

eLearneconomics: Central concepts of economics (1)

Student response _____

Alan indicated his preferences for a night out. In order of preference they were going to the movies, ten-pin bowling and karaoke.

Use the information to explain the concepts **opportunity cost**, **scarcity** and **choice**.

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eLearneconomics: Central concepts of economics (1a)

Solutions

The opportunity cost is the next best alternative foregone idea, in this case for Alan it is the ten-pin bowling option missed out on.

Scarcity refers to the Idea of limited means relative to his unlimited wants and that Alan can not do everything. He will choose the option he desires the most. Time spent at a movie means that the same time can not be used to go ten-pin bowling or karaoke.

A choice is a decision (not a choice or choosing) between alternatives. Alan must decide between going to a movie or ten-pin bowling or karaoke.

Student response

- Refer to the resource material and link the following: limited means, choice, opportunity cost.
- Explain how Mary's means have increased because of her family.

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eLearneconomics: Central concepts of economics (2a)

Solutions

Mary faces the problem of scarcity, that is, she has limited means (time and money) in relation to her unlimited wants.

Mary's income is limited. She does not earn enough to buy everything she wants; she only earns \$600 per week, so he has to choose the cheapest option/the one she wants the most. She must make a decision between alternatives (a choice) between an Iphone or a computer. Because there are only 24 hours in a day, Mary faces the problem of limited time. Mary is too busy with sporting commitments to earn enough to buy everything she wants so she has to choose the cheapest option/one that she wants the most. Time spent on her sporting commitments can not be used to do additional work to earn extra income.

When Mary makes a decision she will give up a next best alternative – this will be her opportunity cost. If Mary ranks buying a computer as the most important thing she wants to buy, followed by the Iphone, then the Iphone missed out on is her opportunity cost.

Mary's means have increased because of her family, more individuals allow for greater means. Mary can afford a better computer because her whole family is contributing.

The answer needs to link the concepts of limited means (time and money), choice and opportunity cost in context of Mary's options.

eLearneconomics: Central concepts of economics (3)

Student response

Jack is 18 and has just started a course at university. When he is not attending the course at university he works for a family friend repairing computers. Jack relaxes by watching movies with friends or reading books.

Discuss how Jack's decisions about his use of time and money involves an opportunity cost. In your answer, refer to the resource material above, and link the concepts of wants, limited means, scarcity and opportunity cost.

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eLearneconomics: Central concepts of economics (3a)



Solution

Jack's wants are his unlimited desires that make his life more comfortable and enjoyable but are not essential to his survival, for example watching movies, reading a book.

Jack has limited means (money or income, time, skill and knowledge) relative to his unlimited wants. Time is a limited resource for Jack because there are only 24 hours in a day, and time spent working at repairing computers can not be used to attend university. This means there are more activities to do than can be achieved in one day.

Jack has limited income or money, he can only earn so much working for a family friend repairing computers. Money or income spent on watching movies can not be spent on buying a book. Jack can not afford everything so will choose the option he desires the most, within his limited time and budget.

The opportunity cost refers to the next best alternative foregone when Jack makes a decision or choice. If he considers watching a movie as his most desirable option for relaxation over reading a book, then reading a book is his opportunity cost.



Student response

Discuss how Jack's values differ from those of his parents. In your answer explain:

- a value Jack holds when he decides to go to the movies
- a value Jack's parents may hold
- how Jack's values conflict with those of his parents
- two compromises that Jack and his parents could make to resolve this conflict.

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Solution

Values are the core beliefs or key principles that Jack considers most important. He may value fun/personal enjoyment/seeing friends when he goes to the movies.

Values Jack's parent may hold are that he should get an education to assist him in the future/or earning an income to pay his way.

A conflict or disagreement may occur between Jack and his parents because they want Jack to spend more time studying or working and Jack wants to spend more time visiting his friends or relaxing.

A possible compromise could be that Jack visits his friends once he has completed his study or finished his work. In this way both parties are satisfied because their values are being recognised.

Another way Jack could resolve this conflict is to spend less time on one activity (visiting friends) and more time on the other activity (studying or working).