

## **LESSON 2: WHY STUDY ECONOMICS?**

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***Focus Question: How important is it for people in business to understand economics?***

### **Objectives**

*Students will be able to:*

- Explain how the problem of scarcity is related to the study of economics.
- Discuss the concepts of opportunity cost and trade-offs.
- Examine the relationship between economics and business.

### **Standards**

**NES:** 1, 2, 3, 5, 14, 15

**ELA:** 1, 2, 3

### **Time Frame**

One day, double period

### **Materials**

Textbook chapter on “What is Economics?”

(Definitions of economic terms appear at: [www.bized.ac.uk/stafsup/options/notes/econ201.htm](http://www.bized.ac.uk/stafsup/options/notes/econ201.htm).)

### **Teaching Strategies**

#### **I. Introduction**

- Write the following headlines on the chalkboard:
  - RATE OF INFLATION UP AGAIN
  - INTEREST RATES ON LOANS CUT
  - BUDGET DEFICIT MAY LEAD TO TAX HIKE
- Have the students explain their answers to the following questions:
  - Why would people in business be interested in these headlines?
  - To what extent does each of these headlines represent good or bad news for people who are running a business?
  - How important is it that people who are running a business understand economic concepts like inflation, interest rates, and taxation?
  - What questions do these headlines raise for our class discussion?

#### **II. Scarcity**

- Distribute Worksheet 2A, “Scarcity—The Basic Problem in Economics.” Have students complete the exercise on the worksheet. As part of the whole-class discussion, have students explain their answers to the following:
  - What do you see in this diagram?
  - Why is side “A” of the scale weighing down side “B”?
  - Using this diagram, how would you describe the problem of scarcity?
  - Give some examples to show that people’s wants are unlimited.
  - Give some examples to show that resources like property, labor, time, and capital are limited.
  - How does the fact that people’s wants are unlimited and resources are limited affect business?

- Distribute Worksheet 2B, “Coping with Scarcity.” Have students complete the exercise on the worksheet. As part of the whole-class discussion, have students explain their answers to the following questions:
  - What conclusions can you draw about how scarcity affects businesses?
  - What are some of the suggestions you offered to help solve each of the three problems described in the memos?
  - For each of the three problems, which was the best solution suggested?

### **III. Trade-offs/Opportunity Costs**

- Distribute Worksheet 2C, “Trade-offs/Opportunity Costs.” Have students complete the exercise on the worksheet.
- Call on four or five students to explain where they thought the money should have been spent. Then have the class vote on which alternative they favor. As part of the whole-class discussion, have students explain their answers to the following:
  - What was the opportunity cost of deciding to spend the money as the majority of the class did?
  - In considering not spending as much on your second choice, was the class’s decision a correct one?
  - Based on what you learned about opportunity cost and trade-offs, what advice would you give to an entrepreneur about making spending decisions?

### **Summary/Assessment**

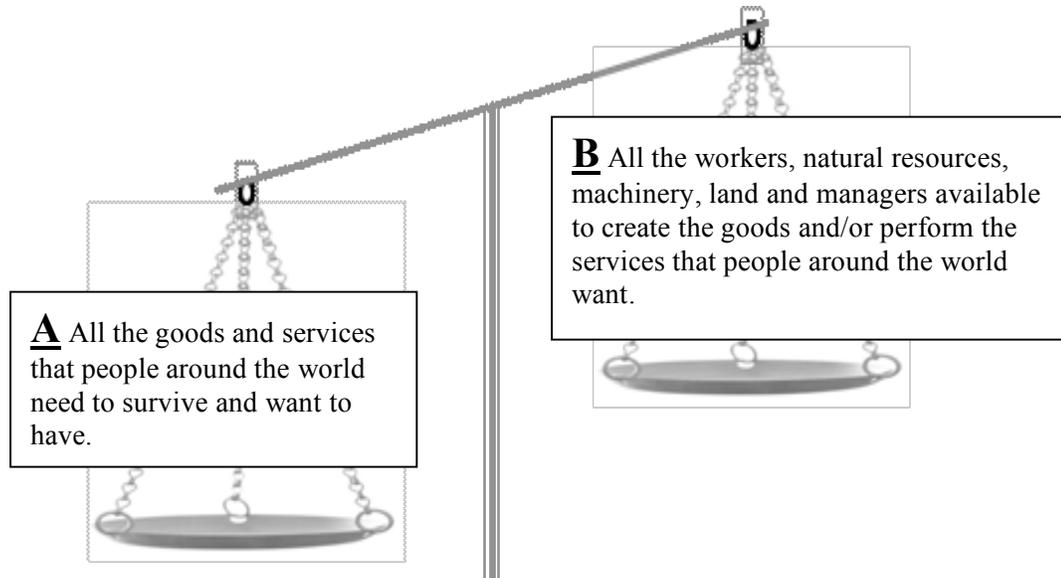
Have students find an article in the business section of the newspaper that shows how businesses are affected by the problem of scarcity. Ask students to summarize the article and explain how it shows how businesses are affected by economic conditions.

### **Homework**

- Read materials in preparation for Lesson 3.
- Assign questions for homework.
- Complete Worksheet 3A before the next lesson.

**Worksheet 2A**

**Scarcity – The Basic Problem in Economics**



*Exercise. After studying the cartoon, answer the following questions:*

1. What is "A," the left side of the scale measuring? \_\_\_\_\_
2. What is "B," the right side of the scale measuring? \_\_\_\_\_
3. What is the cartoonist saying about how people's wants and needs compare to the availability of the things needed to produce the goods and services that people want and need?
4. Using the cartoon how would you describe the problem of scarcity?

**Worksheet 2B**

**Coping with Scarcity**

*Exercise: Write responses to the three memos below in the spaces provided.*

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**To:** Dept. of Procurement  
**From:** VE CEO  
**Subject:** Hiring IT Professionals

As you know, the firm has had a great many problems hiring Information Technology professionals to fill positions for technical support, billing, and web page design needs. In the space below, please suggest two or three solutions to this problem.

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**To:** Dept. of Procurement  
**From:** VE CEO  
**Subject:** Obtaining Xenon

As you know, the firm has had a great deal of trouble in securing Xenon, the key ingredient in our product. The only place Xenon is found is in Kashmir where it comes from the bark of a special tree. A civil war in Kashmir has all but stopped the export of Xenon. In the space below, please suggest two or three solutions to this problem.

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**To:** Dept. of Procurement  
**From:** VE CEO  
**Subject:** Funding for Equipment

As you know, the firm has had a great deal of trouble in securing funding to purchase plant equipment necessary to keep up with the demand for our product. I have called two or three banks that we have gone to in the past. They can only provide about \$1,000,000, about one-half the amount that we require. In the space below, please suggest two or three solutions to this problem.

**Worksheet 2C**

**Trade-offs/Opportunity Costs**

Due to the scarcity of resources, heads of businesses cannot afford to do all the things they want. Therefore it is necessary to make choices. When we choose one thing we want over the other alternatives, that is called a “trade-off.” Making such a choice costs us the value of the next best alternative. The value of the thing or things that we are giving up is called the opportunity cost. If we decide to spend money on a CD, rather than going to the movies, that is a “trade-off.” The value of going to the movies (the second choice) is the “ opportunity cost.”

***Exercise.** Assume that you are an entrepreneur who owns a factory that makes cell phones. You would like to expand your business and need a loan of \$200,000 from the bank to do so. After waiting many months you learn that your loan has been approved. Your problem is where to spend the money. Five options appear below—each costs \$200,000. To help determine where the money will be spent complete the form below.*

*Place a check mark next to the one area where you would spend the money. **You may mark only one area and cannot choose to spend less than the full amount.***

	Pay raises for existing employees. Some of your key employees are threatening to leave unless they receive significant increases in their compensation.
	Purchasing new machinery to increase production. The existing machinery has been fixed many times and is currently being repaired for the third time this year.
	Hiring new employees. Most of your managers complain that because they are severely understaffed, they cannot meet production quotas.
	Increased advertising in trade magazines. Last year a consultant advised that the key to the future growth of your business is substantially increasing your advertising budget.
	Buying land on which to build a new factory. You have found a place to build a new factory in another part of the country where the costs are much lower.

After making your decision, indicate three serious problems that will result from not spending money on areas other than the one you selected.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_