WHAT IS ECONOMICS?

Kirby regularly visited the shopping mall on her way home from school. She especially liked browsing through the video, book and clothing stores and buying something new. Her older sister, who did not like shopping at all, often made friendly jokes about Kirby's spending habits, particularly about how Kirby always found it difficult choosing what to buy. As a fun birthday present, her sister had given Kirby a T-shirt with the words 'Which one will I buy?' printed on the front and 'World's number one consumer' printed on the back!

We are all like Kirby in one respect — everyone has to make choices.

Kirby: 'World's number one consumer'

ECONOMICS EXPLAINED

'Economics' is not a totally new subject to you. Imagine, for example, that you have $30 and you want to purchase a DVD. At the video store you can choose from hundreds of movies. However, you only have a limited amount of money. Consequently, you are forced to make a choice. That simple commercial transaction would launch you on life's journey as a consumer and as an important participant in the world of economics.

Economics is the study of how people choose to use their limited resources to satisfy their needs and wants. The key word in this definition is 'choose'. For example, with your $30 you can choose to buy either a DVD or T-shirt. Alternatively, you could choose to save your money with the intention of buying a PlayStation@ at a later time. Consumers make many economic decisions every day.

However, consumers are not the only people who have to make choices. Businesses must choose what goods and services to produce. Governments must choose whether to build more hospitals, roads, or schools.

Welcome to the world of economics; it's all about choice!

Because people cannot have everything they want, they must decide which product will give them the most satisfaction.

If you are having difficulty choosing, may I suggest the old 'heads or tails' method?

Making wise consumer choices can sometimes be difficult.
A MATTER OF CHOICE

In our daily lives, we make many economic choices, such as:
- what to buy
- where to go on holidays
- where to live (do we buy a house or rent one?)
- what career to follow
- which investment gives the highest return
- how much to save versus how much to spend.

There are many more examples of types of economic decisions, but ultimately they all concern human behaviour.

ECONOMIST

People who have studied economics at university and who make observations about our economic behaviour are called economists.

STANDARD OF LIVING

People all over the world, regardless of age, culture, gender or language, rely on the economy for their standard of living. Families that live in comfortable homes, drive cars and take vacation trips have a high standard of living. Alternatively, families that are poorly fed, clothed and housed have a low standard of living. This means that a country’s standard of living is closely tied to the quantity of goods and services produced in the economy.

Activities

Understand
1. In what way are we all like Kirby?
2. Why are all consumers forced to make choices?
3. What does the term ‘standard of living’ mean?
   What determines a country’s standard of living?

Think
4. Your parents give you $100. You need to make some economic decisions.
   (a) What will you spend the money on? Why?
   (b) Will you save any money? Why?
   (c) Have you improved your standard of living? How?

Teamwork
5. In small groups, examine the photographs of the rich and poor families below. Then answer the following questions:
   (a) Which of the two economies has a higher standard of living? How can you tell?
   (b) List three items that would improve the standard of living for the family living in the poor economy.
   (c) List three items that would improve the standard of living for the family living in the rich economy.
   (d) Do your lists vary? Why?

Communicate
6. Debate the following topic: ‘Does the purchase of your fifth television improve your standard of living?’ Share roles so that those not debating are involved either in assisting with research or in running the debate and keeping notes on the arguments from both sides.

Worksheets
1.1 Contrasting lifestyles

Two different worlds: rich and poor. A wealthy economy provides people with a high standard of living while people in a poor economy suffer a low standard of living.
Everyone is a consumer. A consumer is someone who purchases **goods** and **services** to satisfy **needs** and **wants**. Everyone has needs and wants, and we spend a lot of time and money trying to satisfy them.

### NEEDS AND WANTS

We all have certain requirements for survival. A need is something we must have in order to survive. Our main needs are food, shelter, water and clothing. We could not survive without them, which is why we purchase needs first.

Wants are often referred to as luxuries, as they are not essential for survival. They are the things we would like to have. A DVD player or a digital camera may be a want for some people. We could live without wants, although our life may not be as enjoyable. After a while we begin to see these wants as being more like needs.

How many times have you seen a new product and thought to yourself, "That's just what I need"? Think about it for a minute, though. Do you really **need** it? Can you survive without it? Would you prefer to have this product than, say, your next week's food supply?

Because the amount of money we have is limited, but our wants are unlimited, we cannot satisfy all our wants. Besides which, some of our money must obviously be used to satisfy our needs! Hence we must choose which of our needs and wants we would like to satisfy first. For example, if you were given $1000 right now you could satisfy some of your needs and wants but you would not be able to buy everything you wanted.

### SATISFYING OUR NEEDS AND WANTS — GOODS AND SERVICES

We satisfy our needs and wants by buying goods and services. Goods are items you can see or touch. This book is a good. So are your pen, folder, chair, desk and stereo equipment. So, too, are items such as vegetables we eat and the shoes that we wear.

Services are provided for you by other people. They are not things you can see or touch. For example, when you go to the doctor or dentist, eat out at a restaurant or have a haircut, you are using services. The service that you purchase may be invisible, but the results of that service can often be seen, as in the case of a new haircut or the plaster that encases your broken arm!

A car is usually a want — one of the luxuries of life. In some cases, though, it may be a need. For example, a plumber needs a car (or truck) to do his/her job properly.
BUSINESS SUPPLIES US WITH GOODS AND SERVICES

Whether you want a good or service, you generally rely on business to supply it. You rely on business for the clothes you wear, the food you eat and the home you live in. You rely on business for the music, movies and other forms of entertainment, and the mobile phone you use.

As a consumer you are important to business because the way consumers spend their money largely determines the kinds of goods and services that businesses produce. The purpose of business, remember, is to satisfy consumer's needs and wants.

COLLECTIVE GOODS AND SERVICES

Our needs and wants are satisfied by purchasing goods and services. All of the needs and wants described opposite are individual or personal ones. They are the wants of only one person and are satisfied by personal spending.

However, there are some goods and services that are provided for the whole community and available for everyone to use. These are called collective goods and services and are mostly provided by governments. They include public roads, public libraries, parks, schools, hospitals and police.

The government uses the taxes people pay to provide community goods and services. By providing these, the government plays an important role in helping to look after our quality of life.

Activities

Understand
1. What is a consumer?
2. Explain, using examples, the difference between a ‘need’ and a ‘want’.
3. What is the purpose of business?

Think
4. You have just been given $2000.
   (a) Make a list of the ten things you want the most.
   (b) Compare your list with other members of the class. Was there a lot of similarity or difference? Why do you think this is so?
   (c) List the difficulties you faced in deciding how to spend this money.
5. Match the terms below with the correct definitions.
   consumer needs wants
   shelter money schools

Definitions
   (a) An example of a need
   (b) What we use to buy our goods and services
   (c) A collective want
   (d) A person who purchases goods and services to satisfy their needs and wants
   (e) Required by consumers to survive
   (f) Things people would like to have but which are not necessary for survival

6. Collect or draw pictures of three collective services provided by the government and paste them into your notebook. Underneath each, write a short statement explaining how these services improve your standard of living.

7. Explain the meaning of the following statement: ‘Consumers and businesses rely on each other for their survival’.

Communicate
8. In small groups, discuss how each of the following items could be viewed as a need in today's society.
   (a) Mobile phone for a plumber
   (b) Computer for a journalist
   (c) Guitar for a lead singer in a rock band

Use ICT
9. Brainstorm a class list of 30–40 goods or services you might have used in the last couple of days. Select and apply ICT tools to convert this list into a word-processed table with column headings ‘Needs’ and ‘Wants’. Use your tools to arrange entries for both columns in alphabetical order.

Worksheets
1.2 ‘How to’ guide for consumers

Collective goods and services, such as schools, are mostly provided by governments.
1.3

ECONOMIC RESOURCES

When we shop, we choose from a range of finished goods and services that are ready for consumers to buy and use. Rarely do we think about how these were produced or provided. They do not come out of thin air! Goods cannot be created from nothing, nor services provided without some effort. To produce goods and services, four economic resources are required. These are natural, labour, capital and enterprise resources.

When you next visit a farm, factory, office or shopping centre, you will see these economic resources in action. Every business chooses the best combination of these resources when making decisions about the goods or services it will offer. The resulting production will help to satisfy the needs and wants of consumers. Production is therefore an important part of our economy.

NATURAL RESOURCES

Natural resources are the raw materials supplied from the Earth, sea or air. They include, forests, minerals, water, oil, gas, grain and fish. These are sometimes called land resources. Everything produced in the world must begin with these resources.

Some natural resources, such as minerals and fossil fuels, are non-renewable resources. This means they are being used at a faster rate than nature can replace them. This is why it is important to recycle as many of these resources as possible.

Although renewable resources such as forests, soil and rivers can restore themselves within a relatively short period of time, it is still important to manage them carefully.

LABOUR RESOURCES

Labour resources include all the human skills, as well as the physical and mental effort, used to produce goods and services. Nurses, engineers, truck drivers, musicians and clerks are all part of the Australian labour force. Without labour there would be no production, and the economy would suffer.

CAPITAL RESOURCES

Capital resources are the human-made or manufactured objects that help in producing other products. Examples include buildings, equipment, machinery and technology. Capital resources help labour resources to produce more in a given period of time compared with making each product by hand.

ENTERPRISE RESOURCES

Enterprise resources are the abilities and vision of people called entrepreneurs. They form an idea for a good or service, and plan and organise its production. They also take the financial risk required to operate the business. If the business is successful, they receive part of the profit.
Prepare a bar graph
A bar graph allows you to see differences quickly, and to detect trends. Bar graphs are often drawn up from data in tables.

**Teenage spending habits**

<table>
<thead>
<tr>
<th>Item</th>
<th>% of income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1992</td>
</tr>
<tr>
<td>Food</td>
<td>29</td>
</tr>
<tr>
<td>Clothes</td>
<td>51</td>
</tr>
<tr>
<td>Entertainment</td>
<td>20</td>
</tr>
</tbody>
</table>

**Activities**

**Understand**
1. Explain what is meant by the term 'production'.
2. What is the difference between renewable and non-renewable natural resources? Give two examples of each.

**Think**
3. Draw up a table in your notebook like this one. Place each of the resources listed below into the correct column.

<table>
<thead>
<tr>
<th>Natural resources</th>
<th>Labour resources</th>
<th>Capital resources</th>
<th>Enterprise resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
<td>Business owner</td>
<td>Trees</td>
<td>Teacher</td>
</tr>
<tr>
<td>Paddock</td>
<td>Factory</td>
<td>Tractor</td>
<td>Scanner</td>
</tr>
<tr>
<td>Bank teller</td>
<td>Pilot</td>
<td>Wheat</td>
<td>Sales manager</td>
</tr>
</tbody>
</table>

4. What do you think happens to countries that have shortages of the following economic resources:
   (a) fossil fuel and natural gas
   (b) skilled labour force
   (c) entrepreneurs?

**Design and create**
5. Add extra elements to the mind map started below to highlight the main features of the four economic resources. The first one has been started for you.

6. Make a collage that illustrates the four economic resources. You may wish to present it in digital form using an appropriate ICT tool. Find as many illustrations of each as you can. Display your collage in the classroom.
SCARCITY

The movie Oliver is a story about a young orphaned boy. In one of the meal-time scenes, Oliver walks up to Mr Bumble, the master-in-charge of the orphanage and, holding up his dinner plate in his outstretched arms, asks for more food. Mr Bumble explodes, “You want what boy? More!”

Why do we need an economy?

Each country has only a certain amount of economic resources. There is only so much in the way of natural resources, only so many workers, only so much capital and only a specific number of entrepreneurs. Consequently, the amount of goods and services a country can produce is also limited.

What is an economic system?

In a way, we are all like Oliver. We would all like more goods and services because we believe they will improve our standard of living. However, our wants are always changing and it is impossible to satisfy them all. This also applies to countries. It is a simple economic fact that many wants cannot be satisfied regardless of the wealth of a country. This is why we need an economic system.

In contrast to economic resources, human wants are unlimited. No sooner are some wants satisfied than new ones take their place. After purchasing a DVD recorder, for example, you may soon want a video camera. People never seem fully satisfied with what they have. They always want more!

This is the problem faced by every individual and every country: limited economic resources but unlimited wants — the economic problem of scarcity. This situation is similar to you not having enough money to buy everything you would like. You have to decide which goods and services you will buy. If you are a wise consumer, you try to choose those that give you the most satisfaction.
Countries must also decide how to obtain the greatest possible benefit from their limited resources. Although different kinds of economic systems are used throughout the world, the decisions made by different countries are the same, as shown in the table below.

<table>
<thead>
<tr>
<th>Economic decision</th>
<th>How the decisions are made in Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What goods and services to produce?</td>
<td>By consumers when purchasing goods and services: the 'dollar vote'</td>
</tr>
<tr>
<td>2. How to produce the goods and services?</td>
<td>By producers using the least costly method of production</td>
</tr>
<tr>
<td>3. Who gets the goods and services?</td>
<td>Whoever has the money to pay for them</td>
</tr>
</tbody>
</table>

**Activities**

**Understand**
1. Explain why you cannot satisfy all your wants.
2. What is the purpose of an economy?
3. List the three basic decisions every economy must answer.

**Think**
4. Explain the statement that 'in every country economic resources are limited'.
5. What are some of the likely opportunity costs of:
   (a) watching television
   (b) land used for farming?

**Communicate**
6. In small groups, create either a one-minute mime or roleplay to explain the economic problem of scarcity. Present your mime or roleplay to the rest of the class.

**Teamwork**
7. As a class, brainstorm reasons why people's wants are satisfied better today than they were 50 years ago.
8. In small groups, research ways of overcoming the problem of scarcity of fossil fuels in Australia. Should we be more careful in using these scarce resources? Are there alternative products that could be used? Present your research to the rest of the class.

**Dig deeper**
9. (a) If a country's economic resources are being fully used, how can it produce more of a particular item, such as cars or televisions?
   (b) Does the amount a country can produce depend entirely on the quantity of its economic resources? Why?
MAKING A CHOICE

Most people have similar needs but their wants will vary greatly. Consequently, when you make a choice about the particular wants you'd like to satisfy, your choice may differ from those of your friends. Why do people satisfy their wants in different ways? What are some of the factors that influence you in making a choice?

FACTORS INFLUENCING WANTS

Age. As a baby you most probably wanted a toy or rattle. Now you are a teenager, you would like a mobile phone. By the time you are 18, a car becomes an important want. Later on you might like to buy a place to live in and, when you are older and have retired, you may want to go on a world trip. Our wants change over time.

Fashion and tastes. What is presently 'trendy' may in a few years become old-fashioned. This is particularly noticeable in the area of clothes. People will change their wants depending on the fashion of the day.

Income. How much money you have will influence the wants you can satisfy. A teenager from a wealthy family may want a laptop computer for his thirteenth birthday, but a present in a poorer family may be a new pen.

Advertising. This plays an extremely important role in influencing our wants. New products are released onto the market and, if successfully advertised, consumers will be influenced into thinking they need the product.
**Activities**

**Understand**
1. What is meant by the term ‘consumerism’?

**Think**
2. Explain why wants vary between:
   (a) people in the 1900s and people in the 2000s
   (b) a teenager living in Darwin and an elderly person living in Geelong.
3. Copy and complete the following table. What does the completed table tell you about wants?

<table>
<thead>
<tr>
<th>Individual</th>
<th>Wants</th>
</tr>
</thead>
<tbody>
<tr>
<td>An arctic explorer</td>
<td></td>
</tr>
<tr>
<td>An Amazonian Indian</td>
<td></td>
</tr>
<tr>
<td>An Australian teenager</td>
<td></td>
</tr>
<tr>
<td>An environmentalist</td>
<td></td>
</tr>
</tbody>
</table>

4. Arrange the factors that influence wants in order of priority from the ‘most influential’ to the ‘least influential’. Compare your list with others. Discuss the reasons for the similarities and differences.

**Design and create**
5. Write and perform a song or poem, aimed at 14-year-old students, that outlines the factors influencing a person’s wants.

**Communicate**
6. (a) In pairs, debate the following topic: ‘People’s unlimited wants are the main cause of environmental destruction’. One person presents the affirmative case and the other person the negative case. Each person must write the key points for their case.
   (b) Divide the class into two groups, those for the affirmative case and those for the negative case. Each group is to refine their arguments before a spokesperson presents the group’s comments.

**Dig deeper**
7. ‘In rich countries today, consumption consists of people spending money they don’t have to buy goods they don’t need to impress people they don’t like.’ (Clive Hamilton and Richard Denniss, Affluenza; when too much is never enough)
   (a) Explain how people can spend money they don’t have.
   (b) Discuss why people ‘buy goods they don’t need’.
   (c) Consider what motivates individuals ‘to impress people they don’t like’.

**Worksheets**
1.3 Key factors influencing consumer decisions