

Economics Step up work Microeconomics Unit

1.1 OCR specification.

Go through the text and interpret it in your words. Where you see red complete and answer the questions. Leave gaps between your content so you can add further detail in lesson. Flipped

Task 1- Free good and Economic Good

In the realm of economics, resources are categorised based on their availability and economic significance. These categories are known as "economic goods" and "free goods."

Free goods are resources that are readily available in nature and have no price. They are so abundant that there is little economic concern about their availability. These are resources that will not run out. An example of a free goods includes air.

Can you think of anymore?

These goods are considered "free" because they are readily available to everyone without any cost. There is no need for economic allocation or trade-offs to obtain them. This means when consuming air we don't have to give it up to choose something else like water.

In contrast, economic goods are resources with a limited supply compared to their demand. This means they will eventually run out without continued production. These goods are often manufactured, traded, and their use entails an opportunity cost.

What is the definition to opportunity cost?

Economic goods are distinguished by the fact that they have a price and require people or firms (businesses) to allocate resources to purchase them. Like everything with a price decision must be made as to whether you buy it or not. This could be factors such as if you value the product or not or simply whether you can afford it or not. Moreover, there is potential for these goods to be limited in the future due to resources running out such as metals etc.

A key characteristic of economic goods is that an effort or sacrifice is made to produce them. This sacrifice can come from time, money, skill, or labour. For example, if you want to purchase a mobile phone, you will need to save money, invest time in researching and comparing different models, and ultimately spend money to buy the phone. Economic goods are also scarce, meaning they face competition and often have a biased demand in relation to their supply.

Think about your most recent sacrifice. What were your options and why did you pick what you picked in the end?

Task 2- The economic problem

When looking at economic goods you can see these are constantly being balanced. This balancing act is the economic problem.

The fundamental economic problem stems from the concept of scarcity, which essentially means that our wants and needs are unlimited, but the resources available to satisfy them are finite (could run out). This creates a constant tension between our desires and the reality of limited resources. Because of this scarcity, we are forced to make choices, constantly weighing the value of one option against another.

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The choices we make are not without consequences. Every time we choose to spend our resources on one thing, we are giving up the opportunity to spend them on something else. This is known as opportunity cost. For example, if you choose to spend your allowance on a new video game, you are giving up the opportunity to buy a new pair of shoes or save that money for a future purchase.

The economic problem is not just about individuals making choices; it also applies to businesses, governments, and entire societies. Businesses must decide what to produce, how to produce it, and for whom to produce it. They must also consider the cost of production and the potential profits they can earn. Governments face similar challenges, needing to decide how to allocate their limited resources to fund public services, infrastructure, and social programs.

The concept of scarcity is a driving force behind the study of economics. It compels us to understand how individuals, businesses, and governments make decisions in the face of limited resources. Economists seek to analyse how these decisions affect the allocation of resources, the production of goods and services, and the overall well-being of society.

The economic problem is a complex one, but it is also a fundamental one. It is a constant reminder that we must make choices, and that those choices have consequences. Understanding the concept of scarcity and its implications is essential for navigating the economic world and making informed decisions about how to use our limited resources.

Relating scarcity to pricing. What might you expect the price to be when there is lots of needs and wants (demand) but very little resource (supply). Justify your answer using real world examples when possible.

Task 3- Making an economic good.

Every economic good we consume requires a contributes of inputs to gives us our products.

For example, water plastic bottle requires: Oil, water filtration device, bottling and people to check the quality. All of this gives us the water we drink and take for granted.

We call these inputs factors of production.

Land encompasses all natural resources used in the production process, including plots of earth, water, minerals, wind energy, and geographical locations. For example, real estate developers utilize land and its natural resources to construct buildings, directly impacting the real estate market and influencing investment decisions. Land is a crucial factor in most ventures, but its importance can vary depending on the industry. For instance, a technology company can easily begin operations in the founder's home, minimizing the need for extensive land resources.

Labour represents the human contribution to the production process, encompassing both physical and mental efforts. This includes manual labour, strategic planning, and creative work. Companies like Apple, Inc. rely on a diverse workforce, including engineers, assembly-line workers, marketing teams, logistics staff, and customer service representatives, all of whom contribute to the creation and delivery of their products. The quality of labour directly influences the quality of goods and services provided, impacting market prices and the overall financial health of a company.

Capital is another critical factor of production, divided into two categories: physical capital and financial capital. Physical capital includes machinery, buildings, and equipment, while

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financial capital encompasses investment funds and reserves. When a tech startup raises venture capital to invest in new software development tools or expand its office space, they are leveraging both forms of capital. Capital plays a crucial role in determining a business's capacity for growth and its ability to enhance productivity, ultimately influencing investor confidence and broader market trends.

Entrepreneurship represents the vision and risk-taking required to mobilize the other factors of production toward the creation of new goods or services. Elon Musk and his company, SpaceX, exemplify this concept. By utilizing land (launch sites), labor (engineers and scientists), and capital (funding), SpaceX has revolutionized the landscape of aerospace manufacturing and space transportation. Entrepreneurs like Musk are crucial for driving innovation and economic growth.

The factors of production are interconnected and interdependent. Land provides the raw materials, labour transforms those materials into goods and services, and capital provides the resources and tools necessary for production. Entrepreneurship brings these elements together, taking risks and driving innovation to create new products and services.

Understanding the interplay of these factors is essential for businesses to succeed and for economies to thrive.

Thinking about the returns on factors of production. What could the possible rewards for these factors of production.

Clues: The rewards not in order are wages, profit, interest and rent.

Why are these rewards appropriate?