to systematically reduce income taxes. Mrs. Thatcher believed strongly that workers should get to keep more of their hard-earned money. Thus she reduced the top rate of income tax from a staggering 83% to its current rate of 40%, while the basic rate fell from 33% to 25%. The New Labour Government, elected in 1997, reduced the basic rate even further to its current level of 22%. Meanwhile, several areas of public service or public assistance have been cut. The most controversial being the abolition of automatic student grants.*
6. *In 2004, IBM decided to sell its PC manufacturing division to the Chinese firm Lenovo. In a press release, IBM stated that it wished to concentrate more on the lucrative ‘IT consulting services’ business.*
7. *“This country will excel at producing everything, from computer chips to potato chips”* (Former US President Ronald Reagan).
8. *Until Bill Clinton’s Administration, there was no guarantee of free emergency health care in the United States. The Democratic Party, however, changed all this by introducing free compulsory A&E without the need for medical insurance. Now, hospitals cannot turn away patients who have been shot or involved in a serious accident simply on the basis that they have no money or medical insurance.*
9. *The Duke and Duchess of Cambridge are expecting their third child, Kensington Palace has announced. The Queen and both families are said to be "delighted with the news". As with her previous two pregnancies, the duchess, 35, is suffering from hyperemesis gravidarum, or severe morning sickness. She will no longer carry out her planned engagement at the Hornsey Road Children's Centre in London today. Catherine is being cared for at Kensington Palace, the statement said.*

# Presentation 2 – Opportunity Cost

Complete the activities below so as to have a complete set of Notes:

**Definition:** *Opportunity Cost*

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**Key Notes:** *Opportunity Cost Assumption*

Available choices can be ranked in terms of the benefits to be gained. One choice will be the “best” and the others are given up.

**Example:** *Chocolate Bars*



Rank these four chocolate bars from your most to your least favourite

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If you were only allowed one chocolate bar, the opportunity cost of choosing your favourite is:

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*NB:* OC not just in terms of £s, but also what we have ‘forfeited’ when making our choices. ‘*No such thing as a free lunch’*

**Definition:** *Economic Good*

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**Definition:** *Free Good*

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# Article Task: Alcohol and Opportunity Cost

**Instructions:**

* Read, highlight and annotate the article
* Answer the questions
* Discuss your answers as a class

**Article** (Source: BBC Online – 3 August 2007 - [BBC NEWS | UK | Friday feeling costs firms £50m](https://www.bbc.co.uk/news/1/hi/uk/6928901.stm))

On the 19th September 2003, the Prime Minister’s Strategy Unit published a report on the costs of alcohol use in the UK. The UK as a whole does not drink more than many of our European neighbours - indeed we appear to be 12th out of 19 major European Countries and the United States. What does appear to be a problem is the way in which we drink and the consequences of this type of behaviour. Binge drinking - consuming alcohol rapidly with the intention of getting drunk quickly - is on the increase particularly amongst the younger age groups. The consequences of the use and abuse of alcohol are frightening; indeed the figures are often so large that they become difficult to comprehend. The overall cost to the nation in 2002 was estimated at between £18bn and £20bn. UK GDP in 2002 was around £1 trillion.

The costs are varied. There are 1.2 million incidents of alcohol related crime, such as vandalism and damage to property. The cost of these crimes comes in at nearly £1.5 billion. Furthermore, the cost of the consequences of alcohol related crime is estimated at just over £8 billion. These include the cost of fines, solicitors used to defend and prosecute cases, increased insurance premiums, payments for medical treatment and so on. The costs associated with drink driving come to £525 million. The cost to the Criminal Justice System to deal with those who are processed through the legal system on drink related crimes is £1.6 billion.

Crime is not the only consequence. The National Health Service (NHS) is often the organisation that has to deal with the results of our drinking behaviour. Accidents caused by alcohol result in 150,000 hospital admission every year; 40% of admissions to Accident and Emergency (A&E) units are drink related. This figure rises to a staggering 70% between the hours of midnight and five in the morning. There are around 22,000 deaths attributed to drink related illnesses every year and the number of young people being affected by alcohol related diseases such as sclerosis of the liver is rising rapidly. The cost to the NHS is around £1.7 billion.

Then there is the cost to the economy at large. Between 11 million and 17 million working days are lost every year due to absence from work as a result of alcohol abuse – most of which being the result of hangovers. This costs the economy between £1.2 billion and £1.8 billion. The figures for lost output as a result of premature death through alcohol related illness ranges between £2.2 and £2.4 billion and the overall cost to employers of lost productivity (i.e. output per worker) is around £6.4 billion.

**Friday feeling costs firms £50m**

British businesses are losing more than £50m a year because of employees skipping off work on Friday afternoons, a company has claimed.

Top excuses for starting the weekend early are a long lunch, doctor's appointment or an out-of-office meeting near to home, Employersafe says. The software firm used figures from the Chartered Institute of Personnel and Development (CIPD) to calculate the cost. But the TUC said workers' unpaid overtime gave employers £23.4bn a year.

**'Billions lost'**

According to the CIPD, the average level of employee absence in the UK has increased for the first time in two years. Its 2007 research shows 3.7% of working time is being lost compared with 3.5% in 2006. The CIPD says this costs businesses £659 of lost output per employee each year.

The Confederation of British Industry (CBI) estimates overall workplace absence, including genuine illness, cost the British economy about £13.4bn in 2006. The organisation's research in April also found 70% of 400 employers surveyed felt staff were inclined to create unauthorised long weekends by taking Mondays or Fridays off sick. Using CIPD figures, Employersafe has now calculated that absenteeism on Fridays costs British business £50m a year. And it used its database of more than 600 customers to find the top three excuses for taking time off.

**Overtime**

Pam Rogerson, head of personnel at the company, said: "Our evidence suggests that more and more workers are seeing Friday afternoon as an unofficial holiday. "We have estimated that this is costing British business just over £50m a year, which all goes to form part of the overall £13bn cost of workplace absenteeism."

The company has developed a software system that detects patterns of absence and recommends appropriate disciplinary action. But TUC general secretary Brendan Barber said the amount of revenue the company claims is lost through the "Friday feeling" was small in comparison to what businesses gain from workers' unpaid overtime. "Obviously staff shouldn't be slacking off during work time, but amounts lost in revenue are relatively small," she said. "This is especially when you compare this to evidence from official statistics that shows millions of people putting in extra hours of unpaid overtime every week, giving their employers £23.4bn of free extra work each year."

**Questions**

1) The article states that excessive alcohol consumption cost the UK up to £20bn in 2002. What was this as a percentage of GDP?

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2) With reference to the second paragraph:

a. What is the cost to the UK of alcohol related crime? What might some of these costs be?

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b. How might these *financial* costs represent an *opportunity* cost to the economy?

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c. What are the costs of the *consequences* of alcohol related crime, and how might these also represent an opportunity cost to society?

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3) With reference to the third paragraph:

a. What is the cost to the NHS of excessive alcohol consumption? What percentage of A&E admissions is alcohol related?

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b. How might these figures represent an opportunity cost a) for the NHS and b) for the economy as a whole?

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4) With reference to the fourth paragraph:

a) How many working days are lost every year due to alcohol abuse, such as hangovers?

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b) What is the total cost British business of employees’ alcohol abuse and how is this broken down?

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c) How might these financial costs represent an opportunity cost to the economy?

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# Presentation 3 – Factors of Production

Complete the activities below so as to have a complete set of Notes:

**Definition:** *Factors of Production*

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**AKA:** Factor inputs, inputs, resources

**Types:** Land, Capital, Labour, Enterprise

**Definition:** *Land*

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*Examples:* All natural resources below the earth, on the earth, in the atmosphere and in the sea - Not just the ground!

**Key Distinction:** *Renewable vs Non-Renewable*

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**Key Distinction:** *Sustainable vs Unsustainable*

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**Definition:** *Capital*

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*Examples:* Machines, roads, factories, schools, office blocks, etc.

Financial capital refers to money that will be used by a firm to purchase resources later on

**Key Distinction:** *Fixed Capital vs Working Capital*

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**Definition:** *Labour*

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*Examples:* Skilled, Unskilled, Educated and Uneducated

**Key Concept:** *Human Capital*

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**Definition:** *Enterprise*

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The entrepreneur organises the other 3 Factors of Production

*Examples:* Bill Gates, Jeff Bezos, a trader selling fruit and veg at a market

**Definition:** *Factor Incomes*

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**Table:** Match the factor income to the correct definition

 *Factor Incomes:* interest, wages, rents, dividends

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| --- | --- |
| **Factor Income** | **Definition** |
|  | Income from selling/leasing natural resources |
|  | Income generated by the use of capital |
|  | Income as a reward for labour |
|  | Income that goes to the entrepreneurs |

**Key Notes:** *Factor Intensity*

*Capital intensive:*Firms which use a higher proportion of capital than labour

*Labour intensive:*Firms which use a higher proportion of labour than capital

# Activity: Factors of Production

**Task 1:** Read each item AND decide which of the four factors of production it would be classified as:

*Land , Labour, Capital or Enterprise*

***Extension:*** Give a characteristic of each factor of production

1. School \_\_\_\_\_\_\_\_

2. Money \_\_\_\_\_\_\_\_

3. Books \_\_\_\_\_\_\_\_\_

4. Teachers \_\_\_\_\_\_\_\_\_\_

5. Principal \_\_\_\_\_\_\_\_\_\_

6. Paper \_\_\_\_\_\_\_\_\_\_\_\_\_

7. Sport Fields \_\_\_\_\_\_\_\_\_\_\_

8. Desks \_\_\_\_\_\_\_\_

9. Whiteboards \_\_\_\_\_\_\_\_\_

10. Buses \_\_\_\_\_\_\_\_\_

11. Petrol \_\_\_\_\_\_\_\_\_\_

12. Janitors \_\_\_\_\_\_\_\_\_\_

13. Students \_\_\_\_\_\_\_\_\_\_\_\_

14. Governors \_\_\_\_\_\_\_\_\_

15. Computers \_\_\_\_\_\_\_\_\_\_\_\_\_\_

16. Asst. Principals \_\_\_\_\_\_\_\_\_\_

17. Dining room \_\_\_\_\_\_\_\_\_\_

18. School dinners \_\_\_\_\_\_\_\_\_\_

**Task 2:** List the land, labor, capital, and entrepreneur that went into making each of the following

*N.B.* You can list more than one for each.

17. Your Shoes

a. Land: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

b. Labor: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

c. Capital: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

d. Entrepreneur: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

18. iPhone

a. Land: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

b. Labor: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

c. Capital: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

d. Entrepreneur: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

19. Pizza

a. Land: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

b. Labor: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

c. Capital: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

d. Entrepreneur: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

20. Your Choice:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

a. Land: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

b. Labor: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

c. Capital: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

d. Entrepreneur: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_