

FORM 4 ECONOMICS NOTE

WEEK 2

The three economic decisions

1) What to produce?

- Capital or consumer goods?
- Wants or needs?

- Having to choose the types of good and services to produce with its available resources.

2) How to produce?

- Using labour or machinery?
- Imports goods or produce them locally?

- decided on the best desirable and economical method of production to produce.

3) For whom to produce?

- Should production be for those who can afford it?
- Produce for export or for use in Tonga?

- deciding the target group, the goods and services are to be produced for.

Scarcity refers to the situation where resources are limited while needs & wants are unlimited. **THIS IS THE MAJOR ECONOMIC PROBLEMS.**

When scarcity occurs keep in mind that there are three economic questions that always applied in order to come up with a solution to these economic problems.

THE FOUR FACTORS OF PRODUCTION or LIMITED RESOURCES

1. Land (Natural resources)

- All natural resources available to be used in the producing or making goods and services.

Examples:

- sea and water resources
- minerals like oil
- available vacant/empty land for planting (Konga 'api 'oku 'ata'ata ki he ngoue), and building factories and houses
- Land products like trees, and forests.

2. Labour (Human resources)

- These refer to human efforts that can be used in the making or producing of goods and services.

Example:

- Carpenter
- bank teller, farmer
- Teacher
- Doctor
- Nurse
- retail shop and food seller

3.Capital (Man-made resources)

- Referred to goods made by man to be used in the making or production of goods and services.

Examples:

- Digging machine (Misini keli)
- Spade (Huo sipeiti)
- Digging fork (Huo langa)

4.Enterpreneurship (Managerial resources)

- Referred to the special skill or ability someone has to organise things or event successfully.
- This special skill is used to successfully combine the other three productive resources (Land, Labour and capital) together to produce goods and services

Examples:

- School principal
- bank manager
- chief executive

THE FOUR FACTORS OF PRODUCTION and FACTOR REWARD/FACTOR INCOME

Factor of Productions	Factor Rewards / Factor Incomes	Examples (use mostly for Government school)
1. Land (Natural resources)	Rent	Playground, trees, gardens, etc
2. Labour (Human resources)	Wages/ salaries	Teachers, driver, Librarians, secretaries, chaplain etc.
3.Capital (Man-made resources)	Interest	Computers, sewing machines, vehicles, stoves etc
4.Enterpreneurship	Profit	Principal

Stages of Production / Types of Industries

In economics, production is divided into three major types, sectors or stages.

1. **Primary production (Extractive Production):** - involves businesses that extract of raw material from nature. For examples fishing, mining, farming, quarrying, forestry etc.
2. **Secondary production (Manufacturing production):** - involves businesses that manufacture/convert raw material into finished goods. For example, food canning, oil refining, flour mill, car assembly etc.
3. **Tertiary production (Services production):** -involves businesses that provide services to other producers & consumers. For examples banking, transport, insurance, communications etc.

How primary, secondary & tertiary are related.

- ✓ Primary production relies on secondary production to buy their output as well as converting them into finished goods and relies tertiary production for services such as distribution of raw materials.
- ✓ Secondary production relies on primary production for raw materials and on tertiary production for services and for distribution of their finished goods to consumers.

- ✓ Tertiary production relies on primary production to use their service such as delivering of their raw materials and on secondary production to provide them with finished goods as well as using their services.

Local Example of each Type of Industries or Example of each Types of Industries in Tonga.

Primary production/industries:

- Farming, most families grow taro crop, tapioca and yam here in Tonga.

Secondary production/Industries:

- Taro bag, tapioca bag and yam bag. When it's time for harvest

Tertiary production/Industries:

- Sell out in the market for other and also exported to foreign country.

Significance of Economics.

- Its help us people understand the world around us, also the most important advantage of economics is helping the society decide and formulate the ways for the best allocation of its limited and scarce resources.
- The stability of an economy is a must for any country or society to survive in the long run. The adoption of sound economic practices in a society can only ensure that the economy is stable and growing at the same time.

ACTIVITY:

1. Given below are **10 concepts** commonly used in Economics.

Choice	Scarcity	Specialization	Exchange	Production
Interdependence	Distribution	Opportunity cost	Division of labour	Consumption

The statements below describe 8 of the above terms. Using only one term once, complete the table below by identifying the appropriate term described by each statement.

Statements	Economic terms
There are 54 workers working as teachers here at Queen Salote College.	
In each classroom we have 40 students but we have only 36 desks & chairs	
The process of moving production from producers to consumers.	
Some teachers teach mathematics, some teach music and some teach science	
About 55 students decided to take science	
Teachers and students are relying on each other.	

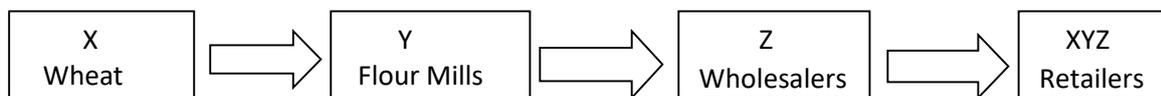
The process of trading fruits & vegetables at Talamahu market.	
The cost of taking science	

2.

In building a desk, we need ALL the factors of production. We need tools such as hammers, nails and saws. We need timber, a carpenter to do the work and a supervisor to ensure that the work as done well.

List the factors of production and clearly identify their examples from the above paragraph.

3. The diagram below shows the flow of production for the production of flour owned by XYZ.Co. Ltd



4. Explain how the three stages of production are interdependent.

Factors of Production	Example from paragraph

5. Identify TWO advantages and TWO disadvantages of specialization

Advantages

1. _____

2. _____

Disadvantages

1. _____

2. _____