MICROECONOMIC CONCEPTS

from
ECONOMICS: A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS

Teacher's Guide
MICROECONOMIC CONCEPTS

from Economics: A Framework for Teaching the Basic Concepts

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ECONOMICS:
A FRAMEWORK FOR TEACHING
THE BASIC CONCEPTS

GENERAL DESCRIPTION OF THE UNIT OF STUDY

Economics: A Framework for Teaching the Basic Concepts is a live-action, three-part Unit of Study for grades 9-12, which presents a review of the fundamental principles of economics, and introductions to the concepts of microeconomics and macroeconomics. The Unit of Study examines how scarce productive resources are used to satisfy human needs and wants, and how markets and government policy regulate the process.

UNIT GOALS

The materials in this Unit of Study are designed to assist students in developing a working knowledge of:

• The fundamental concepts underlying all economic study, including scarcity; opportunity cost; economic systems and institutions; and distribution and exchange, which are the foundation of all economic activity.
• Microeconomic concepts such as markets; supply and demand; competition; income distribution; and the role of government, which together determine the flow of money and factors of production in economies.
• Macroeconomic concepts such as Gross National Product; aggregate supply and demand; unemployment; inflation; and monetary and fiscal policy, which are functions of economic aggregates or averages.

Specific student objectives are contained in the teacher's guide for each video lesson. These objectives will assist students in grasping the fundamental concepts of each topic. By achieving these objectives for each video lesson, students will be able to accomplish the unit goals.
MATERIALS IN THE UNIT

This Unit of Study contains three individual videocassettes—one for each video lesson. The titles and a brief description of the contents of each video are provided below. The programs may be viewed independently or as a unit, and do not need to be in any particular sequence, although you may find it helpful to present Part One: Fundamental Economic Concepts, as a review of, or introduction to, fundamental economic principles and terms, before presenting Part Two: Microeconomic Concepts, and Part Three: Macroeconomic Concepts.

The lesson contained in this teacher's guide appears in bold print.

Part One: Fundamental Economic Concepts
Economics is the study of the use of limited resources to produce and distribute goods and services. This program, which may function as an introduction or as a review, examines the principles that are at the core of economics. Scarcity leads to opportunity cost decisions—the necessary choice between economic options. Fundamental Economic Concepts equips students with an understanding of historical economic systems. The program then focuses primarily on the structure and function of the free-market economy, and explains the institutions and incentives that have developed to regulate production and distribution of goods, services, and money, which are exchanged in the world marketplace. Running time: 29:16 minutes.

Part Two: Microeconomic Concepts
Microeconomics is the study of how markets work; it examines factors that influence, and result from, the inner workings of economies. Specifically, it looks at how businesses in the market economy go about using limited resources to produce and distribute goods and services. This program demonstrates how the market sets prices and determines the quantity and nature of goods and services produced, and demonstrates the roles of competition and regulation. The character of a well-functioning market economy—with its back-and-forth flow of money and factors of production—is analyzed. What happens when the market process fails, and the tools available to correct market failures are explained. Running time: 26:24 minutes.

Part Three: Macroeconomic Concepts
Macroeconomics is the study of the factors that influence, and result from, the large scale functions of economies. It is the way economists measure the behavior and functioning of economies. To do this, economists quantify aspects of the economic process using economic aggregates, or averages—measurements such as the Gross National Product, unemployment, and inflation. This program looks at how these measurements can provide insight into the health of an economy, how they impact the purchasing power of currencies, and ways governments can control and impact economic aggregates. Running time: 28:43 minutes.

Teacher's Guides
A guide has been provided with each program in this unit to aid the teacher in utilizing the materials contained within this unit. It contains the following:

• Suggested instructional procedures for each lesson,
• Viewing guides,
• Discussion questions and projects for each lesson,
• Quiz,
• Answer keys for blackline master activities,
• Transcript of the script.

Blackline Masters
Included in the unit are blackline masters for duplication. These activities are designed to reinforce the information in the videos, to provide extended learning activities for the students, and for evaluation purposes.
Unit of Study Materials
Should you use this Unit of Study in its entirety, a Unit Test accompanies this package of materials. This test is designed to provide assessment of comprehension for the three-part program, and should be administered at the conclusion of the Unit of Study. An answer key for the Unit Test is provided on pages 15-17.

INSTRUCTIONAL NOTES
It is suggested that you review each program and read the Suggested Instructional Procedures before involving your students in the lesson activities. In this way you will become familiar with the materials and be better prepared to adapt to the needs of your students. You may find it necessary to make some changes, deletions, or additions to fit the specific needs of your class. We encourage you to do so, for only by tailoring this program to your students will they obtain the maximum instructional benefits afforded by the materials.

It is also suggested that the video presentation take place before the entire group under your supervision. The lesson activities grow out of the context of the video; therefore, the presentation should be a common experience for all students.

Program Two
Microeconomic Concepts
Viewing Time: 26:24 minutes

SUGGESTED INSTRUCTIONAL PROCEDURES
Teacher Preparation
• Preview Part Two: Microeconomic Concepts
• Duplicate blackline masters 1-8.

It is suggested that you relate the learning of basic economic concepts to some of the principal international, national, and local, economic issues of the day. We suggest watching the news and reading the newspaper for a few days in advance of showing the video, and raising the issues of the day in order to illustrate microeconomic principles and to pique interest.

Internet Resources for Teachers
There are vast quantities of information available on the Internet for economic study. These sites are from many countries, and may be useful for extended activity projects, and to provide up-to-date information. Some of the best sites are as follows:

http://ecedweb.unomaha.edu/teach.htm
Economic resources on the Internet for K-12 teachers. Compiled by economics educators, it includes detailed descriptions and links to all recommended sites.

A list of selected Internet resources for teachers of economics in secondary schools. Again, links to suggested sites make this more useful.

http://netec.mcc.ac.uk/JokEc.html
http://quasar.csuchico.edu/econ/links/econhumor.html
Both of these sites are filled with jokes about economics and economists. The best of them require a knowledge of economic concepts to understand the humor.
Student Objectives
Keep the following student objectives in mind throughout the lesson. After viewing the program and participating in the accompanying activities, students will be able to ...

• Define key terms, such as: market bankrupt
  market demand third-party consequence
  factors of production monopoly
  market economy market signal
  products marketplace* boycott
  job marketplace* redistribution
  market share taxes
  free-market economy subsidy
  regulation and deregulation mixed economy
• The products and jobs marketplaces should be understood as concepts rather than locations. The products marketplace is not just stores, but the economic sphere in which all buying and selling occurs. The jobs marketplace is the sector of the economy from which employment and unemployment figures are calculated, and is not merely the places people look for work.

• Illustrate the circular flow of money and the factors of production between households, the goods and services market, business, and jobs marketplaces.

• Define the conditions for a well-functioning economy: the existence of marketplaces; a distribution network for the transportation of products to the marketplaces; currency; a minimum of government interference; and a mechanism for the transmission of market signals (market demand).

• Describe market failures, such as the improper transmission of market signals, third-party consequences, monopolies, and neglect of major social and environmental values.

• Name the tools available to help correct market failures: regulation by government, taxes, and government competition to provide specific goods and services.

• Name and define the three types of signals the market economy responds to: prices, costs, and profits.

• Describe the way market demand sets prices and determines the quantity and quality of goods and services supplied.

Introducing the Video and Pre-Viewing Activities
Tell students that they are going to see a program about microeconomics, the study of how markets work, which looks into the details of the process of production, distribution, and consumption in the market economy. In order to assess what students already know about microeconomics, you may want to discuss the concept of free-market economies before showing the program.

In order to help students identify the crucial concepts in the video, distribute Blackline Masters 1 and 2, Viewing Guide, for them to complete during or immediately after the presentation.

• Present the video. The viewing time is 26:24 minutes. A Video Quiz immediately follows the video presentation which can be found on Blackline Master 3.

Follow-Up Discussion Questions
You may choose from the following questions to conduct a class discussion. Feel free to add or delete questions to suit the needs of your audience. These questions appear, without answers, on Blackline Master 4, Discussion Questions; you may wish to distribute this sheet prior to the discussion.

1. On what does the study of microeconomics focus? It focuses on the details of the process of the production and distribution of goods and services in the market economy.
2. Why are there rarely large surpluses or shortages in the goods, services or worker marketplaces in a market economy? Elaborate.

Price is the control mechanism. If prices are high, people buy less of the expensive item (decreased demand) and more of an inexpensive substitute (greater demand). This drives the price of the expensive item down (in order to attract buyers), and may drive also the price of the inexpensive item up (to increase profits and expand production). This provides the market with equilibrium.

3. What are the three signals to which the market economy responds?
Prices, costs, profits.

4. What are the three ways governments can compensate for market failures? Elaborate on each.
Regulations—government rules can help protect employees or third parties, and can prevent anti-competitive practices; taxes can act as an incentive for business to behave in ways that governments would like them to, and help redistribute resources to the less fortunate; competition—the government provides certain services, such as law enforcement, to ensure that they are always available.

5. What does it mean to say that all economies are mixed? It means that they are not purely free-market or purely centrally-controlled economies—there is a certain amount of government intervention.

6. What is a monopoly?
A monopoly exists when one company controls the provision of a good or service.

7. Define the term "market share."
The percentage of the market existing for a particular product or service that is controlled by one company is the market share. For example: a particular widget company is competing with three hundred other widget companies, but is able to sell 15% of the widgets sold. They have a 15% market share.

8. If a company goes bankrupt, what has happened to it? It has been legally declared financially insolvent. Its assets (factors of production) are distributed by the court to the companies and individuals to which it owes money.

Follow-Up Activities and Extended Discussion
1. Distribute Blackline Master 3, Video Quiz. Like the Viewing Guide, this brief quiz encourages students to pay attention to key terms and concepts, and promotes recall. The Video Quiz immediately follows the video presentation. You may wish to stop the videotape and distribute Blackline Master 3, Video Quiz, before proceeding with the quiz.

2. Distribute Blackline Master 5, Market Flows. In part two of this worksheet, students will need to define how their lives fit into the system of market flows discussed in the video. To help them conceptualize this, draw out the circular flow below for the video character Leon:

They should understand that, as expressed in the video, this is an idealization. It can be difficult to understand that all products and services are, in the end, purchased by the household, even if they are not sold through a physical market. For example: defense and education are bought through tax dollars; the cost of products that are sold to other companies as parts is eventually absorbed by consumers. Discuss the idea thoroughly.
3. Distribute Blackline Master 6, Market Signals. Give students a period of several days during which they can choose any two days to fill in Section 1. For the essay, students should investigate both the signals they provide to the market, and how demand can be created (particularly by advertising and pricing) by producers and distributors of goods and services. It may be helpful to have a group discussion of how demand affects supply, and how suppliers affect demand before students begin writing.

4. Distribute Blackline Master 7, Vocabulary Exercise, for completion.

5. For students or classrooms with Internet access, distribute Blackline Master 8, Internet Activities. Have students pick one or more activities.

6. Discuss how consumers can affect the policies and practices of businesses. Boycotts, mentioned in the video, are one method. Ask the students to think of real boycotts, current and past, and the reasons for them. One of the most famous boycotts in American history is the Montgomery (Alabama) bus boycott. The long-running grape boycott is also well known. As information on many current boycotts is available on the Internet, this activity could be combined with Internet Activity 2.

7. Have the class split into several groups to do further research into specific key concepts, both to expand on the information provided in the video, and to uncover more about how microeconomics affects their lives. They may want to utilize encyclopedias, the Internet, interviews, surveys, etc. Upon completion they could write papers or do presentations. Encourage them to design visual presentations of their data.

Sample topic ideas: What are the third-party consequences of development or other activities in your community? What effect is a currently active boycott trying to have, and what effect is it actually having on the business being boycotted? Interview a business owner to find out what effect government regulation has on his or her operation. Look more thoroughly into the airline deregulation of the late 1980s mentioned in the video—what part did deregulation play in the bankruptcies that followed?

8. Following the completion of this lesson, distribute Blackline Master 9, Quiz. This is intended to assess comprehension of the Student Objectives listed in this guide. Principles and ideas that need additional review will be apparent.

ANSWER KEY

Blackline Masters 1 and 2, Viewing Guide

1. households
2. job
3. product
4. businesses
5. market share
6. free market
7. demand
8. supply
9. prices
10. costs
11. profits
12. signals
13. deregulation
14. bankrupt
15. social
16. redistributing
17. Rule and regulation making
18. Taxes
19. Competing to provide goods and services
20. subsidies
21. mixed
Blackline Master 3, Video Quiz

1. a
2. c
3. c
4. d
5. e

Blackline Master 5, Market Flows

1. Should appear exactly as in question 1, Blackline Master 5, Market Flows.

2. Students should come up with a diagram similar to the one prepared in the Follow-Up Activities and Extended Discussion, for the character Leon.

Blackline Master 6, Market Signals

1. Section 1 is necessary only as a starting point for the students to begin thinking critically about their buying decisions.

2. Students should touch on each of the points mentioned in the instructions. They are looking both at the signals they provide to the market and at how demand can be created (particularly by advertising and pricing) by producers and distributors of goods and services. In other words, they are exploring how demand affects supply, and how suppliers affect demand.

Blackline Master 6: Vocabulary Exercises

1. job market
2. market economy
3. profits
4. bankrupt
5. boycott
6. market share
7. regulation
8. Redistribution

Blackline Master 9, Quiz

For each correct answer, score as follows: Question 1-1 point for each correctly labeled bubble and flow line with a total of 6 points; Question 2-1 point for each correct answer; Question 3-1 point for each term and 1 point for each definition or example; Question 4 -1 point for each correct term. (Total 25 points.) You may use this grading scale or one of your own choice.

1. Should appear exactly as in question 1, Blackline Master 5, Market Flows.

2. Any three of the following:
   - market signal not transmitted or received
   - third-party consequences
   - monopolies
   - neglect major social or environmental values

3. Students should name the following and define or give an example of each:
   - Regulation
   - Taxes
   - Competition

4. market price demand market share third-party consequences
mixed
monopolies
market signals (market demand, signals, or demand are acceptable)
boycott
bankrupt

UNIT OF STUDY TEST
Score test as outlined in the answers. To assist in post-grading discussion, the lesson from which the questions are derived is printed in bold type in the answers.

1. a) Microeconomic Concepts Any two of the following answers is acceptable (7 point each, total of 2 points): Improper transmission of signals Monopolies Third-party consequences Neglect of major social or environmental values

b) Microeconomic Concepts (1 point each): Regulations, Taxes, Competition

2. Macroeconomic Concepts (7 point each):
   median 35 average 46

3. Fundamental Economic Concepts (7 point for an acceptable definition, 1 point each for the levels of operation of opportunity cost): If you have more of one thing you must have less of another, or; if you have one thing you cannot have another. Levels: global, corporate, individual, consumer.

4. Macroeconomic Concepts (7 point): Aggregate demand is the percentage of income spent by an individual.

5. Fundamental Economic Concepts (7 point each): Natural resources, labor, capital, other parts.

6. a) Macroeconomic Concepts (2 points): GNP takes into account all business done by a specific country's producers, both within the country and overseas. GDP looks at all business done within the boundaries of a country, including business done by foreign companies.

   b) Macroeconomic Concepts (7 point each): Population entrepreneurship, war, trade, natural resources.

7. Fundamental Economic Concepts (7 point for each type of bank, 1 point for each description):
   Central banks make sure there is enough money in circulation to cover all market transactions. Local banks store money, loan money, and provide financial services to help market transactions flow easily.

8. a) Microeconomic Concepts (7 point each): free market; price; demand; supply b) Microeconomic Concepts (4 points) examples will vary, but should demonstrate an understanding of the following model:

   When the price of an item is high, people buy less of the item decreased demand), and more of an inexpensive substitute (increased demand). The drop in sales drives the price of the expensive item down (as a way of attracting buyers), and may drive the price of the inexpensive item up. Eventually, equilibrium is reached.

9. Macroeconomic Concepts (7 point): Fiscal policy is the decision by governments whether or not to spend more than they take in (deficit spending).
Economics is the study of how resources are used to produce and distribute goods and services—and how those goods and services are consumed and utilized. Microeconomics looks at the details of the process as it unfolds in the market economy. In this program we shall see how market demand sets prices and determines the quantities of goods and services to be produced. We shall learn about the conditions of a well-functioning market economy, see what happens when the market process fails, and look at the tools available to help correct market failures.

Microeconomic Concepts

A market economy is made up of millions of individual decisions. People buying goods and services, companies deciding what and how many products to produce, people deciding what skills they will learn and what jobs they will do are all part of the process. One way to understand this complex market process is illustrated in this flow chart.

At the top is households; on one side is the job, or skill, market; on the other side is the product, or service, market; at the bottom are firms, or businesses.

First let's look at the flow of money in the market economy. People from the household take their money to the products marketplace, where they buy something. From there, the money goes to the businesses and the businesses pass some of the money on to their workers, who take it back into the household.

In the reverse flow, households take their skills to the job marketplace, and on to the firms where products are produced—they work, and are paid for their work. The products are taken to the products marketplace, where household members buy them and take them home. This is an idealization, or model of the process.
Let's see how the model might work for a young couple starting out in their adult life.

Leon and Gina have just gotten married. They live in a mobile home park and have no children. Leon has gone to a technical college, and Gina has a degree in Art. They both need to work.

Leon grew up on a farm and has been interested in environmental concerns. He learned management skills, such as bookkeeping, at the technical college. He has taken an entry-level job at an organic dairy. Right now he works on the production line feeding milk cartons into the packaging machine, but he hopes to "move up the ladder" in the company.

But what kinds of skills would Leon need to move up in the firm? Horizon Dairy President Barney Finebloom explains:

"Horizon views the people in our organization as one of the most critical resources in our business mix. All the contacts people have with the company come through some representative, and it's important that all employees understand our company and our values.

"For Leon, you know, I'd love to see people like Leon continue to increase their skills and eventually take my job. The best way for that to occur is to be really committed to what the company's doing-to understand its business and not be blinded by the current responsibilities you have-but to try to take a big picture in helping to solve problems that interact with other departments, but primarily by focusing on the need of our consumers and our customers."

Organic milk is a new product in the extremely competitive marketplace of goods and services. Without market expansion and success, Leon's dream will not be realized.

"Horizon has found that organic milk appeals to a growing consumer who's interested in the environment as well as animal rights. We've had a challenge of trying to be a national milk company. Our company is trying to manage the logistics of distributing milk on a national basis and solve those problems, but it's really focused on meeting consumer needs and then getting the product where they shop, at a valuable price. Not the lowest price, but value for the product that you're giving and the need that you fulfill. We think we give good value for our product even though we're higher priced than most milks."

While Leon works at the dairy, Gina looks each day in the want ads, a kind of jobs marketplace. She looks for a job that might suit her artistic training and interests.

But in order to begin earning money right away, she went to an employment agency. She filled out an application and was given a temporary position at a small graphic arts firm.

An Apple One manager describes the kinds of skills that are useful in the job marketplace:

"Probably the principle characteristics would be eagerness, willingness, punctuality, attendance, teamwork is really crucial in the Twenty-first century. But they're looking at the employees you're looking at now are ideas that are creative in the team setting. So, in the Eighties it used to be, the individual and the me, me, me, and the I, I, I, and going on into the Twenty-first century now, we're looking at more the teamwork, the quality work based upon the team players. They're not looking for somebody who walks into a company who has a big ego, who thinks they know everything. But they really want to know is, can you work with our team, can you fit into our company and our company's standards and philosophies.

"Mission statements, value statements for yourself personally are really important, too. If you go into a company, and you're inter-
viewing, and you say, here are my values, these are what I think will fit into your company, that will be a very strong point. . . a strong standing point for you in your interview. Another one would be work the ethic. Many people are. . . in H.R., Human Resources Departments, they're looking for work ethic that says, 'I will come in early, I'll stay late,' if the project demands it. They're not looking for somebody who's constantly at his watch and wanting to get out that door. The integrity of the work, the ownership of the work, the willingness to do whatever it takes to get the job done."

Gina's job at the graphic arts firm is doing data entry, but she hopes that the company will be expanding their market share and increasing their number of customers. Then she might be able to get a full-time job at the company using her artistic training.

Like other households, Leon and Gina go to the products marketplace to buy the things they need. They even buy Horizon Dairy's milk.

Each day they contribute to the millions of individual decisions that make up the market economy—a market economy that is remarkable in a number of ways.

If one looks at mature free-market economies, like those found in Western Europe, the Pacific Rim, and the United States, the most stunning observation is: there are no great surpluses or shortages in either the goods, services, or the worker marketplaces. This means, for example, that the shelves in the grocery store are rarely empty, and little food in the same grocery store goes to waste. There are always enough baseball players to play a game, and there are not thousands and thousands of police officers who do not have jobs.

How is it possible that, without much planning everything pretty much works out? In a free market, price is the control mechanism.

To see how price, supply, and demand interact, let's look at a hypothetical scenario of beef versus pork production and sales. Suppose, as a starting point, that farmers produce pigs and cows in equal numbers, and the price of the meat at the store is the same per pound.

Suppose, for some reason, people begin to favor pork. It could be that pigs are seen as happier, and happier animals make better food, or perhaps there is superior advertising, or pork is discovered to have anti-carcinogenic properties—what happens? The demand for pork increases, and as a result, the following occurs:

At the meat counter, pork prices start going up and beef prices start coming down. On the farm there are fewer pigs, but more cattle. There is now a shortage of pork and a surplus of beef in the marketplace. Many cattle farmers notice the price differential and convert to raising pigs. Therefore, in time, price solved the shortage problem in two ways, the high price of pork discouraged some buyers, and more farmers began producing pigs.

The surplus of beef is solved by price as well. The low price becomes a prime motivation for the consumer to now buy beef, and as more farmers stop raising cattle, the supply of beef drops.

So, eventually price stabilizes the supply of beef and pork.

Let's look at another scenario. Suppose it is discovered that cows will eat a feed that is produced from the grain milo. Milo is much cheaper than corn, the traditional cattle feed. In fact, suppose that it costs far less to feed cows with milo than to feed pigs with pig feed. Therefore, the profitability of raising beef is greatly increased. Farmers now rush into beef production. What happens?

First, beef supply goes up, driving prices down. Soon, so many farmers have stopped raising pigs, that pork goes into shortages and prices go up.
Eventually, the high price of pork brings more farmers back into pork production, and the lower cost of beef reduces the surplus. So again, price stabilizes the supply of beef and pork.

Let's look at the worker marketplace.

As more work and everyday life involves the use of computers, the demand for high-level programmers has increased. As in many growth industries, top-level programmers, who write code, or the base set of instructions called software, are in short supply. The market solution is to offer high salaries. Over time, this causes more people to be attracted to programming as a profession, and the shortage is diminished.

Conversely, at one time, before television and pop music, classical musicians were in demand. Then, with the advent of new technologies and changing tastes, many orchestras disbanded, and others were forced to take pay cuts. Many musicians had to find other work, or perform only for fun. So, with reduced demand, musicians were in abundance or over supply, and their market value decreased.

So we see that the market economy responds to three kinds of signals; prices, costs, profits.

High salaries for computer programmers drive more people to take up the occupation, and in our hypothetical beef versus pork market, the discovery of lower cost feed increased profits in the beef industry, and consequently more farmers moved into cattle production.

With its power to take individual decisions, wants, and needs, and turn them into a viable functioning economy, the free marketplace is an extraordinary entity. However, the free market is not without its failures.

One way the market can fail is if signals are either not transmitted or not received. For example, when the availability of oil was changed by war in oil-producing countries, the warning signals of an impending price change in fuel were not received clearly by some airline companies. In the late Eighties, some airlines did not see that rising fuel costs and deregulation would change the profitability of their scheduled flights, and consequently, some of them went bankrupt.

The market can also fail because of seemingly independent transactions that have, in reality, more far-reaching effects.

For instance, the owner of this residential lot may wish to build a store like this on her lot, an apparently independent economic decision. But people have learned that store traffic has a big impact on child safety, noise, and the comfort of residents in the neighborhood. Therefore, the seemingly independent transaction of building a store in a residential neighborhood has many third-party consequences which make the decision far more complicated.

In a completely free-market economy, the needs of the third-party are not a factor. Decisions are made only to meet the needs of the marketplace. For instance, high demand for iron, used in the manufacture of millions of automobiles produced worldwide, makes it too expensive to be used for building affordable housing for low-income families. Here, the market has difficulty taking into account third-party interests in an otherwise two-party transaction.

Monopolies, the control over a good or service by one company, can also cause the market to fail. If meat producing were done exclusively by one large monopolistic meat company, it would not have to respond to market signals, since there would not be any independent meat producers who could compete for a share of the market. In the interests of profitability, the monopolistic meat company could supply only the meats that were the cheap-
It has also been decided not to Jet the market provide certain goods and services. In most countries, the security of the nation is not left to the market system, but is controlled by central decisions of the government, and implemented by a government military system.

The same is true for schooling in most countries. Education is not left to individual buying decisions. However, in the United States, many people now argue against public education, and they augment school learning with computer programs, or look to private schools or home-schooling to teach their children.

It has also been found that the market can neglect major social and environmental values. Human suffering in many forms is of no concern to the market.

A major question that each society must answer is: how much of the burden of economic misfortune should each individual bear? In the extreme, it makes little difference to the correct functioning of the market if one person loses his or her job, starves, and dies.

Therefore, most countries are guided by compassion and have some plans for redistributing resources to take care of the misfortunate. These plans are always controversial.

A government has three ways it can compensate for market failure: rule and regulation making, taxes, competing to provide goods and services.

Regulation
Regulations often seem like the simplest way to deal with market failure. Remember the lot our hypothetical landowner wanted to use for a store in a residential neighborhood? The kind of rule which controls land building is called zoning. In addition to residential, it creates industrial, commercial, and agricultural zones to prevent haphazard development.

Another example of regulations is minimum wage. The government dictates that employers cannot pay their workers less than a certain amount.

In some countries, the government has passed laws restricting the amount of pollution that can be released by automobiles and industry.

Another kind of regulation in the United States is affirmative action, requiring equality for all races, genders, and sexual orientations in the workplace.

Taxes
Taxes can serve as an incentive and can be a means of redistributing wealth to provide a safety net for the unfortunate.

For example, companies are often given a tax break as an incentive for installing pollution control devices.

In many European countries there are high national sales taxes on luxury items.

Competing To Provide Goods and Services A government can directly supply a good or service, as in the case of mail delivery in most countries. And in many oil-producing nations, such as Mexico and those in the Middle East, the petroleum business is owned and run by the government. Or, government can assist businesses when the market would let them fail. For example, in many countries, farm products, like milk, are supplemented by government subsidies. In the United States, passenger train travel has been saved by the government in the form of Amtrak.
The degree to which countries provide safety nets for their citizens vary widely. In Western Europe there is high taxation to provide a high level of social security for its citizens, whereas pollution issues have been largely ignored.

In the United States, many people feel that no safety net should be provided by the government, but there is a relatively high standard of pollution control.

All economies today are mixed, that is, a mixture of free market and government planning, with rules restricting the free market.

As economies become more interdependent globally, with many natural resources disappearing and the growing disparity between the fortunate and the misfortunate, the debate over control of the free market will certainly intensify.

Video Quiz

1. This shelter, providing food to the needy, is an example of:
   - [ ] a) redistribution of resources.
   - [ ] b) the free-market economy.
   - [ ] c) third-party consequences.
   - [ ] d) all of the above.

2. The difference in these prices is a result of:
   - [ ] a) market failure.
   - [ ] b) a monopoly.
   - [ ] c) supply and demand.
   - [ ] d) a boycott.

3. The provision of education is usually handled by government because:
   - [ ] a) education is not profitable.
   - [ ] b) there is no market demand for education.
   - [ ] c) it provides greater access to education for all segments of the population.
   - [ ] d) consumers demanded it.

4. Private education is available because:
   - [ ] a) it avoids a monopoly in the education market.
   - [ ] b) the market might neglect the poor.
   - [ ] c) the government cannot build schools in some areas.
   - [ ] d) there is a market demand.

5. This young couple is:
   - [ ] a) participating in the flow of money in the market economy.
   - [ ] b) providing market signals.
   - [ ] c) expanding the milk company’s market share.
   - [ ] d) all of the above.
ECONOMICS:
A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS
FUNDAMENTAL ECONOMIC CONCEPTS
Viewing Guide

Directions: As you watch the video, fill in the blanks in the following phrases.

1. a) Economics is based on ________________________.
   b) Which can be a function of ________________________.
   c) It can also be a function of ________________________.
   d) In the arena of human economics, societal and individual ________________________ can also play a role.

2. The principle of ________________________ ____________ states that if you have more of one thing you must have less of another.

3. Western economies can trace their histories back to the kings and queens of Europe, who ran ________________________ -controlled economies.

4. Through much of the Twentieth Century, the ________________________ ____________ economy philosophy vied for world dominance with a new form of ________________________ economy called communism.

5. While at one time individuals did all their own work to survive, over time, as populations increased, a ________________________ ____________ took place.

6. The cornerstone of the ________________________ ____________ was the invention of the ________________________ line and its use of machines to produce goods and supply services.

7. Division of labor couldn't work without an acceptable ________________________ ____________.

8. Most countries have ________________________ ____________ which make sure there is enough money in circulation.

9. The primary entity or institution of the free market, the ________________________, is a legal entity which has as its goal the production of specific goods or services to make a profit.

(Continued on Blackline Master 2)
ECONOMICS: 
A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS

FUNDAMENTAL ECONOMIC CONCEPTS

Viewing Guide (continued)

10. Corporate attorney David Walder explains that starting a corporation is fairly simple. First, we must decide if it is for __________________ or non-____________________. Then, we draft the articles of __________________ which include the _______________ of the corporation, the number of shares to be issued, the names of the initial members of the ________________________, and the registered agent and the registered _____________________.

11. There are two major kinds of ___________________ issued by corporations: _________________ and _____________________.

12. The _________________________ is perhaps the epitome of the free market, where transactions take place exclusively for the purpose of making money.

13. Like flea markets, malls, department stores, and mail order catalogs are all part of an elaborate ______________________ system. To get a product from its point of manufacture to the point of sale there is a large ______________________ network.

14. Once a corporation is created and its purpose defined, its fate will depend on: consumer or ______________________ of its good or service, and profitability in combining the _________________ to produce the good or service.

15. The factors of production are: ______________________, ______________________, ______________________, and ______________________.
Instructions: Watch the video as the question is asked and a visual is shown, then check the box for the best answer on this worksheet.

1. One requirement for an acceptable medium of exchange is:
   - a) accepted by everyone.
   - b) backed by a reserve of gold or silver.
   - c) not easily destroyed.
   - d) made of gold or silver.

2. Both of these businesses are examples of:
   - a) economic systems.
   - b) marketplaces.
   - c) factors of production.
   - d) capital.

3. Construction of this home utilizes which factors of production?
   - a) Natural resources and labor.
   - b) Capital.
   - c) Other parts.
   - d) All of the above.

4. This business is a corporation, which means that:
   - a) it does business of over $1 million each year.
   - b) it makes a profit.
   - c) it has completed legal paperwork.
   - d) its stock is publicly traded.

5. According to the video, the fate of a corporation depends on:
   - a) market acceptance of its good or service.
   - b) whether it can sell a large number of stocks.
   - c) profitability in combining the factors of production.
   - d) a & c.
ECONOMICS: A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS

FUNDAMENTAL ECONOMIC CONCEPTS

Discussion Questions

Directions: Answer the following questions in preparation for a class discussion. Use the back of this sheet if necessary.

1. What is economics?

2. Define scarcity. Why does it exist?

3. What is the principle of opportunity cost?

4. What four scales of opportunity cost were mentioned in the video?

5. Why are the concepts of scarcity and opportunity cost so important to economics?

6. What are the four factors of production?

7. What is a corporation?

8. What are the steps a business must take to incorporate?

9. What are the two factors which affect the ability of a corporation to survive?

10. What is a centrally-controlled economy? What are the other names for this type of economy, and what examples of these systems did the video provide?

11. What is division of labor, and why is it important in the free market?

12. What is the economic significance of the Industrial Revolution?

13. What are the three factors which make an acceptable medium of exchange?

14. What is the function of countries' central banks?

15. What is the function of local banks?

16. What are marketplaces, and what other system is essential to their success?

17. What determines prices in the market?
1. With scarcity at the base of all material economics, the key operating principle is
__________________, which states that: ________________________________
_______________________________________________________________.

2. _______________________________ could not happen without an acceptable medium of exchange.

3. Communism is a form of __________________________. Most economies today are _________
_________________________ economies.

4. The _______________________________ may be combined in many ways; one company
may use a large number of purchased parts, while another may rely heavily on its employees, also known as
being _________________________________.

5. The _______________________________ was marked by increasing mechanization,
and the development of the _________________________________.

6. _______________________________ are traded freely at a stock exchange.

7. One of the requirements for a successful ___________________________ is ________________ acceptance of its
good or service.

8. _______________________________ may be a function of time, geography, or of human values.

| labor intensive | local bank | private stocks |
| free-market economy | division of labor | public stocks |
| production line | corporation | supply and demand |
| command economy | central bank | capital |
| barter | market | scarcity |
| capital intensive | opportunity cost | Industrial Revolution |

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Question: What's the difference between a finance major and an economics major?
Answer: Opportunity cost.

Directions: Fill in the section headings with the four types of opportunity cost discussed in the video. Then, using newspapers, magazines, interviews, personal experience, or other resources, discuss a recent example of each type of opportunity cost. Be sure to state how scarcity influenced the choices made. Go onto the back or use another sheet if necessary.

1 - _______________________

2 - _______________________

3 - _______________________

4 - _______________________
1. EcEdWeb is a student resource linked to economics sites providing international data, personal finance information, government budgets and debts, and more. This site can be used as a starting point for any economics research.

   [Link to EcEdWeb](http://ecedweb.unomaha.edu/econinfo.htm)

2. There has recently been discussion that since populations are increasing and resources are decreasing, businesses should move from being capital, or resource, intensive to being labor intensive. Examples of this idea would be the family farm versus the factory farm, and timber farming instead of cutting old growth. At the same time, the business trend has been toward using capital more intensively in hopes of increasing worker productivity. Explore these ideas and decide what you believe. Write a short essay defending your point of view. Some sites that may be useful are as follows:

   [Link to RMI](http://www.rmi.org)
   [Link to ISD](http://lisd1.lisd.ca/)

3. Using a search engine, do a search on vocabulary words from the list of key terms. If more than one student searches for the same word, how many different sites can you come up with that provide interesting information? To where do your searches lead?

4. The central banks of many countries are available on-line. Most have a section devoted to explaining their functions and how those are carried out, as well as sections discussing the amount of money in circulation. These sites have data about central bank functions well beyond what is in the video, however you can pick out useful information from them. A couple of sites are as follows. Search for others, but look out for local banks that have "central bank" in their names.

   [Link to Central Bank of Cyprus](http://www.centralbank.gov.cy/)
   [Link to Central Bank of Thailand](http://ipod2.bot.or.th/)
   [Link to United States Federal Reserve Bank](http://www.bog.frb-fed.us)

5. There are dozens of different stock markets, and most of those are now on-line. Look in more depth at the buying and selling of public corporate stocks at sites like the New York Stock Exchange's.

   [Link to NYSE](http://www.nyse.com)
1. How did the video define "economics?"

2. Define "opportunity cost." Be sure to mention why it exists.

3. What are the four levels of opportunity cost?

4. A corporation cannot survive without what two factors?

5. Name the four factors of production and give an example of each.

6. What are the three factors which make an acceptable medium of exchange?

7. Two types of banks were discussed in the video. Name each and explain its function.

8. What are marketplaces in the language of economics?

9. What determines prices in the market?
ECONOMICS:
A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS
UNIT OF STUDY TEST

Instructions: Follow the instructions within each question. When providing definitions, make sure you utilize other key vocabulary words.

1. a) Name two of the types of market failures discussed in the unit.

   b) Name the three tools governments have to correct market failures.

2. Find the median __________ and the average __________ of the following set of numbers. Use the back of the test, or another sheet, if needed.

   6      14      17      22      31      34      36      42      60      84      107      115

3. Define opportunity cost and list the four levels at which it operates.

4. Define aggregate demand.

5. Name the four factors of production.

6. a) Explain the difference between the Gross National Product (GNP) and the Gross Domestic Product (GDP).

   b) Name the five factors that affect the GNP and the GDP.
7. Name and describe the functions of the two types of banks discussed in the unit.

8. a) In the __________________ economy, ___________ is the control mechanism that prevents large surpluses or shortages of goods, services, or labor.

   An increase or decrease in consumer or market _____________ for items affects both the cost and the quantities in which producers ______________ the items.

   b) Describe how the previous statements (8 a) work. Use an example.


10. List the seven prime categories of origin of supply.

11. Draw and label the diagram of microeconomic flows.