



**Social Studies
School Service**

www.socialstudies.com

Downloadable Reproducible eBooks *Sample Pages*

These sample pages from this eBook are provided for evaluation purposes. The entire eBook is available for purchase at

www.socialstudies.com or www.writingco.com.

To browse more eBook titles, visit

<http://www.socialstudies.com/ebooks.html>

To learn more about eBooks, visit our help page at

<http://www.socialstudies.com/ebookshelp.html>

For questions, please e-mail eBooks@socialstudies.com

To learn about new eBook and print titles, professional development resources, and catalogs in the mail, sign up for our monthly e-mail newsletter at

<http://socialstudies.com/newsletter/>

*Copyright notice: Copying of the book or its parts for resale is prohibited.
Additional restrictions may be set by the publisher.*

Basic Economic Concepts

THOMAS LADENBURG

©2011 Social Studies School Service

10200 Jefferson Boulevard, P.O. Box 802
Culver City, CA 90232-0802
United States of America

(310) 839-2436

(800) 421-4246

Fax: (800) 944-5432

Fax: (310) 839-2249

<http://www.socialstudies.com/>
access@socialstudies.com

A.R. Harter, Graphic Designer.

Permission is granted to reproduce individual worksheets for classroom use only.
Printed in the United States of America.

ISBN: 978-1-56004-719-3

Product Code: ZP661

Table of Contents

CHAPTER 1

Economics and the Economic Problem **1**

Student Pages 3

Student Activities 7

CHAPTER 2

The Law of Supply and Demand **9**

Student Pages 11

Student Activities 13

CHAPTER 3

Shifts in Supply and Demand Curves **15**

Student Pages 17

Student Activities 19

CHAPTER 4

Elastic and Inelastic Demand **23**

Student Pages 25

Student Activities 28

CHAPTER 5

Elastic and Inelastic Supply and Determining Elasticity **31**

Student Pages 33

Student Activities 36

CHAPTER 6

**Diminishing Returns, Opportunity Costs,
and Production-Possibility Curves 39**

Student Pages 41

Student Activities 45

CHAPTER 7

Marginality 49

Student Pages 51

Student Activities 53

CHAPTER 8

Comparative Advantage 55

Student Pages 59

Student Activities 62

CHAPTER 9

Unit Review 65

Student Activities 66

Student Pages 69

CHAPTER 1

ECONOMICS AND THE ECONOMIC PROBLEM

Overview

This chapter introduces students to the study of economics by explaining that the economic problem stems from the concept of scarcity. Students are introduced to these concepts through an exercise in which they decide on some things they would buy with an unlimited amount of money. Since resources are limited, they are told that economies must decide what gets produced, how these goods and services are produced, and who is to get them. The chapter continues with a description of how three types of economies have developed starkly different methods of making these decisions: traditional, in which decisions are made according to custom; command, in which economic decisions are made by a centralized authority; and market, in which decisions are made by the interactions of buyers and producers. Students are informed that the use of the factors of production—land, labor, and capital—even in market economies still contains elements of traditional decision-making (say, division of labor by gender) and command (taxation by government fiat). A variety of student exercises helps students learn these concepts and apply their knowledge in situations involving critical thinking.

Objectives

Students will:

- be able to explain the economic problem and why it exists
- identify the three types of economies that have vastly different approaches to solving the economic problem
- explain the importance of each of the factors of production.

Recommended Time

One to two class periods

Strategies

To establish good work habits among students on this lesson and many others, check whether students have done their homework. Start class by asking students to work with one or two of the people sitting next to them and share their lists of items they would purchase if they had an unlimited amount of money. (You may want to check homework while they are doing this exercise.) After five to seven minutes, have students share some of their lists, and write some of these items on the board. Keep in mind that human needs and even reasonable desires are effectively limitless and therefore beyond the availability of resources to fulfill. Then have students review the descriptions of three types of economies that attempt to solve the economic problem in vastly different ways, and point out that, while we live under a market economy, some economic decisions are still made as they are in traditional and command economies. Review the factors of production with your students and make sure that they understand the full meaning of each of the three terms: land (including natural resources), labor (including skilled and unskilled workers), and capital (including tools and factories). End class by reviewing how students characterized each of the listed economic decisions as traditional, command, or market.

Tips

If your class needs two periods to complete this assignment, assign students to report on the three types of economies discussed in this chapter, and spend some time reviewing the questions that asks students to identify the type of decision in each of the examples listed.

Assignment

Assign the reading and activities in Chapter 2. Students may use their own paper if they need more space.

CHAPTER 1

ECONOMICS AND THE ECONOMIC PROBLEM

Introduction

Before you can have economics, you have to have an economic problem. To learn what the economic problem is, imagine that you have just won the state lottery and then used all of your winnings to bet successfully on a thousand-to-one shot in a horse race. You've ended up with more money than you've ever dreamed of having, more than the combined wealth of Michael Jordan, Tiger Woods, and Bill Gates. You can afford to buy anything you want.

As your teacher directs, sit down by yourself or with a classmate, and make a list of what you would like to buy with the billions of dollars you have in your many bank accounts.

The purpose of the above exercise is to help you understand one reason for the economic problem. The reason is that **wants are practically unlimited**. Maybe you were satisfied with a Corvette, but if you had one, you might also want a Porsche or a Ferrari. If you had a nice house in your hometown, you might also want one in the Caribbean, in Europe, or in the South Seas. While you would have been satisfied at one point with merely getting enough to eat, you might now want to eat somewhere fancier than McDonald's or Burger King.

Another part of the problem is that although wants are unlimited, **the world's resources are limited, or scarce**. If we were to imagine the cost of providing adequate housing and shelter for the nearly seven billion people living on this earth (let alone a car and a four-bedroom house for each family), we'd soon use up most of the world's existing resources. For example, today there is barely enough fuel to supply the needs of those who can afford it. With 6% of the world's population, the U.S. uses about 25% of its energy. Suppose that the 1.3 billion people in China used as much energy per person as the 300 million people in the United States.

To review: **We have an economic problem because needs and wants are unlimited, but resources are scarce.**

The Economic Problem

Since the economic problem involves deciding how to use scarce resources in order to meet unlimited wants and needs, all human societies must decide:

1. **what is to be produced?**
2. **how is it to be produced and distributed?**
3. **for whom is it to be produced?**

These are the questions around which economies have been constructed, from the simplest societies to the most complex.

Three Types of Economic Systems

Historians have identified three different types of economic systems that have developed to answer the economic problem. Each of these three still exists in some form today, but few if any economies are a pure form of any of the three. The three types of economies are:

1. **traditional**
2. **command**
3. **market**

Traditional Economy

Long before what we call the advent of modern civilization, men and women lived together in a simple social order. In North America, over 400 different native tribes roamed the continent, each with its own political and economic system. The economies of most of these tribes ranged from gathering food to hunting, fishing, and farming, or some combination of the three. In some isolated parts of South America, Australia, Africa, and Asia, some tribes still live much as they did thousands of years ago.

Economic decisions in such an economy are governed by a series of rituals or ways of doing things handed down from one generation to the next, usually from father to son, or from mother to daughter. The decision of who does what, known as the “division of labor,” was usually but not always determined by gender: men hunted and fished, while women stayed home, tended the fire, raised children, and cultivated crops. Leaders might be excused from certain economic activities and given a larger share of the hunt or the harvest in exchange for practical advice or spiritual guidance. To this day, the bushmen in the desert of South Africa divide an animal killed in the hunt thus: the two hind legs go to the successful hunter; other adult members of the hunting party get the feet, back, and stomach; and the younger boys have to be satisfied with the intestines. However, in the feast that follows the hunt, the hunter is expected to divide his larger share with those not as fortunate, so eventually all get enough to eat.

Aspects of a traditional economy also affect the way more complex societies function. Under the centuries-old caste system still in force in parts of India, each man does the same work as his father—whether his father was a carpenter, soldier, merchant, government official, or garbage collector. Women are not allowed to marry out of their parent’s caste. In the pre-Civil War

American South, African Americans were slaves. Once their bondage was ended, they were relegated to low-paying jobs not wanted by whites, separate and inferior schools, ghettoized neighborhoods, and the backs of public buses. In most of the world, tradition has long dictated that women could fill only well-defined social roles associated with child-bearing and -rearing, cooking, and other household tasks. Until recently, women in the U.S. did not fight in combat, attend military schools, become ministers, carpenters, or major-league umpires. In some countries, women must wear veils to cover their heads and bodies and are not allowed to drive cars or to work outside of the home.

Command Economy

Another way of solving the economic problem also has also existed for thousands of years. This method had its origins in the ancient city-states of Central and South America, the Near East, Africa, and Asia. For a number of complex reasons, people in these areas were able to raise crop surpluses that then often fell into the hands of small groups of warriors, nobles, kings, and priests who constituted the government and gave the commands. The command economies of antiquity resulted in the labor of hundreds of thousands in Egypt to build the pyramids, and in China to construct the Great Wall. Later in Europe, laborers built magnificent cathedrals in very modest towns. Though we admire the achievements of these inspired builders, we might shudder to think of the years of forced labor and suffering inflicted by a small ruling class simply to build a tomb for a pharaoh or a place for the masses to worship.

Command economies have also been forced on modern man. One need only think of the Soviet Union and Communist China. Under Stalin, the Soviet Union built a war machine that eventually defeated Nazi Germany's and afterwards engaged the U.S. in a struggle for military superiority. However, neither the Soviet Union nor Communist China was able to match the ability of the West in providing the average person with consumer goods. As a result, pure communism failed in both these countries, and they are now building a stable economic order increasingly based on a market economy.

Market Economy

The third way of making economic decisions has been instituted in the U.S., for example, as a market economy. Market economies are at times (favorably) called a "free enterprise" system and at others (unfavorably) labeled "capitalist." In its ideal form, all economic decisions in a market economy are made through interactions between consumers and producers. Under a completely free-market economy, what is produced, how much is produced, and for whom it is produced are determined solely by those who make these items and those who consume them. The producers and the buying public decide whatever people want to buy, whether the items are Barbie dolls, bibles, bananas, or basketballs. The market decides how many people become lawyers and how many decide to deal in cocaine. The market determines how much farmers produce and how much doctors are paid.

The U.S., of course, does not have a completely free-market economy. Government makes many decisions that affect the market. For example, it taxes alcohol and tobacco to discourage consumption; it gives students loans to encourage education; it pays for roads to allow people to use their cars; and it regulates prices, pays subsidies, imposes tariffs, and decrees minimum wages and maximum working hours. In these ways the U.S. still operates as a command economy. But even the commands given by the government often operate through the market, encouraging one kind of activity (such as education) and discouraging another (such as smoking cigarettes).

The story of how the modern market system developed in the Western world is the story of the history of economics. We will not bore you with the details, but let it be understood that the first markets developed in medieval times, when peasants took the little produce not owed to their lords or needed to feed themselves, and sold it in an early form of farmers' markets. Towns gradually grew around these marketplaces, and people began to specialize in making certain products (shoes, clothes, baskets, pottery, jewelry, etc.). Similar activities took place in ancient times, but in western Europe these early markets grew and developed. With the invention and application of machinery and steam power, markets expanded, barriers to trade collapsed, banks developed, and trade became more and more important. Before the end of the 18th century, Europeans traveled the world over in search of raw materials and markets, and the free-enterprise system expanded. Today the power and the efficiency of the market has displaced the older societies based on command economies, and capitalism in one form or another has become the dominant form of economic organization. The powerful market forces that now control most of the world affect the economies in even the most remote villages in Africa, the Middle East, Asia, and South America.

The Factors of Production

Economists since the 18th century have talked about the factors of production. In the simplest terms, the factors needed for production are **land**, **labor**, and **capital**. Land includes the natural resources such as the oil, coal, and silver under the ground, as well as the soil on which production takes place and the timber that grows on the land. Labor refers to the work done by skilled and unskilled men and women who do the producing, as well as the skills of the industrialist or entrepreneur who creates the industry that harnesses this labor. Capital refers to the money invested in production, including the factories, machines, and tools used by workers to convert natural resources into finished marketable items. In a free-market economy, land can be sold or rented, workers hired and fired, and capital invested wherever the returns are expected to be most lucrative. The laws of supply and demand determine the price of everything. Following chapters will further explain these laws.

5. What are the factors of production? How are they handled differently in the three types of economies?
6. Indicate whether each of the following is an example of an aspect of a traditional economy, a command economy, or a market economy:
- a. Tipping a waiter 15% of the bill
 - b. Deciding to become an economist because your father is
 - c. Deciding to become an engineer because the pay is good
 - d. Not selling your watch because it belonged to your grandmother
 - e. Keeping stocks that have been in the family for a long time
 - f. Rationing of goods in the U.S. during World War II
 - g. Going to the same college your family members attended
 - h. Selling stocks because you think the market is going to go down
 - i. An advertisement on TV in a communist country
 - j. A woman's decision to stay home and raise her children, even though she could make more money working than her husband
 - k. Discrimination against women in hiring computer salespersons
 - l. Hunters' division of meat in a prescribed way among villagers
 - m. Congress's voting to increase taxes on incomes by 10%