

Unit 1.1 The Economic Problem

Week 1

Flipped Learning
Economics



Read the notes and answer the following question. It is your choice if you wish to show them as mindmaps, flashcards or traditional notes. If you have any other methods, then please feel free to show it that way. Also read the article that demonstrates how markets are balanced.

This is to be brought with you to the first economics lesson on Thursday 4th or Friday 5th September.

What is Economics

Economics is a social science looking at how households, firms and governments make decisions around allocation of resources. The ultimate problem in economics we are trying to solve is **scarcity**. This is where we have unlimited (infinite) wants and needs combined with pressures on the limited (finite) resources available.

Economics looks at their behaviours and what motivates them to make the choices they make with the **goods** and **services** in the world.

Goods= tangible (physical) products that we can consume and use like food drink and phones

Services= non-tangible (non-physical) products that we might experience or receive.

These include haircuts, customer service calls visiting a bank

These can be split further into free goods and economic goods. **Free goods** are things we can use with no charge and without having to sacrifice something else. For example, oxygen and sunlight are both goods we can consume at the same without picking one over the other. **Economic goods** on the other hand are goods that come with choices over what to pick based on land, labour, capital and entrepreneurship available. These are known as factors of production.

One of the key focuses is how we can balance all these agents' **needs** and **wants** while still trying to maximise their own priorities.

Needs= Fundamentals that help with the basic function of society. These could include water, food, shelter or clothing. These are considered needs because without them, an individual's basic survival is threatened.

Wants= These are goods/services that will maximise our satisfaction but are not essential to survival.

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1. What is scarcity?
 2. What is the difference between a free good and an economic good? Try to think of your own examples
 3. What is the difference between a need and a want? Try to think of your own examples

What motivates economic agents?

Households- maximise satisfaction (utility) from what they do. This includes buying goods they enjoy at a quantity they enjoy. Households also include picking the best job with their skill sets to maximise income, so they can then use that income to enjoy out of work on items that really matter to them.

Firms- A simplistic view on firms is that their rational objective is to be a profit maximiser. This as name suggests is making the most profit possible. In the real world we know this is not always the case and we will explore these other objectives in unit 3.1.

Governments- There goal is centred around maximising social welfare. This includes providing missing markets where private may not be able to make profit or consumers willing to pay the correct price. It may also include supporting market failure by offering interventions that will bring the price and quantity to a socially optimal level.

1. Summarise these in your own words.
2. List other objectives firms could have other than profit.
3. What markets do the government provide? What markets do they intervene in to solve failure?

Factors of production

As we discussed previously, goods and services require factors of production. These combinations go into everything we consume. These factors are known as: **Land, Labour, Capital and Entrepreneurship.**

Land-This includes natural resources taken from earth. These can be split into renewable and non-renewables

Labour- These are the households who work on creating and designing products. This could be mental or physical work.

Capital- Often only associated with money known as working capital. Capital also includes the machines that make our goods and services. This is known as fixed capital.

Entrepreneurship-These are the individuals or groups who bring factors together and look to solve the problem over what society wants and needs and how best to provide these products.

Each factor has its own reward. This reward is what the factor receives for contributing to the good/service.

Land= Rent. The reward for land is rent as landowners rent the land out to producers across the economy.

Labour= Wages. Workers receive a wage based on their productivity and monetary value to a company at any point. For every hour of labour supplied by workers this is in return for an hourly wage rate

Capital= Interest. Capital owners receive a reward of interest as producers increase their capital stock by taking out loans and borrowing from the private sector. Therefore, interest represents the opportunity cost of borrowing for firms and the reward for owners of each unit of capital.

Entrepreneurship= Profit. Examples of enterprise may include managers or investors that take risks in the company with their own money to gain a share of higher profits in the future.

1. What are the factors of production?
2. What are their rewards?

In the news:

Read the following article or listen to it as a podcast version.

<https://www.bbc.co.uk/news/articles/c30741j351go>

Audio version:

<https://notebooklm.google.com/notebook/83a6480a-82f2-4c71-bd9e-74424dc8a203/audio>

Answer the following questions

- 1. Why are more people wanting things like lithium for electric cars and green technology?**
- 2. What problems can mining cause for the environment and for people living nearby?**
- 3. How could the government make sure companies help fix the damage they cause?**
- 4. What happens to prices when lots of people want the same thing, like lithium?**
- 5. How can mining help local people, not just big companies?**