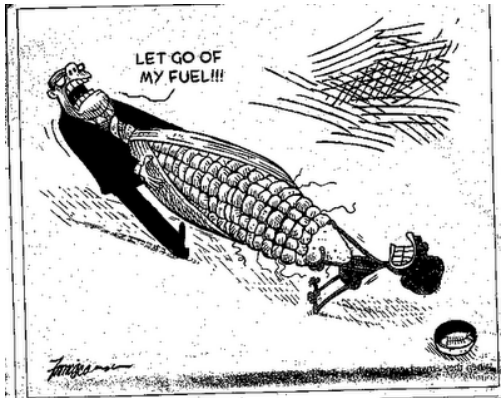


SSEF1 and SSEF2 Notes

What is Economics?

SSEF1: The student will explain why limited productive resources and unlimited wants result in scarcity, opportunity costs, and tradeoffs for individuals, businesses, and governments.

1. Economics is the study of how people seek to satisfy their _____ and _____ by making choices.
 - a. A “need” is something that is _____ for survival (food, air, shelter)
 - b. A “want” is something we desire that is _____ to survival.
2. Goods vs. Services
 - a. Goods are _____ such as shoes and shirts.
 - b. Services are _____ or _____ that one person performs for another.
3. Scarcity
 - a. Scarcity implies _____ of resources to meet _____ wants.
 - b. Economics attempts to solve the problem of _____.
 - c. What type of scarcity does this political cartoon represent?



4. Shortage vs. Scarcity
 - a. A “shortage occurs” when producers will not or cannot offer goods or services.
 - b. Shortages can be _____ or _____.
5. “_____” *always* exists because our needs and wants are always greater than our resource supply.
6. Factors of Production
 - a. Economists call the resources that are used to make all goods and services the _____.
 - b. Factors of production:
 - i. _____
 - ii. _____

iii. _____ (two types: human and physical)

iv. _____

c. Land refers to all _____ used to produce goods and services.

d. Labor is the effort that a person devotes to a task for which that person is _____.

e. Capital is any _____ resource that is used to produce other goods and services.

i. Physical _____ includes _____, _____, tools, etc.

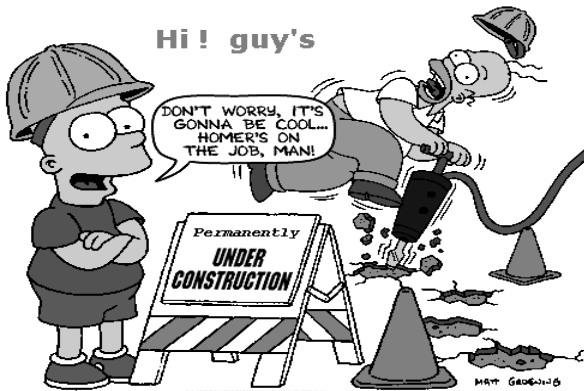
ii. Human _____ is the knowledge and skills a worker gains through _____ and _____.

iii. It assists in saving time and money when _____ goods.

f. Entrepreneurship is the skills used to _____ and _____ a business.

7. All _____ and _____ are _____ because the land, labor, and capital used to create them are _____.

8. Can you identify the physical capital and human capital in this cartoon?



9. The Journey of the French Fry...

a. Started as _____

b. _____

c. Had to be _____, _____,

_____ to a supermarket

d. _____, _____, and eaten

e. Scarce resources used to make a French Fry

i. Land: _____

ii. Labor: _____

iii. Physical capital: _____

Making Choices...EFFICIENTLY

SSEF2: The student will give examples of how rational decision making entails comparing the marginal benefits and the marginal costs of an action.

10. Example:

- a. Fred is a businessman—he sells snack foods to students at Wilco. He is only able to sell a maximum of 21 bags (per block) of Flaming Hots (FH) or 15 Capri Sun (CS) drinks (per block). He has found that the best combination of sales are: 15 CS and 0 FH; 14 CS and 8 FH; 12 CS and 14 FH; 9 CS and 20 FH; and 0 CS and 21 FH. However, his cousin suggested he try to sell 10 bags of FH and 12 CS. Would following his cousin's advice be the most productive?

11. Trade Offs

- a. Trade offs are _____ that we give up whenever we choose one course of action over another.
- b. Types of Trade-offs
 - i. Individual Trade Offs
 - ii. Business Trade Offs
 - iii. Society Trade Offs: "Guns or Butter?"
 1. Should we produce more military goods (guns) or more consumer goods (butter)?

12. Opportunity Costs

- a. The most desirable alternative given up as the result of a decision is called the _____.
- b. If you choose to use your savings to pay off a credit card bill instead of going on the senior trip, what is your opportunity cost?
- c. What is the opportunity cost represented in this cartoon?



13. Marginal Costs vs. Marginal Benefits

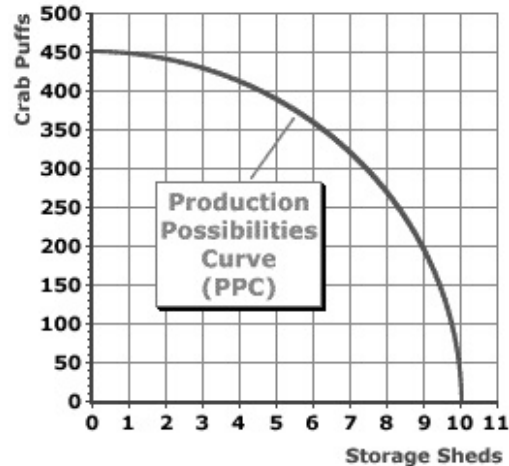
- a. Marginal Benefit: The additional _____ incurred from one more unit.
- b. Marginal Cost: The additional _____ gained from one more unit.
- c. Thinking at the Margin
 - i. When you are trying to decide "how much more or how much less", you are *thinking at the margin*.
 - ii. Rational Decisions are made when the marginal benefits _____ or _____ marginal costs.

14. Cost/Benefit Analysis Practice

- a. Fred has decided to increase his supply of Capri Suns. It will cost Fred \$75 to purchase an additional case of drinks. Once sold, this will result in \$100 of additional revenue. Did Fred make a rational decision?

15. Production Possibilities Curve (PPC)

- a. Production Possibilities curve: _____ representation of how an economy makes decisions
- b. Shows the _____ an economy can make with respect to its _____.



c. Interpreting the PPC

- i. All _____ represent the _____ production of goods and services (you are using your resources well)
- ii. Any _____ represents an _____ of resources (you're wasting resources – could be producing more).
- iii. Any _____ represents _____ levels of production (current productive resources and or technology will not allow the economy to produce at that level).

d. Let's return to Fred. Remember:

- Fred is a businessman—he sells snack foods to students at Wilco. He is only able to sell a maximum of 21 bags (per block) of Flaming Hots (FH) or 15 Capri Sun (CS) drinks (per block). He has found that the best combination of sales are: 15 CS and 0 FH; 14 CS and 8 FH; 12 CS and 14 FH; 9 CS and 20 FH; and 0 CS and 21 FH. However, his cousin suggested he try to sell 10 bags of FH and 12 CS. Would following his cousin's advice be the most productive?
- Make a Production Possibilities Frontier

Combination	Capri Suns (CS)	Flaming Hots (FH)	Flaming Hots Opportunity Cost (Capri Suns given up)
A			
B			
C			
D			
E			
F			

e. Why are PPCs valuable to decision makers?

- Production Possibility curves are graphical illustrations of _____ to produce more of one good (or service) over another
- Shows how _____ (or _____) an economy is working
- Shows growth or _____

f. Why would the PPC move?

- When the quantity or quality of land, labor, capital, or technology grows, the ENTIRE PPC will shift to the _____.
- When the quantity or quality of land, labor, and capital shrinks, the ENTIRE PPC will shift to the _____.

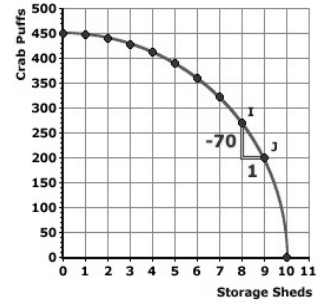
g. Remember Fred?

- What circumstances would cause his PPC to shift to the right?
- What circumstances would cause his PPC to shift of the left?

h. The PPC is a graphical _____ of the opportunity cost involved in producing more of one _____ (or _____) over another.

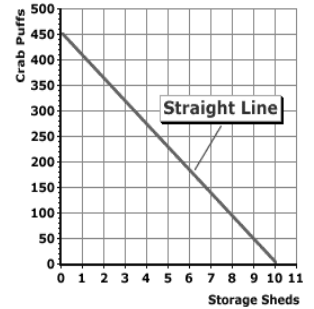
i. Increasing Opportunity Cost

- i. A _____ production possibility curve always indicates _____ opportunity cost.
- ii. The _____ of an additional storages shed (8 to 9) is 70 crab puffs.
- iii. Storage shed production results in _____ opportunity costs.



j. Constant Opportunity Cost

- i. The _____ of additional sheds does not change. Each additional unit costs _____ of crab puffs.
- ii. The PPC will not be convex or concave
- iii. The opportunity cost of more sheds also _____. It has a 45 degree angle.



k. Decreasing Opportunity Cost

- i. When the curve is concave, there are _____ opportunity costs.
- ii. The _____ of the first storage shed is 250 crab puffs; the ninth shed is only 15.

