

# Economic foundations

Charlene

# **What is economics?**

- Please share some key words to represent your understanding.

# What is economics?

- Watch the video, find out other key words for economics.

<https://www.youtube.com/watch?app=desktop&v=UKb8xWHoVJI>

# **What is economics?**

**Making a choice**

# Principles for making a choice

- focus on our own preference, our own needs and wants.

-- self-interest

- More benefits / Less loss
- Rational decision makers

**Self-interest:**  
focusing on your  
own needs and wants.

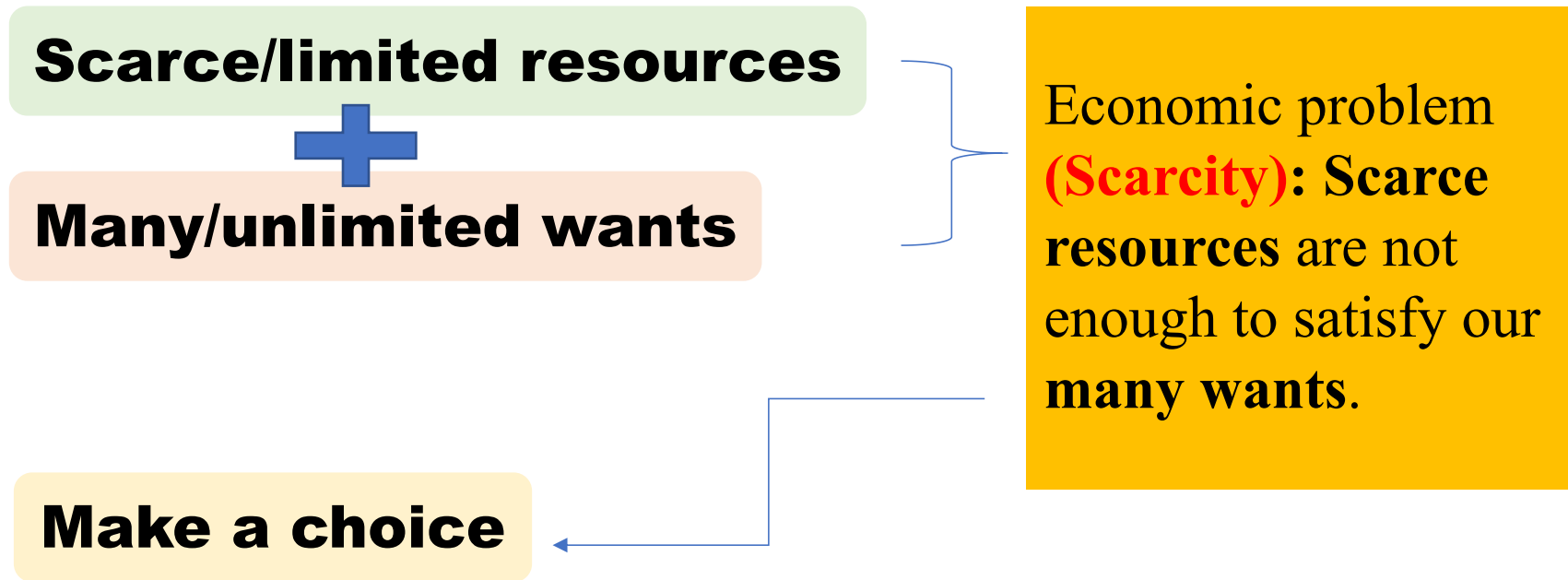
# Why choice?



**我全都要！**

# Economic problem

What force us to make a choice?



# Is it free to make a choice?

What are the possible choices?

- Assume you have a piece of land, what can you use it for?  
Please list two possible uses





01

**build a house**



02

**agriculture**

*the scarce  
resource*

*has alternative use*



- Is the choice free to make?
- If it is not free, what will be the cost of the choice?
- For example, if you choose to use the land for agriculture, what will be the cost of this choice itself?
- Or, if you choose to use the land to build a house, what will be the cost of this choice?

*five minutes' discussion*

# Opportunity cost

- When we choose to use the land for agriculture, our cost should be
  - ❑ building a house
- When we choose to build a house, our cost should be
  - ❑ using the land for agriculture.

## **Opportunity cost:**

The *next best alternative* forgone, when an economic decision is made.

01

**build a house**



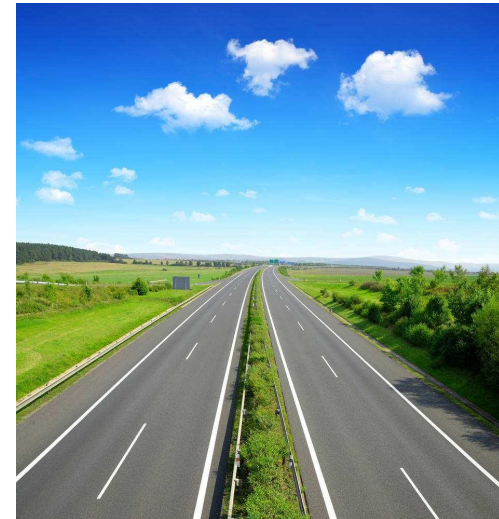
02

**agriculture**



03

**build a road**



# Opportunity cost

- In this case, you have 3 choices, what will be the opportunity cost for your choice?
- Illustrate with example.  
(five minutes' discussion)

**1. build a house**

**2. agriculture**

**3. build a road**

- Firstly, you should rank the possible choices from the one you want most to the one you want least.
- If possible, which one will you choose?
- What is the opportunity cost?

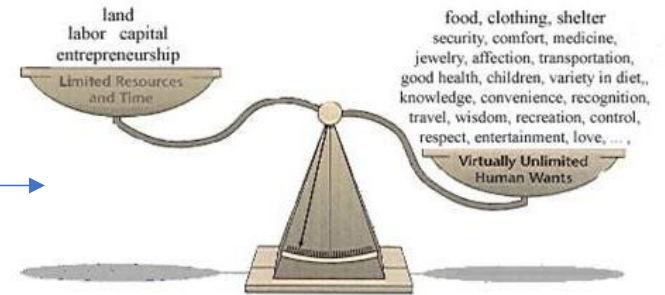


# Economic problem

**Scarce resources**

**Many wants**


## SCARCITY





**Opportunity  
cost**




# What are the opportunity costs?

 A household decides to save \$500 in a bank account so that it can afford to go on holiday next year.

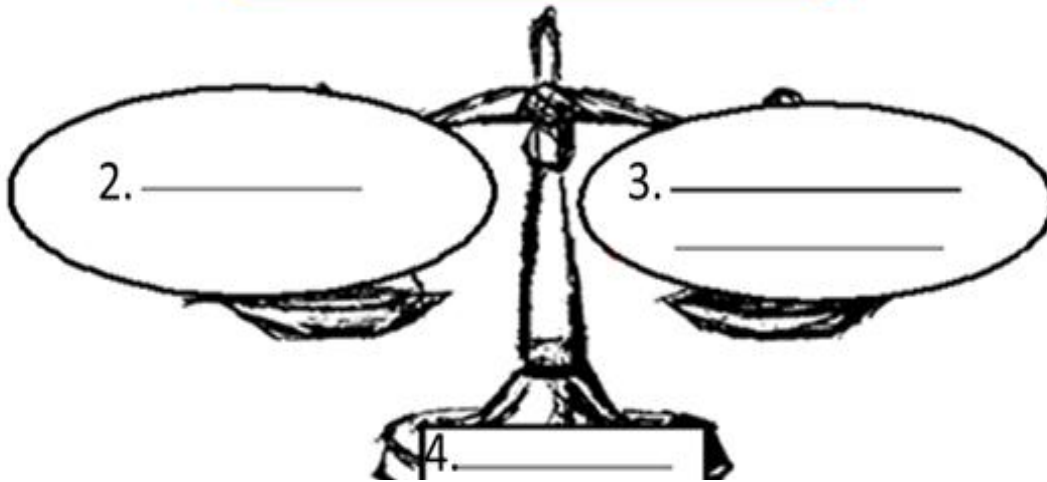
 The opportunity cost would be the household spending that money *now* on other goods or services.

 A 55-year-old employee has been offered a new job or the chance to retire early. He chooses the new job and will earn \$20,000 per year.

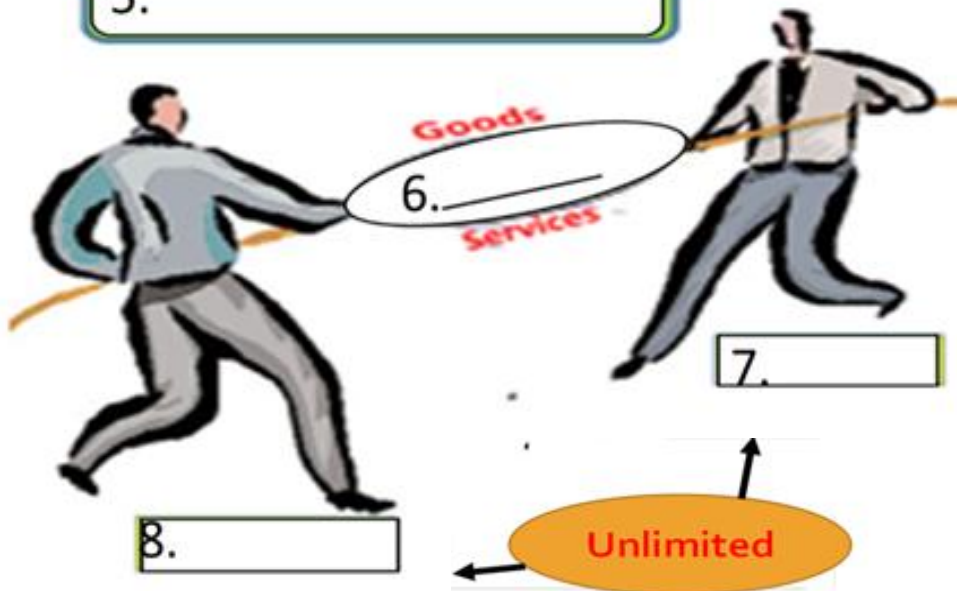
 The opportunity cost for him would be having much more leisure time and maybe some pension.



EACH <sup>1.</sup> YOU  
MAKE HAS..

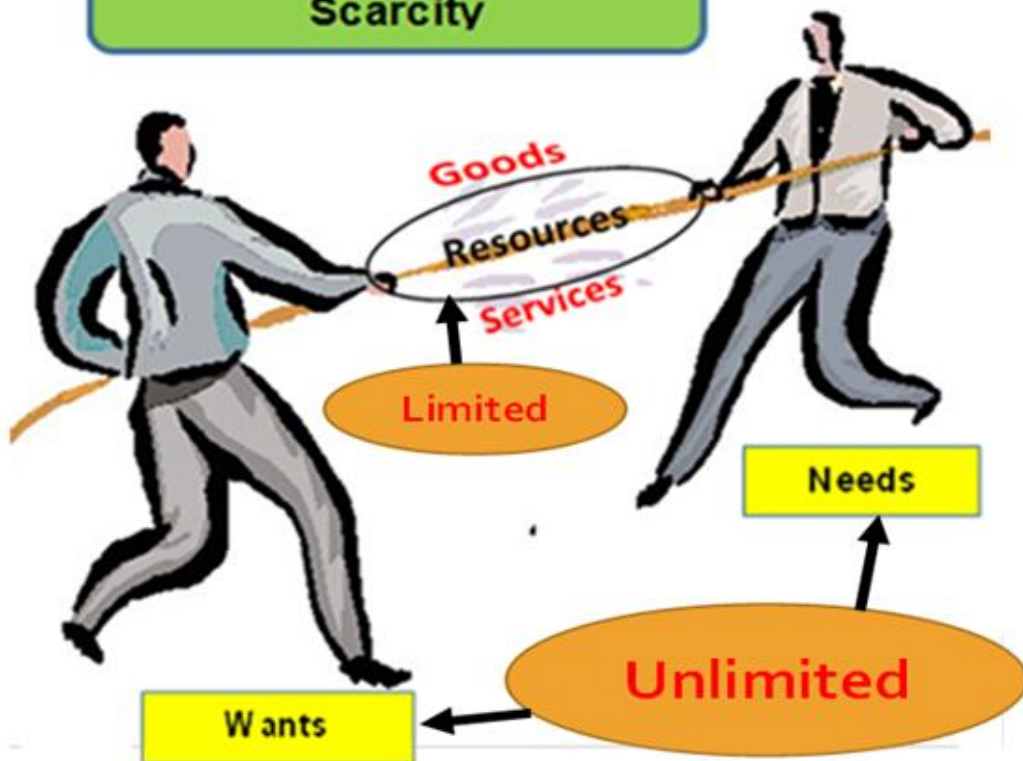


5. \_\_\_\_\_



- **Costs**
- **Wants**
- **The Economic Problem**
- **Scarcity**
- **Choice**
- **Needs**
- **Benefits**
- **Resources**
- **Scarcity**
- **Missed Opportunity**

## The Economic Problem: Scarcity

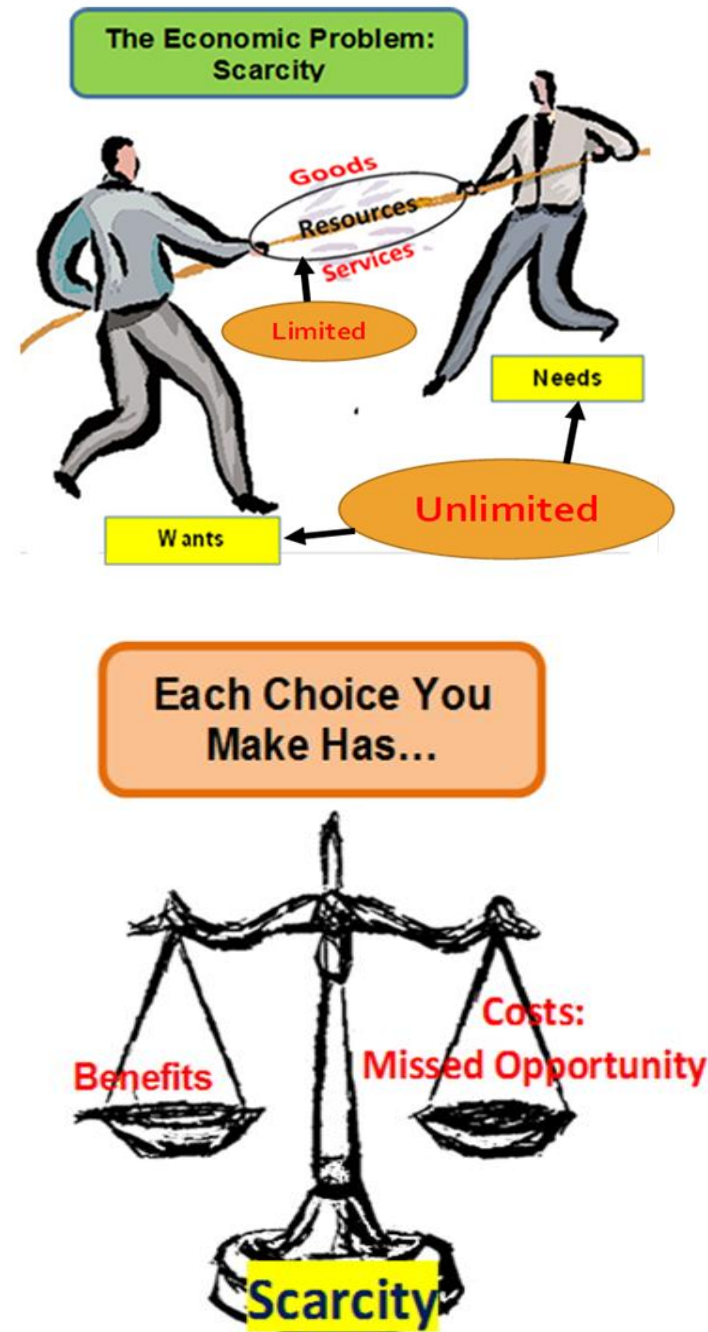


## Each Choice You Make Has...



Write a paragraph to describe the pictures, you should use all the key words mentioned in the pictures.

The fundamental economic problem is scarcity which refers to our unlimited wants and needs cannot be satisfied by the limited resources. What we can do to solve the problem is to make a choice. Each choice we make has benefits and costs. The cost is the missed opportunity. We should balance benefits against costs to make a better decision.



# Needs and Wants

# Needs and wants

- **NEEDS** are goods and services required for people to survive. (e.g. food, clean water, shelter, clothing)
- **WANTS** are goods and services that people would like but are not required for them to survive (e.g. luxuries)



- Satisfying needs and wants leads to improvements in the wellbeing and **standard of living** of people in society.

# Will needs and wants change over time?

- Over time, countries tend to become more developed. This leads to an increase in average income, meaning that a country's population has more resources for its basic needs.
- **The basic needs usually remain relatively constant;** however, the ability of a population to meet its needs can change gradually or suddenly (e.g. incomes rise, natural disasters, and wars).

# Will needs and wants change over time?

- Wants may never be fully satisfied, as humans always appear to want more than they currently have.
- Wants can change over time due to changes in **income**, **fashion**, **technology**, and an **individual's stage of life** (child vs. adult).



# Poverty

- **Poverty** is related to people's ability to satisfy their needs and wants.
- **Relative poverty** is when people are poor in comparison to other people in society. Relative poverty more exists in more developed countries.
- **Absolute poverty** is when people do not have access to the basic items required for human survival. Absolute poverty is more likely to occur in less-developed countries.

# Resources

# Resources

- Resources are important because they are used to make **goods** (bread, cars, laptops...) and to provide **services** (health care, cleaning, banking...)
- In economics, we call these resource as economic resources.

# Economic resources

- **Economic resources = factors of production** : inputs into the production process, needed to produce goods and services.

# Economic resources

- Land: natural resources.



# Economic resources

- **Labour: human resources.**



# Economic resources

- **Capital: man-made resources.**



# Economic resources

- **Entrepreneur or enterprise:** the person or group of people who **takes risks, makes decisions** and **organizes** the production process.





# Practice 1

- Classify each of the following into land, labour, capital or enterprise:
- 

- |                                 |   |
|---------------------------------|---|
| 1) a car factory                | 6) a person who owns a window-cleaning business |
| 2) a field used to grow sorghum | 7) fish in the sea                              |
| 3) a bicycle-shop assistant     | 8) a sweet-packing machine                      |
| 4) a coal miner                 | 9) a parcel-delivery van                        |
| 5) an oilfield                  | 10) clean air                                   |

# Practice 1

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- |                                 |   |
|---------------------------------|---|
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- 

- Land: 2, 5, 7, 10
- Capital: 1, 8, 9

- Labour: 3, 4
- Enterprise: 6

# Economic resources

- Another way to classify economic resources:



VS.



# Economic resources

- If we cut down a tree, will it be replaced in a few years?
- If we catch a fish, will it be replaced by its next generation?
- How about coal and diamonds? Can they be replaced as easily as trees and fish?

# Economic resources

- Another way to classify economic resources:

**Renewable resources:** can be replaced naturally after a period of time.

e.g. trees, fish, sunlight, wind and water for drinking.

**Non-renewable resources:** cannot be replaced naturally after a period of time.

e.g. coal, oil and diamonds.

# Are all the resources scarce?

- Try to think of some resources that are not scarce.
- Air? Sunlight?

**The natural environment is also a scarce resource.**

*Every resource* is to some degree *scarce*.

# Economic Activities

# Economic Decisions

## Foundamental economic problem is

- *Scarcity*: limited resources are not enough to satisfy many needs and wants.
- Economics is about making choices - how to allocated the scarce resources for meeting certain needs and wants.
- We can allocate resources through economic activities, what are economic activities?



# Economic activity

**Production:** turning inputs into final output.

**Distribution**

**Consumption**

**Economic activity:** the production, distribution and consumption of goods and services.

***The central purpose of economic activity*** is the **production** of goods and services to **satisfy** people's **needs and wants**.

- How can we make good use of the scarce resources into production?
- How can we satisfy people's wants and needs as many as possible?

Some economic decisions should be made.

# Main Economic Groups

- When deciding what to buy, consumers aim to maximize their satisfaction or enjoyment for the amount of money they spend. In other words, they will try to maximize 'value for money'.

## Consumer

A person who demand / purchases the goods and services for personal use.

# Main Economic Groups

- Producers are also sometimes referred to as firms, businesses, or suppliers. Producers make decisions about what goods and services to produce, and the most efficient ways of producing them. People usually assume that producers are motivated to maximize the profit.

## **Producer**

A person or company that supplies goods or services for sale.

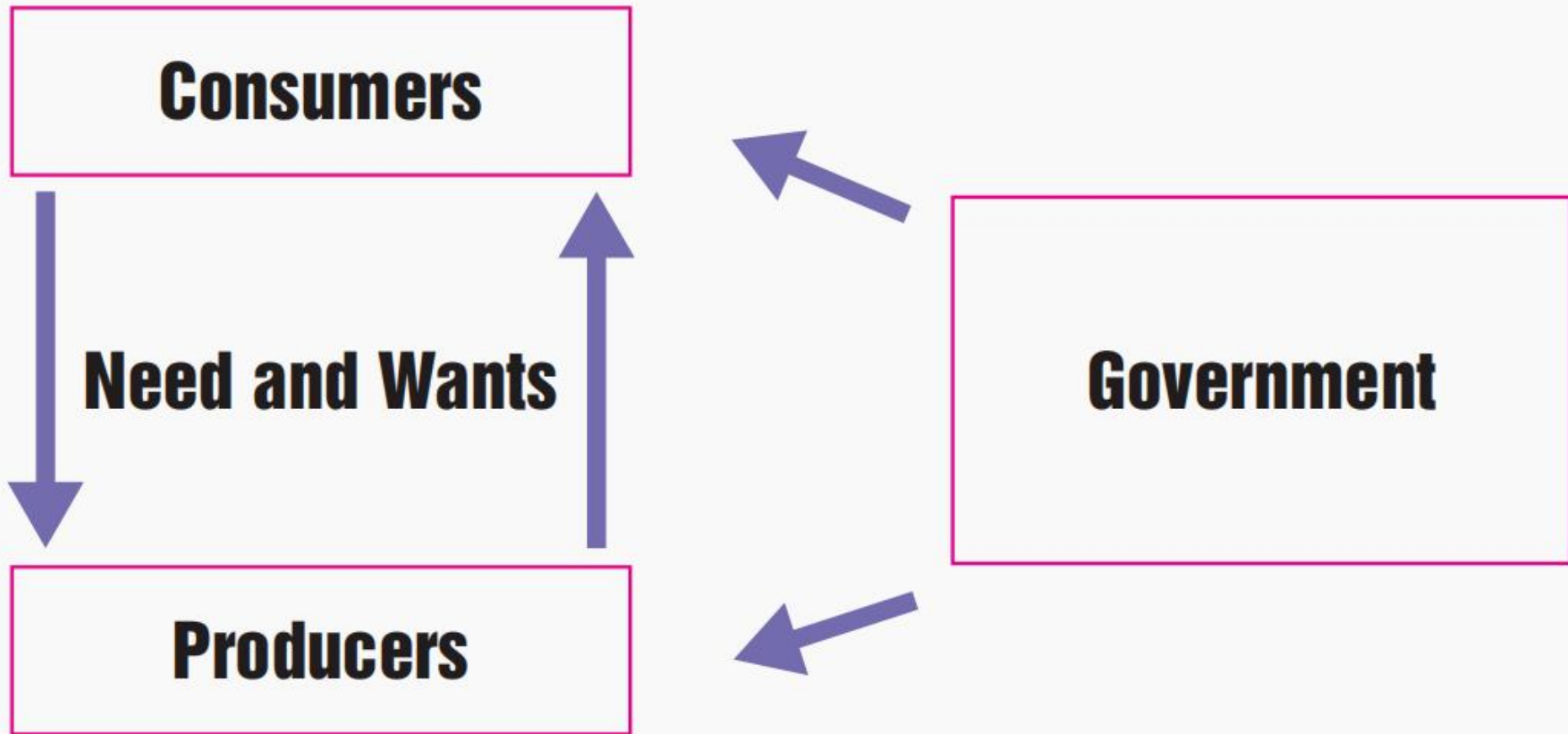
# Main Economic Groups

- A government is a group of individuals with the power to run a country to best meet the interests of its people.
- Governments set and enforce rules and laws, receive income through taxes, and spend money on public services.

## **Government**

The organisation regulating consumers and producers.

# Interaction between economic groups



# Interaction between economic groups

- Consumers interact with producers by buying goods and services and providing the producers with revenue from sales.
- Consumers may also interact with the government, for example, to ask the government for protection against faulty or low-quality goods and services from producers.

# Interaction between economic groups

- Producers may interact with consumers by carrying out market research to find out about the consumers' preferences for goods and services produced.
- Producers may also interact with the government, for example, to ask the government to protect them from unfair competition.



# Interaction between economic groups

- Governments interact with consumers by adding taxes to the prices of goods and services when they are sold by producers.
- Government decisions can influence the type and quantity of goods and services that consumers buy.
- Governments can also influence the decisions producers make by setting certain rules and laws, for example, to require producers not to harm the environment.

# Key Economic Decisions

- Economic resources are limited, but a society's wants are unlimited.
- Decisions must be made about how resources are allocated.
- There are three key economic decisions:
  - what to produce
  - how to produce it
  - who is to benefit from the goods and services produced

# Key Economic Decisions

- **What to produce?**

- which of the many goods and services that are wanted and needed should be produced

- e.g. should we produce more consumer goods or capital goods?

- **Consumer goods** are those bought and used by people, such as food or a car.

- **Capital goods** are those used to create other goods and services, such as a computer.

# Key Economic Decisions

- **How to produce?**

- what methods are we going to use to produce our goods and services

- e.g. whether to use production methods that involve a lot of machinery or production methods that mainly involve human labour?

# Key Economic Decisions

- **Who is to benefit from the goods and services produced?**
  - which individuals or groups receive the goods and services.
  - For example, should those with the highest incomes receive the most goods and services, or should goods and services be allocated equally to all people?