

Economics
Unit 3



**Economics:
Close to Home**
Chapter 10



If I Had a Million Dollars...

- https://www.youtube.com/watch?v=UTK57dJc_pU
- Ancient Hebrews dreamed of a promised land that flowed with milk and honey
- People were lured to medieval England thinking that the roads were paved with gold
- Shangri-La – all human wants were satisfied and no one grows old
- What would you do with a million dollars?

What is Economics?

- No matter how rich or poor we are, we all want for something
- Our wants are boundless, but resources are limited
- The study of our efforts to satisfy our unlimited wants through the use of limited resources is known as economics

Scarcity

- If nothing was scarce, there would be no need to produce anything (no work, no buying)
- Economics begins with scarcity
- Something is scarce only if someone will buy it for a price
- Scarce items can be divided into two groups: goods (commodities or products) and services

Scarcity

- Case 1: there's land that grows thousands of orange trees on only a few apple trees. Which fruit is scarce?
- Does the idea of scarcity change if apples are never eaten, but multiple oranges are eaten daily?

Scarcity

- Case 2: If you set up a booth in the field to sell fresh air, would you succeed?
- Tokoyo, Japan, had oxygen vending machines in the 1970s
- Would an oxygen bar be successful in Sunny Corner?



Opportunity Cost

- When something is scarce, it has to be rationed, or limited, in some way
- In our economy, price rationing determines who get scarce things
- You also need to take into consideration what is sacrificed when you spend your money
- Opportunity cost – something has to be given up to afford something else
- Impulse buying – not weighing the opportunity costs

Opportunity Cost



- Example: Pizza is on sale for \$1 a slice.
- Leila has \$100 in her wallet, Joe has \$1 in his pocket. Who can best afford a piece of pizza?
- Leila might be planning on going on a ski trip, and she needs new boots that cost exactly \$100. Will she forgo the trip if she already has a sandwich packed in her lunch?
- Joe has no other plans for his \$1
- Fred smells the pizza, buys it, and then realizes that it was his last dollar which he could use to take a bus home

Questions to Answer

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Questions 1, 2, 3

The Laws of Supply and Demand

Demand – The Consumer’s Side of the Market

- People who are willing and able to pay create demand for a product
- Needs and wants can both be classified as demands
- Demand can vary with the price of an item

The Laws of Supply and Demand

Supply – The Producer’s Side of the Market

- The product has to be supplied
- Consumers (buyers) buy a product
- Producers (sellers) offer a product
- If the price is low, less people are willing to supply it, if it is high, more are willing to supply it

The Laws of Supply and Demand

Table 10.1 on page 144 show a demand and supply schedule. This fictitious survey shows what the demand and supply might be for pizza in the school.

Price	Demand	Supply
\$0.25	80	0
\$0.50	60	0
\$0.75	40	0
\$1.00	20	24
\$1.25	16	36
\$1.50	12	40
\$1.75	8	60
\$2.00	4	96

If you were to create a line graph of the two demand curves, what would they look like?

What does the intersection point mean?

Questions to Answer

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The Hidden Market

- **Hidden market** – potential customers that are not serviced by current goods and services
- Astute business people try to think of way to reach the hidden market
- The **substitution effect** – for any economic good or service there is a substitute
- If the price of one product is too high, people will tend to buy a substitute

Questions to Answer

1. Choose five of the economics term used so far in this chapter and describe how they apply to your life.
2. How would you complete this sentence: "there is no substitute for _____" using economic good or services?
3. You are selling pizza for \$1/slice. Your friend enjoys Indian food, and decides to sell samosas for sale at 2/\$1.
 - a. What might happen to pizza sales?
 - b. Can competition be good for business?
 - c. Could the two of you work together to come up with a strategy that would benefit you both?

Economic Thinking and Your Personal Finances

- What are some get-rich-quick schemes do you know? Are there more winners or loses with these plans?
1. Set short-, medium-, and long-term goals for yourself
 2. Make a financial plan to meet those goals
 3. Examine your current financial position (credits/debits)
 4. Prepare a monthly budget and relate it to your plans
 5. Stick to your budget by apply economic principles

Budget Features

- Income and Expenses are separated and itemized
- Predicted and actual expenses
- Fixed expenses are the same each month
- Savings are compulsory
- Flexibility is necessary
- Discretionary items

It's a Matter of Interest



You find a discarded bottle on the beach. When you pick it up and clean it off, you discover that it's actually a lamp with a genie inside. Out she pops, and she gives you two options. If you pick the best one, you get to keep it. If you pick the least lucrative, you get nothing. Which do you choose?

1 - you will be given a quarter of a million dollars now, and the same amount each and every day for the rest of your life

2 - you will be given one cent today, and then double the previous day's amount every day for a whole month

It's a Matter of Interest

- Principal - the original sum
- Interest - money paid for the use of money
- Rate of interest - amount paid per hundred dollars (%)
- Compound interest - amount paid on original sum, plus interest already earned

It's a Matter of Interest

Savings Account

90-day 1.65%

180-day 1.70%

270-day 1.75%

360-day 1.80%

It's a Matter of Interest

Credit Card

Purchases 19.99%

Cash Advance 22.99%

Loans



You decide that you are going to buy a \$20 000 car. Your credit rating has you paying 10% interested that is calculated on the declining balance. The dealership gives you two choices of payment – weekly or monthly. Which do you choose?

	Monthly Payment	Weekly Payment
Payment per period	\$424.94	\$106.24
Total annual payments	\$5099.28	\$5524.48
Total interest	\$5496.40	\$4833.12
Amortization period	5 years	4.5 years

Question to Answer



Mrs. Sutherland wants to buy a kayak. She finds one on the Bass Pro website for \$469.99.

1. What is the total price for the kayak including tax?
2. Should she apply for a Bass Pro credit card or use her current Mastercard?
3. How can the substitution effect be used in this example?

PURCHASE AMOUNT	PURCHASE ON ANY MASTERCARD	BASS PRO SHOPS OUTDOOR REWARDS MASTERCARD
\$100-199.99	\$10 OFF	\$20 OFF
\$200-299.99	\$15 OFF	\$30 OFF
\$300-399.99	\$20 OFF	\$45 OFF
\$400-499.99	\$30 OFF	\$60 OFF
\$500 and up	\$35 OFF	\$75 OFF

Chapter 10 Assignment

- Follow the steps outlined on the teacher page to complete your own budget
