

# STRAND 1: RESOURCES ALLOCATION VIA THE MARKET SYSTEM

## Sub - Strand 1: - Basic Economics Concepts:

### A: Basic Economic Concepts:

Students should be able to answer the following learning outcomes:

a. Basic Economic Concepts		Skill Level
Basic Economic Concepts.	i. Define Economics.	1
	ii. Define Needs.	1
	iii. Define Wants.	1
	iv. Define Unlimited Needs and Wants.	1
	v. Define Resources.	1
	vi. Define Limited Resources.	1
	vii. Define Scarcity.	1
	viii. Define Choices.	1
	ix. Define Opportunity Costs.	1
	x. Define Specialization.	1
	xi. Define Consumption.	1
	xii. Define Production.	1
	xiii. Define Interdependence.	1
	xiv. Define Money.	1
	xv. Define Market.	1
	xvi. Define Producers.	1
	xvii. Define Consumers.	1
	xviii. Explain how Scarcity, Choices and Opportunity Costs relate to each other.	3
	xix. Explain how Scarcity is considered the Economic Problem.	3
	xx. Explain how Scarcity could be solved.	3

#### WHAT IS ECONOMIC?

- Is the study of how to use wisely our limited resources to satisfy our unlimited needs and wants.

OR

- Is the study of how we use wisely our limited resource to satisfy our everyday needs and wants.

**NEEDS:** - things that we must have in order to survive for example: food, shelter etc.

**WANTS:** - things that we can live without for example a new shoe, television set, a new dress etc

#### Note the difference:

between the two definitions. Needs are those things that we cannot live without.

However, wants are those things that we can live without. This means we do not really have to buy them because we would still live even if we didn't have these things.

## Unlimited Needs and Unlimited wants

- We never get enough of what we have because there is always something else that we need or want.

## RESOURCES are FACTOR OF PRODUCTIONS:

- are things available to produce goods & services such as land, oil, minerals, machinery etc.

Resources are scarce to satisfy everyone's needs and wants.

Resources are classified into renewable or non-renewable resources.

- 1) **Renewable resources:** - are resources that can be naturally replaced/ reproduced such as fishes, sheep etc... or replanted such as trees.
- 2) **Non-renewable resources:** - are resources that cannot be replaced/reproduced/replanted once they are used up, they gone forever. For example, if catches fish species are over-fished to a point where they cannot reproduce quickly enough/ cannot replant the trees after we cut it down.

## Limited Resources:

- A basic condition of nature which means that the quantities of **available labour, capital, land and entrepreneurship** used for the production of goods and services are finite/limited. It means that the economy has only so many resources that can be used **AT ANY GIVEN TIME** to produce goods and services within a period of time.

## SCARCITY

- refers to the situation where resources are limited while needs & wants are unlimited. **THIS IS THE MAJOR ECONOMIC PROBLEMS.**
- In today's world nobody has everything they want, we can't have enough food and the latest clothing, a new car, a new shoe. It is because we are unable to produce enough to satisfy everybody's desire - **resources are scarce.**
- People have a limited number of resources. They have limited time, skills and also the income they earn is limited.
- Even if all the resources in the world were used, they would still not make enough goods & services to satisfy everyone's needs and wants.
- People's needs and wants are **unlimited** and different to other peoples.

## CHOICE

- Refers to the process of making economic decisions between given alternatives.
- Everybody has to make decisions on how they spend their limited income, because the resources they have available to earn income are limited in relation to their unlimited needs and wants (i.e., they are scarce)
- Different people will make different decisions. For example, just what goods and services will you buy with your limited income?
- People must choose which goods and services to buy with their limited income, because they cannot afford to buy everything they want. For example, shall I buy a bun or a bread for lunch? Shall I spend my money or save it?

- Businesses must decide what to produce? how to produce? And for whom to produce goods & services with their limited resources, because they do not have enough resources to produce everything people want.
- Government must decide how to finance the government expenditure, because they do not have enough revenue.

In economics, it is important to know that people have different values. These values are influenced their way of life (how they do things) and their decision making.

### **The factors that affect decision making or the choices you made**

- Age and experience
- Wealth and income level
- Religious belief
- Culture
- Gender
- Family background and upbringing
- Status in the society

The need for good effective decision-making rests on the fact that we cannot have everything due to the problem of scarcity. However, good decision making will reduce opportunity cost.

### **The appropriate steps for making good effective economic decisions.**

STEP 1: **SET THE GOAL** (what needs to be achieved.)

STEP 2: **IDENTIFY OBSTACLES FOR ACHIEVING THE SET GOAL:** - list of items that will make it difficult for us to achieve our goal.

STEP 3: **IDENTIFY ALTERNATIVES:** - list of ways that will get us through the identified obstacles.

STEP 4: **RANK ALTERNATIVES:** - put the identified ways in order of effectiveness (from best to worst)

STEP 5: - **DECIDE ON THE BEST ALTERNATIVE:** - make the decision based on your ranking.

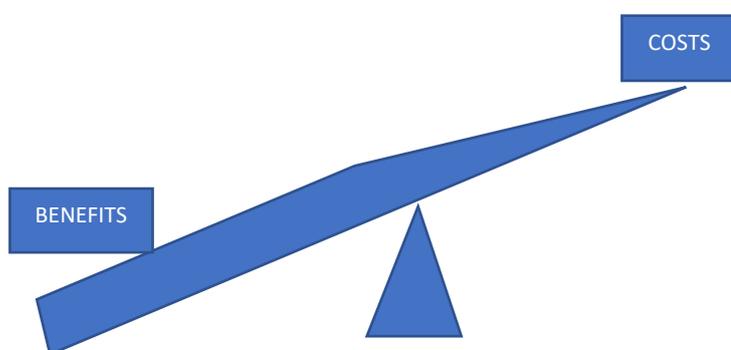
STEP 6: - **EVALUATE CONSEQUENCES:** - after deciding on the best alternative, list down the consequences if we are to take that option or way.

### **OPPORTUNITY COST**

- A decision or choice involves an opportunity cost. Every time you decide on one thing, you give up the opportunity to do another thing.

- **Opportunity cost:** refers to the cost or value of the second best alternative given up (for go) after a choice is made.

- **Example 1**, you have \$50 to spend. There are many things you could spend your money on, but you must make a choice. You could buy a new dress or a new telephone, but you cannot buy both the new dress and a new telephone. If you buy a dress, you lose the opportunity to buy a school telephone.
- **Example 2**, There's if you study for exams at night, you lose the choice of watching television. If you watch television, you lose the chance of studying for your exams. **Opportunity cost is the opportunity you have lost.**
- All decisions have costs and benefits. For example, you may enjoy the television program (a benefit), but you may also fail your exams (a cost)
- A good choice is when the benefits outweigh the costs.



#### **RELATIONSHIP BETWEEN SCARCITY, CHOICE AND OPPROTUNITY COST.**

- Because of limited resources (scarcity) we need to make choices and every choice has an opportunity

**i. SPECIALIZATION:** - concentrating in the production of a particular product /concentrating in doing one job.

**ii. CONSUMPTION:** - the use of goods and services by households.

**iii. PRODUCTION:** - the process of producing goods and services.

The examples of production in Tonga: - bread, maka beer, sausages, biscuits, etc

- The people who make goods and services are called **producers.**
- Producers combine the factors of production to make the goods and services needed to satisfy needs and wants.

#### **FACTOR OF PRODUCTIONS**

Production is the process of combing factors of production to make goods and services.

Factor of Productions	Factor Rewards / Factor Incomes	Examples (use Queen Salote College)
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.Entrepreneurship	Profit	Principal

### **Types of Industries**

In economics, production is divided into three major types.

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.

**iv. INTERDEPENDENCE:** -relying on each other's.

**v. MONEY:** - Notes and coins (paper money and coins) used in the middle of exchanging goods and services.

**vi. MARKET:** - Place where buyer and seller using to exchanging goods and services

**vii. PRODUCERS:** - People the producing goods and services

**viii. CONSUMER:** - People that buy goods and services

### **REVIEW QUESTIONS**

1. What is economics?

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2. Why is it impossible to supply all your needs and wants?

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3. Differentiate between the following economic terms.

i. Needs and Wants

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ii. Specialization and Interdependence

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iii. Production and Producer

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4. Identify TWO factors will affect the choices you made.

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5. Complete the 6 appropriate steps for making good economic decisions

STEP 1: SET THE GOAL

STEP 2: \_\_\_\_\_

STEP 3: \_\_\_\_\_

STEP 4: \_\_\_\_\_

STEP 5: DECIDE ON THE BEST ALTERNATIVES

STEP 6: EVALUATE THE CONSEQUENCES

6. Given the opportunity cost for the following choices.

i) 'Ana bought a new DVD player from Lalita store

\_\_\_\_\_

ii) Luisa spends \$1 to buy a sandwich for lunch

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iii) Silika spend every Saturday to watch rugby at the stadium.

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7. Explain the interdependent relationship between Scarcity, Choice and Opportunity cost.

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8. Explain how Scarcity is considered the Economic Problem.

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9. Explain how Scarcity could be solved.

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**Notes:**

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