FUNDAMENTAL ECONOMIC CONCEPTS

from ECONOMICS: A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS

Teacher's Guide
FUNDAMENTAL ECONOMIC CONCEPTS

from Economics: A Framework for Teaching the Basic Concepts

Video Produced by...
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Teacher's Guide by...
Lianna Bodzin

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united learning
11405 Sherman Avenue | Suite 100 | Evanston, IL 60202
800.323.9084 | 847.328.6700 | FAX 847.328.6706
WWW.UNITEDLEARNING.COM | INFO@UNITEDLEARNING.COM
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ECONOMICS: A FRAMEWORK FOR
TEACHING THE BASIC CONCEPTS
Grades 9-12

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.

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 One**

**Fundamental Economic Concepts**

*Viewing Time: 29:16 minutes*

**SUGGESTED INSTRUCTIONAL PROCEDURES**

**Teacher Preparation**
- Preview *Part One: Fundamental Economic Concepts*
- Duplicate blackline masters 1-4

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 basic economic 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](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://netec.mcc.ac.uk/JokEc.html)
  [http://quasar.csuchico.edu/econ/links/econhumor.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:
  - scarcity
  - Federal Reserve Bank
  - opportunity cost
  - local bank
  - communism
  - corporation
  - free-market economy
  - public and private stocks
  - Industrial Revolution
  - marketplace
  - mechanization
  - supply and demand
  - division of labor
  - distribution system
  - production line
  - factors of production
  - labor or capital intensive
  - barter
  - central bank
  - planned, centrally-controlled, or command economy

- Name the causes of scarcity: time, geography, and societal and individual values.

- Define the four levels of opportunity cost: global, corporate, consumer, and individual.

- Elucidate why scarcity and opportunity cost are the basis of economics.

- Define the three factors important to have an acceptable medium of exchange: that it be accepted by everyone, be light in weight, and not be easily counterfeited.

- Identify the factors which affect the ability of a corporation to survive as consumer or market acceptance, and profitability in combining the factors of production to produce its good or service.

- Name the four factors of production: natural resources, labor, capital, and other (purchased) parts.

**Introducing the Video and Pre-Viewing Activities**

Tell students that they are going to see a program about the fundamental principles behind the study of economics. Economics is the study of the use of limited resources to produce and distribute goods and services. Scarcity, the principle underlying most economic decisions and policies, leads to opportunity cost decisions—the necessary choice between economic options. *Fundamental Economic Concepts* equips students with an understanding of historical economic systems, the structure and function of the free-market economy, and the institutions and incentives that have developed to regulate production and distribution of goods, services, and money, which are exchanged in the world marketplace.

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. An answer key is on page 12.

- **Present the video.** The viewing time is 29:16 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**, and may be duplicated and distributed prior to the class discussion.

1. What is economics?
   *Economics is the study of how limited resources are used to produce and distribute goods and services.*

2. Define scarcity. Why does it exist?
   *Scarcity is an insufficiency of supply; in other words, it is the condition of there being insufficient quantities of an item for everyone to have as much as they want. Scarcity can occur as a function of time or a function of geography, and is influenced by societal and individual values.*
3. What is the principle of opportunity cost?
*Opportunity cost dictates that if you have more of one thing you must have less of another — if you choose A, you cannot do or buy B.*

4. What four scales of opportunity cost were mentioned in the video?
*Global — the use of planetary resources; corporate — how a business chooses to use the factors of production; consumer — how people spend their money; and individual — how individuals spend their time.*

5. Why are the concepts of scarcity and opportunity cost so important to economics?
*Scarcity and opportunity cost are the basis of economic theories because if there were true abundance of everything, a discussion of economics would be unnecessary.*

6. What are the four factors of production?
*Natural resources, gifts of nature; labor, people to do work; capital, money, buildings, and tools; other parts, items purchased from suppliers.*

7. What is a corporation?
*A corporation is a legal entity which has as its goal the production of particular goods and/or services.*

8. What are the steps a business must take to incorporate? 1) Decide if it is a for-profit or non-profit corporation. 2) Draft the articles of incorporation including: a) name of the corporation, b) number of shares the corporation is authorized to issue, c) names of the initial members of the board of directors, d) the registered agent, and e) the registered office. 3) File the articles of incorporation with the Secretary of State for the state of incorporation. 4) Board of directors meets to adopt bylaws and issue shares.

9. What are the two factors which affect the ability of a corporation to survive?
*The company must get consumer or market acceptance of its goods or services (it must fill or create a demand), and it must profitably combine the factors of production to produce its good or service, that is, it must make money.*

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?
*It is an economy within which the government controls all economic decisions. It is also called a planned economy, or a command economy. Most communist countries and historical monarchies fit into this model.*

11. What is division of labor, and why is it important in the free market?
*Division of labor is the specialization in particular skills by individuals. When labor is divided, people cannot provide all necessary goods and services for themselves and must instead purchase them from others. This creates the need for an acceptable medium of exchange.*

12. What is the economic significance of the Industrial Revolution?
*With the introduction of the production, or assembly line, division of labor was taken to its extreme — people specialized in production of only parts of products. Also, products could be produced more quickly and cheaply.*

13. What are the three factors which make an acceptable medium of exchange?
*It must be light in weight, accepted by everyone, and not easily copied, or counterfeited.*

14. What is the function of countries’ central banks?
*Central banks make sure that there is enough money in circulation to handle all marketplace transactions.*
15. What is the function of local banks? They store money, loan money, and provide financial services to help free market transactions flow easily.

16. What are marketplaces, and what other system is essential to their success? Marketplaces are outlets for the exchange of goods or services and money. Without a complex distribution and transportation network, such distribution would be impossible.


**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, Vocabulary Exercise**. Explain to the students that an understanding of this vocabulary is essential to any study of economics.

3. Distribute **Blackline Master 6, Opportunity Cost**. If the students are unsure of the four levels of opportunity cost (global, corporate, consumer, and individual), it may be helpful to review them in class prior to handing out this worksheet.

4. For students or classrooms with Internet access, distribute **Blackline Master 7, Internet Activities**. Have students pick one or more activities.

5. Class discussion or essay topic: The video asserts, "It would be impossible for all the world's people to revert back to a natural state, and live independently from our economic system of production and distribution," and that, therefore, economics is at the core of survival. Have the class discuss this idea. Can they imagine living without money? How many survival skills do they possess? What would it take for the world to go back to the subsistence living of two hundred years ago that was outlined in the video?

6. 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 economics affects their lives. They may want to utilize encyclopedias, the Internet, interviews, surveys, etc. Upon completion, they could write papers or do presentations.

Sample topic ideas: Demonstrate in more depth how the mechanization of the Industrial Revolution changed the economic landscape. Look more deeply into the centrally-controlled economies of seventeenth century Europe or twentieth century communist countries. Research the history of the production, or assembly, line. Are there any factories in your area that utilize this method of production?

7. The video stated that computers enjoyed success because (1) they combined and replaced the functions of many other tools, (2) they made work and life easier, (3) they became easier to use, (4) their prices fell, and (5) they were effectively advertised. Ask the class to analyze the success or lack of success of other products - food and beverages, toys, electronics, appliances, etc.

As an in-class, group activity, students could compete to design a product that they feel would be successful. If there are sufficient resources, the class could form a corporation for the purpose of attempting to market one of the products.

8. Following the completion of this lesson, distribute **Blackline Master 8, 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.
Blackline Master 6. Opportunity Cost

The four levels need not be listed in any particular order and are: global, corporate, consumer, and individual. Examples should be similar to those in the video, but should reflect current events and personal experiences.

Blackline Master 8. Quiz

For each correct answer, score as follows: 1 point each for questions 1, 2, 8, and 9 (subtract 1/2 point if there is no mention of scarcity in question 1), 1 point for each correct answer in questions 3, 4 and 6, one point for each correct answer and one point for each correct definition in questions 5 and 7. (Total 25 points.) You may use this grading scale or one of your own choice.

1. Economics is the study of how limited resources are used to produce and distribute goods and services.
2. Opportunity cost dictates that, because of resource scarcity, if you have more of one thing you must have less of another.
3. global, corporate, consumer, individual
4. The company must have consumer or market acceptance of its good or service, and profitability in combining the factors of production in the production of its good or service.
5. examples will vary
   Natural resources (lumber, water, oil...)
   Labor (employees)
   Capital (office building, money, computers, tractors...)
   Other parts (nails, paper, shingles...)
6. An acceptable medium of exchange must be light in weight, accepted by everyone, and not easily counterfeited.
7. Central banks make sure there is enough money in circulation to handle all marketplace transactions. Local banks store money, loan money, and provide financial services to help free market transactions flow easily.
8. Marketplaces are outlets for the exchange of goods and services and money.

**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 are acceptable (1 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** (1 point each):
   - Median 35
   - Average 46

3. **Fundamental Economic Concepts** (1 point for an acceptable definition, 1 point for each of 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** (1 point): Aggregate demand is the percentage of income spent by an individual.

5. **Fundamental Economic Concepts** (1 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 the use of resources to produce and distribute goods and services. While not all the world's problems are economic in nature, many of them have an economic component or dimension. Today, economics is at the core of survival itself, for it would be impossible for all the world's people to revert back to a natural state and live independently from our machine driven system of economic production and distribution.

So what are the principals that are at the core of economic systems? In this program we will look at the most important basic economic concepts.

Fundamental Economic Concepts

Economics is based on scarcity... the kind of scarcity that wintering animals are faced with in their search for food enough to survive. Scarcity is not an all or nothing affair. It can be a function of time. For instance, grass, abundant in summer, is scarce in the winter. Scarcity can also be a function of geography. This bull elk has a whole valley to himself, so he does not need to compete with any other animals for food. In the arena of human economics, societal and individual values can play a dominant role in creating haves and have-nots. Let's look at how this works by examining one of the world's most important natural resources - oil.

Oil is a critical component to the functioning of Western economies. One of the first things to notice about crude oil reserves is that their distribution is not uniform across the planet. There is very little oil in Western Europe and Japan. So, geographic disparity creates scarcity in some areas-haves and have-nots.

But having crude oil is not enough. After it is extracted from the ground, the oil must undergo a highly technological refining process to result in a product such as gasoline. So crude oil may be abundant in a geographical region, but low or zero productivity in processing it can result in scarcity.
When scarcity exists, rarely is the scarce commodity distributed equally among all peoples. Most oil, for example is consumed by only a handful of Western and Eastern industrial nations-nations that can pay for it.

Scarcity of resources, or even the threat of it, can have dire consequences. In 1990, when Iraq invaded oil rich Kuwait, threatening to create a shortage in the supply of oil, the Gulf War began. Many people died and an environmental disaster ensued. Shortages, or scarcity, can bring about all manner of human misery and suffering.

One of the most appalling situations unfolded in Colonial America, where land resources were abundant, but laborers to work the land were in short supply. Initially, the first American settlers recruited poor European workers into indentured servitude to fill the labor shortage. Later, when that solution proved inadequate, Black Africans were captured and forced into slavery.

Controversy over slavery resulted in a bloody civil war with many deaths, and its repercussions are felt in the United States to this day.

With scarcity at the basis of material economics, the key operating principle is:

Opportunity Cost: If you have more of one thing, you must have less of another.

The principle of opportunity cost states that if you have more of one thing you must have less of another. In the case of true abundance opportunity cost diminishes or ceases to exist, and you can "have it all."

Let's look at how the principle of opportunity cost works on a variety of levels.

Over the planet earth there is much land-but what to do with it? If we use it for a city, we cannot farm it. In the city, if we build skyscrapers, we exclude residential neighborhoods. On a global scale, there is great debate over the preservation of the world's rain forests. Should they be saved for wildlife, recreation, and the health of the planet? Or should they be cleared for agriculture and other human industrial purposes? These are choices that must be made.

Land is finite; forests are limited; and many of the earth's resources can be used up. All of these facts must be considered when we make choices, choices which, once made, prevent other possible choices from being fulfilled. Again, the principle of opportunity cost at work.

Opportunity cost functions at all levels of business. If a company needs to distribute videotapes to customers, it can decide to invest in tape duplication machines and commit labor hours to the process. Alternately, it can take the work to another company which specializes in tape duplication and pay them to do the work. In the latter case, the company uses up more of its capital money resources, but less of its labor resources.

At the consumer level, when faced with limited income, we cannot buy everything. If we decide to buy toys, we cannot have a telescope or new shoes or jewelry. Again, opportunity cost.

Even how a person chooses to spend his or her time relates to opportunity cost. When we watch television, it is often exclusive of other activities, such as outdoor recreation. Such a choice, while not directly economic, has economic consequences. Our decision to purchase a television rather than sporting goods impacts both of those industries, and the people in them.

So, based on scarcity, we have seen that economics is concerned primarily with a subset of opportunity cost decisions-those that deal with the use of resources to produce and distribute goods and services.
And those goods and services of the Western industrial economies are truly remarkable in their number, quality and variety. How did such a plethora of choices evolve?

Western economies can trace their histories back to the kings and queens of Europe. These monarchs ran centrally controlled economies, and their subjects were a kind of slave labor. However, in the 1770s, particularly in places like Britain and the new country of America, a new system of economic functioning was emerging called the free-market economy. Most economists believe the free-market economy triggered the Industrial Revolution — the use of machines to produce goods. The mechanization of economic processes, particularly in agriculture, transformed the world.

Through much of the Twentieth Century, the free-market economy philosophy vied for world dominance with a new form of command economy called communism, anchored in Russia and China. In a planned, centrally-controlled, communist economy, the government controls all economic decisions. It determines what goods and services are produced, who receives training or education, what kind of employment each citizen has, and who buys the goods and services. It even sets actual wages and prices. This effort to control the thousands and sometimes millions of decisions which constitute the economic activity of a country proved too complex and overwhelming to be entirely effective in all areas.

For this, and many other reasons, by the end of the Twentieth Century, the communist approach appears to have failed.

So let's look at some of the major properties of today's free-market economy and how they came to be.

Two hundred years ago, most people possessed the necessary skills for survival. Most work was done by hand, with only simple tools. Men were hunters, farmers, and woodworkers. Women were cooks, weavers, and caretakers of children and animals. But over time, as populations increased, labor became specialized; a division of labor took place.

Today we have bakers who make our bread, veterinarians who care for animals, and carpenters who build our furniture. A few people raise food for the rest of us, and both women and men are able to have almost any job they choose.

However, the cornerstone of the Industrial Revolution was the invention of the production line and its use of machines to produce goods, and supply services. One worker no longer produced a single product, but specialized in creating or putting together just one component of that product. In the creation of a large item, such as a bus, we find hundreds of individuals contributing their specific job skills toward the completion of the end product. From the cutters and welders who erect the frame of the bus, to the assemblers who put together the electronic components, to the people who install the seats, the production line, through the use of machines, allows a large number of products to be built simultaneously at a high rate of speed.

Division of labor could never work unless there was an acceptable medium of exchange. The welder of busses would have a hard time bartering his skill for bread from the baker. What is needed to make division of labor work is money — a medium of exchange accepted by everyone, light in weight and not easily counterfeited. Most countries have central banks which make sure there is enough money in circulation to handle the vast number of transactions in the marketplace. In the United States, this central bank is called the Federal Reserve, and is located in Washington, D.C.

The free-market economy has also evolved a strong system of local banks which store money, loan money, and provide other financial services like checking accounts, and credit cards, all of which help free-market transactions flow easily.
The primary entity or institution of the free-market economy is the corporation. The corporation is a legal entity which has as its goal the production of specific goods and services to make a profit. It is a major user of resources and labor. Here are some corporations you may be familiar with.

Starting a corporation is a rather simple matter. Corporate attorney David Walder explains how it is done.

"Starting a corporation can be fairly simple. First we must decide whether it's a for-profit or a non-profit corporation. Then we need to draft the articles of incorporation where we need to include the important information for the basic structure of the corporation, such as the name of the corporation, the number of shares that the corporation is authorized to issue, the names of the initial members of the board of directors, as well as the name of the registered agent and the registered office. At that point you file the articles, along with the appropriate filing fee, with the appropriate Secretary of State for the state of incorporation.

After that, there would be an initial Board of Directors meeting, where the directors would meet and adopt bylaws and decide how many shares to issue and to whom-usually for consideration-and the shares usually would be common shares, they would be,...though the corporation could have additional option to issue restricted or any other types of shares that would assist the corporation in its goals."

For the day-to-day running of a corporation there are officers who govern the company. The principal one is the President. There are also vice presidents, treasurers, and secretaries. Here is a bank president, and the president of the bus plant we saw earlier.

We have seen that the ownership of corporations was determined by the ownership of the stock. There are two major kinds of stocks issued by corporations: private and public.

Public stocks are traded freely in an open market called a stock exchange. The most famous of these is the New York Stock Exchange. With public stocks, anybody, if they have the money to invest, can become one of the owners of companies like IBM, United Airlines, or Intel. The stock market is perhaps the epitome of the free market, where transactions take place exclusively for the purpose of making money.

So far we've seen some of the primary features of the free-market economy: the corporation as the major institution; the establishment of an acceptable medium of exchange; a high degree of labor division; and the intensive use of machines in producing goods and services.

Finally, we actually need a marketplace-arenas where goods and services can be exchanged. We've already seen the stock market, but an open air market like this one, found the world over, is often what people think of when imagining an economic market. Here, many goods are brought together, sold and traded, with prices determined largely by the factors of supply and demand. One of the factors integral to the success of the flea market is the ability of the sellers to get their wares to the marketplace. This is a rudimentary distribution system that links the producer of the goods to the consumer.

Malls, department stores and mail order catalogs are all part of an elaborate distribution system. To get a product from its point of manufacture to the point of sale there is a large transportation network. Trucks logging millions of miles, trains constantly moving, railroad cars filled with products, ships sailing the planet's waters, even airplanes moving packages of every size form this complex network of activity that, day and night, moves products across the country and the globe.

It is into this sophisticated marketplace that a corporation must come into existence and compete in order to survive. Corporations are like people, they are born, grow, live, and die. At one
time, there were many businesses associated with horse-drawn vehicles, makers of wagons, wheels, and harnesses. Now, due to changing market demand, they have all but disappeared.

Given a well-functioning free market, once a corporation is created and its purpose defined, its fate in general will depend on two factors: consumer or market acceptance of the good or service, and profitability in combining the factors of production to produce the good or service.

For the first factor, let’s look at a case history.

Personal computers are now an accepted fixture in most business and many homes. However, there was a time when their future was not so bright.

In the 1970s and early Eighties, computers were a large mainframe machines, housed in large computer rooms. Their primary use was for research in the fields of science and engineering. They helped build the atom bomb, and put men in space. Computers were also used in modern military forces and were instrumental devices for storing and retrieving huge amounts of data for businesses like banks and insurance companies.

But why in the world would anyone want a smaller version of a machine like this in their office?

Well, in the Sixties and Seventies, people were using typewriters and doing business calculations by hand, with pencils and adding machines.

That changed when small personal computers were developed that could run software programs that performed word processing, replacing the typewriter, and do spreadsheets, the backbone of accounting procedures necessary for every business. The PC replaced the pencil and hand calculator as well. These applications created market acceptance of the personal computer almost overnight. Now there is every kind of software imaginable that can be run on a personal computer.

A second application drove the market expansion into its next phase, using the computer to produce graphics. Desktop publishing replaced the old manual cut and paste method. Now anyone could produce professional looking marketing pieces, documents, and even publications.

At the same time, that practical applications were driving market acceptance, using computers was getting easier. Instead of having to use complex languages for operating the computer, a simple symbolic interface was developed. Now operating a computer was far less complicated, and therefore possible for a much greater number of people.

Finally, what once cost $100,000 is now less than $2,000. The ability to profitably manufacture desktop computers has caused prices to fall steadily for the consumer, making them an affordable addition to many homes and businesses.

Of course, computers and their software have been heavily advertised, fueling the ever-expanding sales market.

We have seen that satisfying consumer needs in three areas has driven the market expansion of personal computing. Significant applications, such as word processing, spreadsheets and graphics fulfilled a real need. User friendliness through graphic and symbolic interfaces was, in a way, like making clothes stylish, rather than purely functional. Finally, lowering production costs resulted in lower prices for the consumer, making computers widely affordable.

This brings us to the second component of corporate success - profitability in combining the factors of production. The factors of production are: natural resources, considered to be gifts of nature; labor, that is, the workers; capital, such as money, build-
ings, and tools; and other parts, which are purchased from outside suppliers.

Let's compare two corporations which produce the same product - baked goods. Both successfully combine the factors of production in different ways.

Rudi's is a large bakery. It is capital intensive — it uses large machines to produce its baked goods. Much of its labor is used to monitor the operation of the production lines. It uses very little true material resources, only water. It's raw materials are processed grains like wheat flour, which it buys from other companies.

Daily Bread also gets its raw material, flour, from mills that process grains. However, it intensively uses labor to mix and prepare the baked goods.

Both companies bake their products in an oven. Daily Bread on a small scale, and Rudi's on a larger.

Both companies profitably produce excellent baked goods.

So we have seen that economics looks at how resources are used to produce goods and services to satisfy human wants and needs. That the methods for doing this have changed over time from the labor intensive, simple tool economies, to the machine based, large corporations of today.

So far, economics has been based on scarcity and the principle of opportunity cost, but perhaps some day a condition of true material abundance can exist for all.

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**Video Quiz**

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
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 could never 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)
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 ________________, 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.
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3. Construction of this home utilizes which factors of production?
   - [ ] a) Natural resources and labor.
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   - [ ] a) market acceptance of its good or service.
   - [ ] b) whether it can sell a large number of stocks.
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   - [ ] 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?
ECONOMICS:
A FRAMEWORK FOR TEACHING THE BASIC CONCEPTS
FUNDAMENTAL ECONOMIC CONCEPTS
Vocabulary Exercise

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]

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:

   [Links to websites discussing resource and labor intensity]

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.

   [Links to central banks websites]

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 website]
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.