

## UNIT 1 Basic economic problem: scarcity and exercise of choice

**Recommended Prior Knowledge** This Unit can be studied without any prior knowledge but students will hopefully already have some basic idea of what economics is about, the types of decisions that might need to be taken and the importance of money in an economy. They may also have some broad idea of how one economic system might be different from another.

**Context** This first Unit is fundamental to all that follows and is essential preparation for the whole course. It deals with the basic economic problem of scarcity and choice and how this gives rise to the concept of opportunity cost. This will be important in later Units, such as the discussion of comparative advantage in Unit 9. The part on different types of economic systems will help prepare students for the section on the aims of government policy in Unit 6.

**Outline** The Unit starts by defining the nature of the economic problem in terms of finite resources and unlimited wants and then considers the four factors of production. It then deals with the concept of opportunity cost which is crucial if a choice has to be made. It then focuses on specialisation and exchange and the importance of money in an economy. Finally, it describes and compares market, planned and mixed economies and attempts to evaluate the relative merits and effectiveness of these different economic systems.

	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other Resources
1 a	Students should be able to define the nature of the economic problem in terms of finite resources and unlimited wants.	<p>A good place to start is to get the students thinking and talking about what is meant by a want and how it differs from a need. They could each write down a list of six needs and six wants and compare them to see how they differ.</p> <p>Anderton (page 6) has some useful photographs to stimulate discussion of needs, wants and the idea of resources being finite.</p> <p>The students could then think of examples of finite resources; oil would be a good example.</p> <p>Moynihan and Titley (page 2) have an extract from a newspaper entitled 'Oil Runs Out'; this could be used to stimulate discussion and students could look in newspapers for any similar stories.</p> <p>The students could also attempt to contrast economic goods and free goods; air could</p>	<p>URL – <a href="http://www.tutor2u.net/economics/content/topics/introduction/scarcity.htm">http://www.tutor2u.net/economics/content/topics/introduction/scarcity.htm</a></p> <p>URL – <a href="http://www.s-cool.co.uk/quicklearn">http://www.s-cool.co.uk/quicklearn</a> Free Market v Command Economies: The economic problem</p>	<p>Anderton, Unit 1, pages 6-7</p> <p>Harrison and Nutter, Chapter 3, pages 14-15</p> <p>Moynihan and Titley, Chapter 1, pages 1-7</p> <p>Paisley and Quillfeldt, Part 1, Unit 1.1, pages 2-4</p>

		be considered a free good but they might like to discuss whether fresh, clean air is becoming increasingly scarce in certain parts of the world.		
b	Students should be able to define the factors of production (land, labour, capital, enterprise).	<p>A good way to get students thinking about the different types of production is to get them to choose two or three products and to write down the stages involved in their production.</p> <p>It is also useful to give them a list of resources and get them to say which kind of factor of production they are an example of; there is a very useful list of resources in Moynihan and Titley (page 18), Paisley and Quillfeldt (page 8) and Anderton (page 55). The role of the entrepreneur can be an interesting theme for a lesson; students could research a particular entrepreneur, either in their own country or someone working in another country, and give a presentation on him or her, explaining why he/she was successful when so many people in business fail.</p> <p>Another area which could be researched is the reasons why labour is not as mobile as it might be expected to be; students could try and discover information about the geographical and occupational mobility of labour in their own country and consider why it might actually be quite difficult for people to move from area of the country to another or to move to a different job. This will be looked at again in Unit 4.</p>	<p>URL – <a href="http://www.tutor2u.net/economics/content/topics/introduction/factor.htm">http://www.tutor2u.net/economics/content/topics/introduction/factor.htm</a></p>	<p>Anderton, Unit 18, pages 48-49</p> <p>Anderton, Unit 20, pages 54-55</p> <p>Anderton, Unit 21, pages 56-57</p> <p>Anderton, Unit 22, pages 58-59</p> <p>Harrison and Nutter, Chapter 5, pages 31-34</p> <p>Moynihan and Titley, Chapter 2, pages 17-19</p> <p>Paisley and Quillfeldt, Part 1, Unit 1.1, pages 4-6</p>
c	Students should be able to define opportunity cost and describe particular circumstances to illustrate the concept.	Students should think of a range of examples from their own experience, either in terms of time or in terms of products, which illustrate the concept of opportunity cost. For example, staying in tonight to	<p>URL - <a href="http://www.tutor2u.net/economics/content/topics/introduction/opportunity_cost.htm">http://www.tutor2u.net/economics/content/topics/introduction/opportunity_cost.htm</a></p>	<p>Anderton, Unit, pages 8-9</p> <p>Harrison and Nutter, Chapter 3, pages 14-15</p>

		<p>complete homework or going out for the evening; saving money for the future or buying an expensive consumer good. They can then go beyond this and apply the concept in terms of decisions made by governments, such as building a school or buying armaments. It might be useful to organise a debate, contrasting expenditure on two selected things. Alternatively, the discussion could focus on alternative uses of a given piece of land. Students should be encouraged to research in local newspapers, magazines and on the internet for current examples of opportunity cost in their own countries.</p> <p>Anderton (pages 8-9) and Moynihan and Titley (pages 7-13) have some interesting examples of opportunity cost.</p>	<p>URL – <a href="http://www.s-cool.co.uk/quicklearn">http://www.s-cool.co.uk/quicklearn</a> Free Market v Command Economies: The economic problem</p>	<p>Moynihan and Titley, Chapter 1, pages 7-13</p> <p>Paisley and Quillfeldt, Part 1, Unit 1.1, pages 2-6</p>
d	<p>Students should be able to evaluate the implications of particular courses of action in terms of opportunity cost.</p>	<p>This will logically come out from the activities above; for example, a debate on whether a government should build a school or spend the money on armaments should enable the students to evaluate the implications of particular courses of action in terms of opportunity cost. A good contemporary example might be the expenditure of the Chinese government on a space project when it is still receiving aid from different countries around the world to help its people. A discussion of the opportunity cost involved in this example might contribute to an interesting lesson. The debate on public expenditure could be used to introduce the concepts of facts and value judgements.</p>	<p>As above.</p>	<p>As above.</p>
e	<p>Students should be able to describe specialisation and the need for exchange; they should also have an understanding of</p>	<p>Students should research any line of production or a service provider and try to find out the extent to which there is</p>	<p>URL – <a href="http://www.tutor2u.net/economics/content/topics/monetary">http://www.tutor2u.net/economics/content/topics/monetary</a></p>	<p>Anderton, Unit 7, pages 20-21</p>

	the functions and types of money.	specialisation and division of labour and then report back to the rest of the class. When the class has heard the different examples from the variety of economic activities, they should draw up a list of the advantages and disadvantages of the division of labour. Anderton (pages 52-53), Harrison and Nutter (pages 34-35), Moynihan and Titley (pages 55-57) and Paisley and Quillfeldt (pages 31-32) have good summaries of the advantages and disadvantages of the division of labour. It would also be useful for students to consider if there are any types of economic activity where it would be more difficult to apply the concept of specialisation. They also need to recognise why specialisation leads on to a need for a system of exchange; a good exercise would be for them to think of the disadvantages of barter and why money is preferable. They could imagine just what it would be like to go without money but it would also be useful to see if they could find any current examples of barter operating in their own country. Anderton has a good example of how the barter system operated in a German prisoner-of-war camp (page 22).	policy/functions_of_money.htm	<p>Anderton, Unit 8, pages 22-23</p> <p>Anderton, Unit 19, pages 52-53</p> <p>Harrison and Nutter, Chapter 5, pages 34-36</p> <p>Moynihan and Titley, Chapter 4, pages 54-57</p> <p>Moynihan and Titley, Chapter 19, pages 393-405</p> <p>Paisley and Quillfeldt, Part 2, Unit 2.1, pages 30-32</p> <p>Paisley and Quillfeldt, Part 3, Unit 3.1, pages 56-58</p>
f	Students should be able to describe the allocation of resources in market, planned and mixed economic systems.	Students could start by researching their own country, or any economy, to discover the extent to which it is characterised by features of a market or a planned economy. All economies are, to varying degrees, mixed economies and they could try and discover the ratio of the mixture in particular economies (Anderton has a useful chart using OECD figures on page	<p>URL – <a href="http://www.s-cool.co.uk/quicklearn">http://www.s-cool.co.uk/quicklearn</a> Free Market v Command Economies: Theoretical economic systems</p> <p>URL – <a href="http://www.s-cool.co.uk/quicklearn">http://www.s-cool.co.uk/quicklearn</a> Free Market v Command</p>	<p>Anderton, Unit 85, pages 212-213</p> <p>Anderton, Unit 87, pages 216-217</p> <p>Harrison and Nutter, Chapter 4, pages 17-26</p>

		<p>218). They could also do a case study of an industry or organisation that has undergone a process of privatisation, outlining the advantages and disadvantages of such a change. It would also be useful to examine an economy that was going through a process of transition, such as Russia or China.</p> <p>Moynihan and Titley (pages 29-30) have some useful questions on a market system. They also have an interesting article (page 36) on some of the problems of the USSR, followed by questions, and an extract from an OECD Economic Survey on Russia in 1995 (page 37) to provide a contrast.</p> <p>Anderton has an excellent chapter on Economic Change in Eastern Europe with appropriate questions to answer in the study points and check points (pages 216-217) and also has some data response questions on an article, 'China moves towards the market'.</p>	<p>Economies: More realistic systems</p> <p>URL – <a href="http://www.tutor2u.net/economics/content/topics/introduction/systems.htm">http://www.tutor2u.net/economics/content/topics/introduction/systems.htm</a></p>	<p>Moynihan and Titley, Chapter 3, pages 26-37</p> <p>Paisley and Quillfeldt, Part 1, Unit 1.3, pages 21-23</p>
g	<p>Students should be able to evaluate the relative merits of different economic systems and their effectiveness.</p>	<p>This section builds on the previous one, moving from a description of the different economic systems to an evaluation of their relative merits and effectiveness. Students, therefore, need to analyse the different systems and come to a judgement on which one might be better and to be able to explain why. They need to research the relative advantages and disadvantages of the different systems and then be prepared, in groups, to give a presentation of their findings. This would be a very good topic for a class debate.</p> <p>All of the resources have summaries of the advantages and disadvantages of the different systems. Anderton (pages 214-</p>	<p>URL – <a href="http://www.s-cool.co.uk/quicklearn">http://www.s-cool.co.uk/quicklearn</a></p> <p>Free Market v Command Economies: Which system is best?</p>	<p>Anderton, Unit 86, pages 214-215</p> <p>Harrison and Nutter, Chapter 4, pages 17-26</p> <p>Moynihan and Titley, Chapter 3, pages 26-37</p> <p>Paisley and Quillfeldt, Part 1, Unit 1.3, pages 21-27</p>

		215) is particularly good and the checkpoints will get students to focus on the essential differences between the various systems. Harrison and Nutter have a useful tutor's answer and a student's answer with examiner comments to relevant questions. Paisley and Quillfeldt (pages 26-27) have some interesting questions on the relative merits of the different systems.		
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