



OGUN DIGICLASS



SUBJECT: ECONOMICS



TOPIC: BASIC ECONOMIC
CONCEPTS



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BASIC ECONOMIC CONCEPTS



Lesson Objectives

Identify scarce resources.

That wants are never satisfied.

Difference between a want and a need.

Using examples, how choosing something means giving up on something else.

The Basic Economic concepts include:

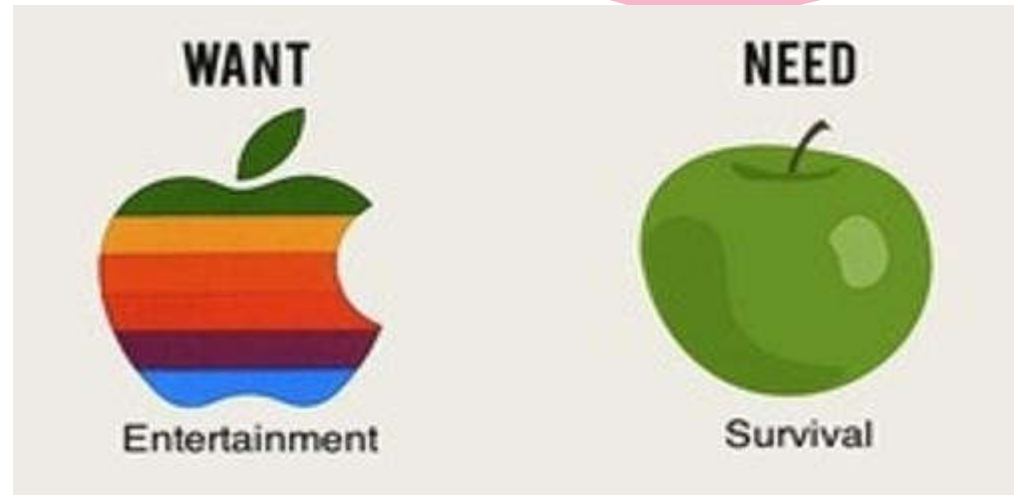


WANT

"People always want more than they already have..."

... is this really ***always*** true?

... is this a ***good*** thing or a ***bad*** thing?



*A **want** is
something
someone
would like to
have...*



Wants

- Wants are goods and services which are desired for consumption and yield satisfaction.
- Human wants are unlimited or insatiable
- Examples of wants are: textbooks, T.V, Mobile phone, Private Jet etc



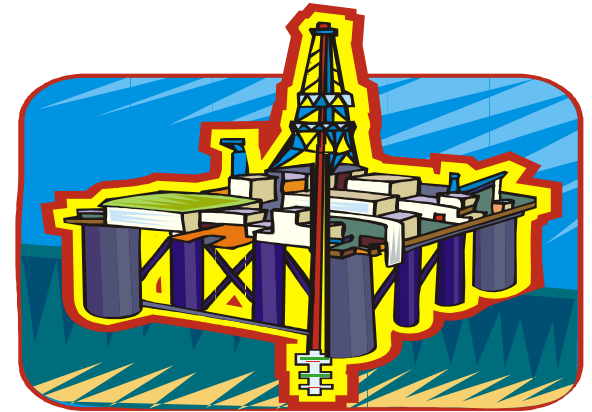
A **need** is something they **have to have** or else their lives, or even their survival will be at stake



SCARCITY

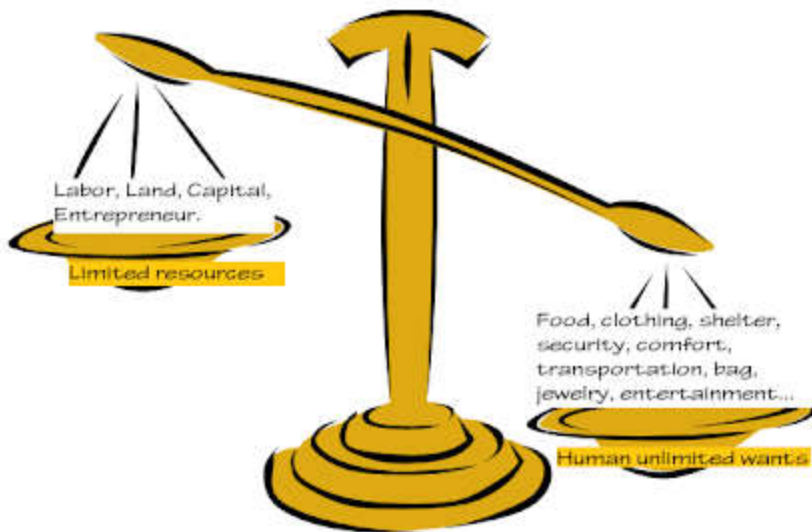
When resources are in limited supply (also known as having **scarce resources**) we have to make choices.

Crude oil is a **scarce resource**...
do we choose to make petrol,
plastic or a bit of both?



SCARCITY

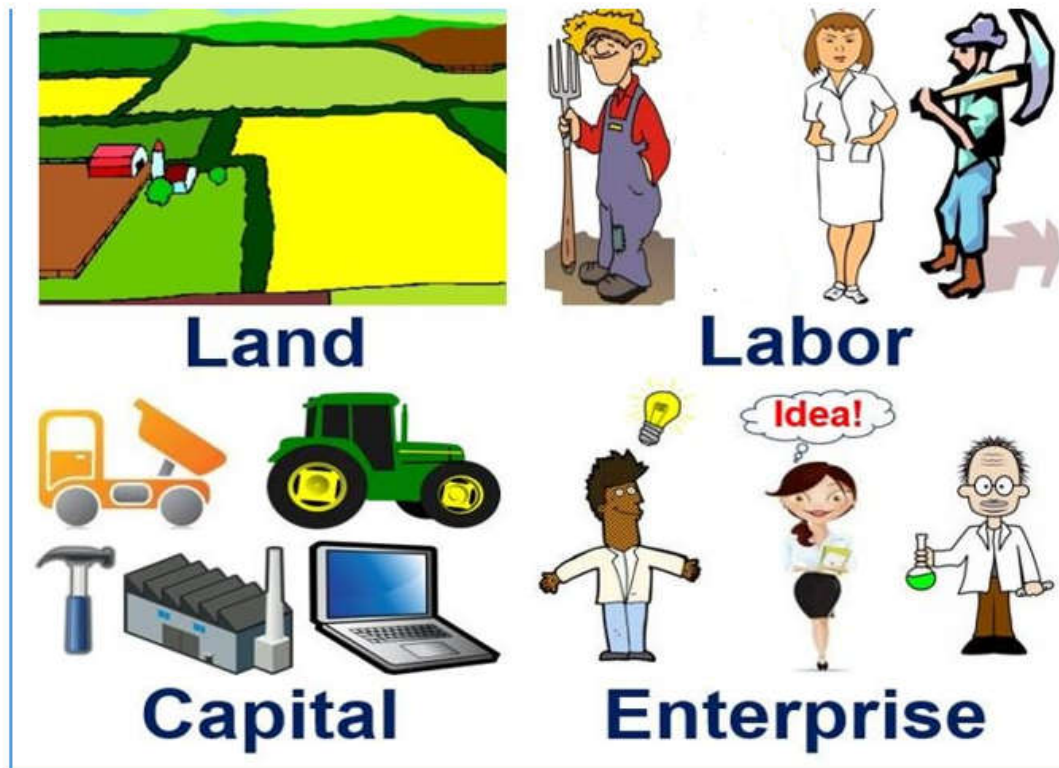
by LIM CHER CHER



EXAMPLES OF SCARCE RESOURCES

the four factors of production:

Capital
Enterprise
Land
Labour



Known as **CELL**

THE FOUR FACTORS OF PRODUCTION

An 'economy' = An exchange



of goods or services... in a defined area

THE FOUR FACTORS OF PRODUCTION

An economy satisfies consumers' needs...



Me want
ice
cream!

... to do this it uses
the four factors of
production



Scarcity

- Scarcity means limited in supply. This means that the means(resources) to satisfy human wants are limited in supply. This is actually the bane of economic problems.
- Consider the problem : Human want is unlimited, but the resources to satisfy is limited.
- This is a problem to all the three economic agents in an economy: (i)individual (ii)Firms (iii)Government
- Scarce resources include: land, labour, capital,etc

CHOICE

- Choice involves picking a want out of several alternatives, as a result of limited resources available.
- As a rational consumer, he could have bought all, but the limited resources could not enable him, hence, the need to choose

Scale of Preference

Scale of Preference is a priority listing of individual's want.

The most pressing want comes first, followed by the second best and so on.

Example: Mr. Sola's scale of preference

Items Needed	Price(₦)
Text book	500
Shirt	200
Shoes	300
Trousers	300
Notebook	100
School fees	700
Mattress	1000

Mr. Sola will buy textbook first before shirt, and so on.

IMPORTANCE OF SCALE OF PREFERENCE

- i. It enables individuals, firms and the government in rational decision-making choices in the list of wants.
- ii. It helps in the optimum allocation and utilization of scarce resources.
- iii. It helps in ranking our wants in order of priority.

Opportunity Cost

Opportunity Cost also known as true cost or real cost is the alternative want foregone. It is the sacrifice made to satisfy a particular want.



Example

If Ojo has ₦500 and he wants to buy sandal and textbook, each selling for ₦500. If he eventually buys the textbook, then his opportunity cost will be the sandal he could not buy.

Importance of Opportunity Cost



It helps an individual to decide how to spend his/her scarce/limited resources.



It helps the firm to decide on how best to use the limited available resources in production of one commodity as against the other.



It helps the government in managing the nation's resources by choosing to execute one project instead of another.

Exercise

Using the table in the Scale of Preference above. Mr. Sola's disposable income is ~~N~~700

a(i). What will Mr. Sola spend his money on?

a(ii). Explain your answer in a.i.

b(i). What is the opportunity cost of Mr. Sola's decision in a.i.?

b(ii). Explain your answer in b.i.

c (i). If Mr. Sola's disposable income increases to ~~N~~1000, what will he spend it on?

c.(ii) What is the opportunity cost of the decision in (ci).

SOLUTION

a.i. textbook and shirt.

a.ii. Because the text book and the shirt are the items at the top of his scale of preference which can be purchased with his ₦700.

b.i. The shoes, the trouser and the notebook

b.ii. Because those three items are the next best alternatives, which can be purchased with the ₦700

c.i. Textbook, shirt and shoes.

c.ii. Trouser, the notebook and pay 600 out of his school fees.

ASSIGNMENT

- I.a. Why is the scale of preference important?
- b. Explain the concept of opportunity cost
- c. State the opportunity cost in each of the following actions:
 - i. A shirt was purchased for ₦500.00 instead of a pair of shoes.
 - ii. Onion were planted on a farm realizing ₦20,000.00 instead of maize that could have realized ₦25,000.00 (M/J)