

# WHAT IS ECONOMICS?

## ECONOMICS IS...

- **NOT** The the study of money
- **NOT** another word for accounting
- **NOT** hard to understand
  
- SO WHAT IS IT?



Is it an exact Science?

**NO!**

Economics is one of the social sciences, as are psychology and anthropology.

**Social Sciences examine and explain human interaction.**

Because of this, the findings and knowledge produce by a social science generally cannot be as exact or predictable as those of a physical science, such as physics or chemistry.

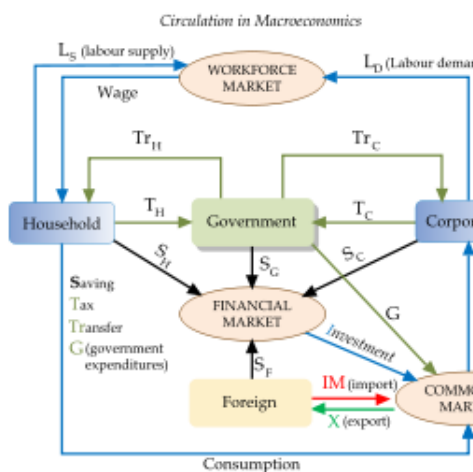


- Economics rarely comes up with precise answers, but it can tell us what is likely to happen!



## Two Main branches of Economics

- **Macroeconomics**
- Study of the **large economy as a whole or in its basic subdivisions**
- (National Economic Growth, Government Spending, Inflation, Unemployment, etc.)



## Two Main branches of Economics

- **Microeconomics**
- Focuses on **individual units (small units)** such as individuals, companies, and industries



## What is Economics in General?

- Economics is the science of **scarcity**.
- Scarcity is the condition in which our **wants are greater than our limited resources**.
- Since we are unable to have everything we desire, we **must make choices** on how we will use our resources.
- Economics is the study of **\_c\_h\_o\_i\_c\_e\_s\_**.

**ACTIVITY TIME!**

## ECONOMIC REVIEW

- The Process of making a choice is not always easy.
- Because resources are scarce, consumers need to make wise **decision**.
- To become a good decision maker, you need to know how to **identify** the problem and then **assess** your alternatives.
- Finally, you have to make your choice in a way that carefully considers the **costs** and **benefits** of each possibility.

## Trade-Offs

- Because people cannot have everything they want, they face **trade-offs**, or **alternate choices**.



## WANTS v.s. NEEDS

- **NEED** = basic requirement for survival  
Examples?
- **WANT** = way of expressing a need  
Examples?

## Decision-Making



- Choices are not always easy to make.
- A decision-making grid is one way to approach difficult problems.
- This grid summarizes a decision by Jesse to spend a \$50 gift the best way possible.

## Decision-Making



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## DECISION MAKING

### Jesse's Decision-Making Grid

Alternatives	Criteria				
	Costs \$50 or less?	Durable?	Will parents approve?	Future expense unnecessary?	Can use anytime?
Several CDs	yes	yes	yes	yes	no
Concert tickets	yes	no	no	no	no
CD player	yes	yes	yes	no	yes
Soccer ball	yes	yes	yes	yes	no
Jeans	yes	yes	yes	yes	yes

Adapted from *A Framework for Teaching Basic Economics*,  
Economics America National Council on Economic Education, 1996

**Using Tables** A decision-making grid is a good way to list and then evaluate alternatives when a decision must be made. **What do economists mean when they talk about costs?**

## Opportunity Cost

- People often think of cost in terms of dollars.
- To an economist, however, cost often means more than the price tag placed on a good or service.
- Opportunity cost is:
- **The cost of the next best alternative use of money, time or resources.**



## DRAW IT!

- **IT IS THE COST OF WHAT YOU GAVE UP TO DO SOMETHING.**
- Come up with a scenario with 2 trade offs: **WRITE AT THE TOP OF THE PAGE**
- Draw the situation on the left
- Draw the opportunity cost on the right.

## NEED vs. WANTS COLLAGE

### **FILL LEFT SIDE WITH YOUR NEEDS:**

- Really think about things that are required for survival.
- Label it Needs.

### **FILL RIGHT SIDE WITH YOUR WANTS:**

- Really think about things that are not necessary but you would like to have.
- Label it Wants.

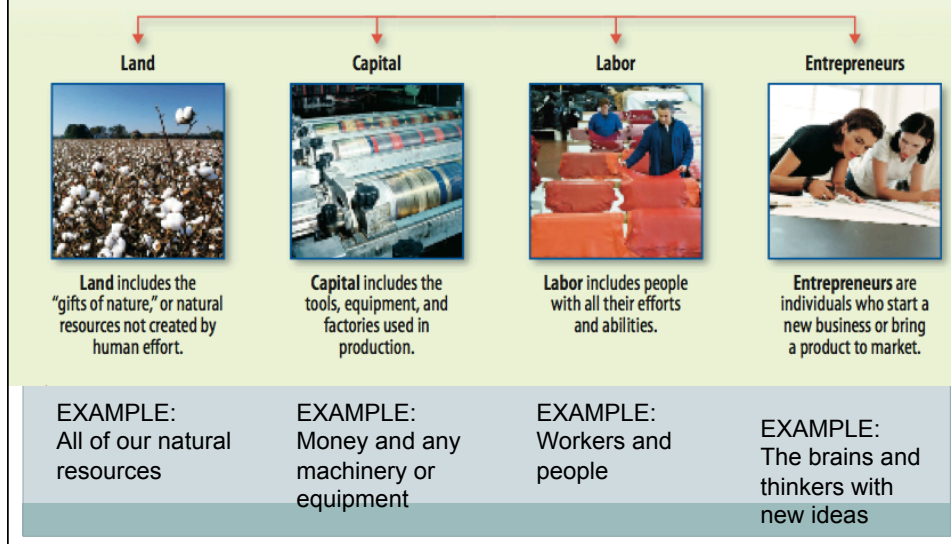
(everything must be school appropriate!)

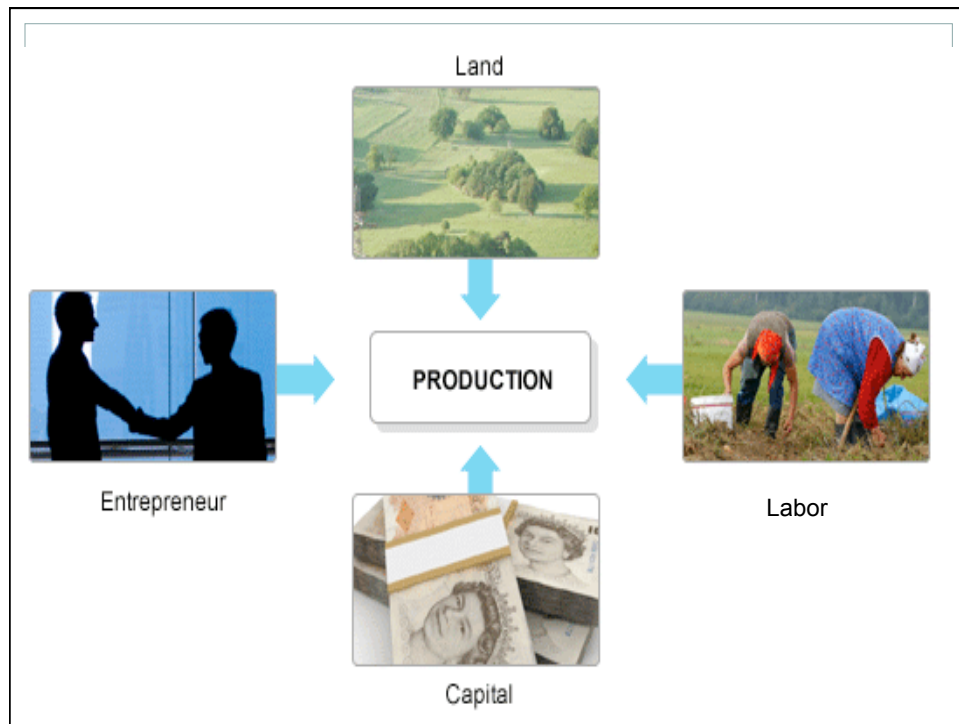
- This can be hand drawn or collage using pictures and magazines.
- *This is worth 30 points.*
- *You should make it colorful and interesting.*
- ***MUST BE FILLED COMPLETELY FOR FULL CREDIT***

## Production Possibilities Frontier

- The Production Possibilities Frontier is a diagram representing:
- **Various combinations of amounts that two commodities could produce using the same fixed total amount of each of the factors of production.**

## Production Possibilities Frontier





## TINSTAAFL



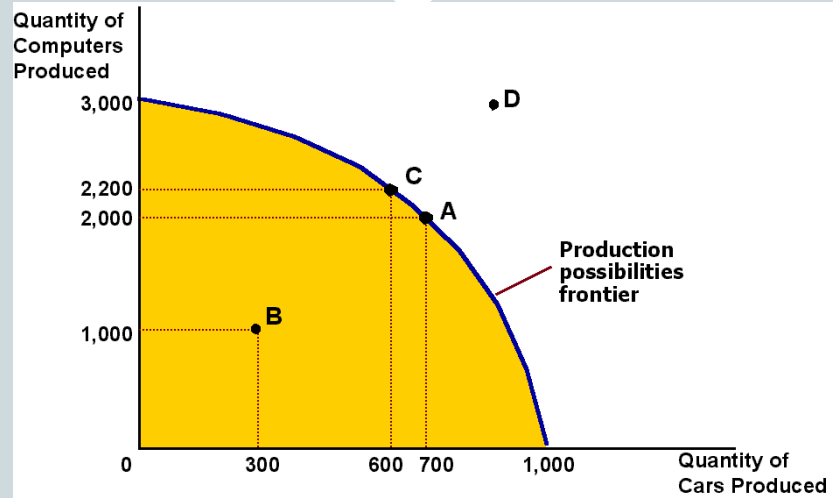
**THERE IS NO SUCH THING AS A FREE LUNCH**

**What do you think this means?**

**Nothing is free because all resources are limited.**

**Someone must pay for the production.**

## Production Possibilities Frontier



## Cost-Benefit Analysis

- Cost-benefit analysis is approach to estimating the strengths and weaknesses of alternatives that satisfy transactions
- It is used to assess whether a proposed project, program, or policy is worth doing.
- It is often used by governments and businesses to evaluate the desirability of a given intervention.