

# AS AND A LEVEL

## *Delivery Guide*

H040/H460

# *ECONOMICS*

Theme: Microeconomics: Scarcity  
and Choice

March 2015



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# Introduction

Delivery guides are designed to represent a body of knowledge about teaching a particular topic and contain:

- Curriculum Content: A clear outline of the content covered by the delivery guide;
- Thinking Conceptually: Expert guidance on the key concepts involved, common difficulties students may have, approaches to teaching that can help students understand these concepts and how this topic links conceptually to other areas of the subject;
- Thinking Contextually: A range of suggested teaching activities using a variety of themes so that different activities can be selected which best suit particular classes, learning styles or teaching approaches.

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## KEY



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A Level content only



# Curriculum Content The basic economic problem

## **Microeconomics:** Scarcity and choice > The basic economic problem

Students should be able to:

- explain and distinguish between economic goods and free goods
- explain what is meant by the basic 'economic problem'
- evaluate the implications of the basic 'economic problem'
- explain and distinguish between normative and positive statements
- explain and distinguish between 'needs' and 'wants'
- evaluate, using examples, the problem of scarcity and the requirement to make choices
- explain, using examples, the impact of sustainability on scarcity and choice
- explain the role of economic agents:
  - government
  - firms
  - households
- explain the nature and role of the different factors of production as economic resources
- explain the rewards to the factors of production.



# Thinking Conceptually The basic economic problem

***The key ideas are that the co-existence of scarce resources and infinite wants leads to the need for an efficient allocation of those resources, which is what Economics does by answering the three basic questions of what to produce, how to produce it and for whom it should be produced.***

## **Approaches to teaching the content**

This will probably be the very first topic that your students tackle and so it is important to remember that, unless they have taken GCSE or IGCSE Economics, every idea and concept will be brand new to them. Therefore, a degree of patience and a willingness to explain key terms and concepts may be needed. Some of them will immediately see connections with other subjects and with their own knowledge and experience of the world, whilst others will initially need things pointing out to them. A sequence of interesting lessons will introduce them to some of the exciting concepts in Economics which will give them a new understanding of and perspective on the world and how it works. Scarcity is very topical and current affairs will often provide useful examples.

## **Common misconceptions or difficulties students may have**

There are certain aspects of this area which can initially be problematic for students. For example students may need to see several examples of positive and normative economic statements before they grasp the difference and can spot it for themselves. It will also be useful to clarify the difference between wants and needs and to give students the opportunity to reflect on the application of this idea in their own lives.

## **Conceptual links**

The basic economic problem links with the following areas of the specification: opportunity cost; allocation of resources; supply and demand and the interaction of markets; externalities; economic growth and development.

Students should be made aware of the all-pervasive nature of the basic economic problem and the extent to which it influences economic decision making.



# Thinking Contextually The basic economic problem

## ACTIVITIES

The basic economic problem is so called because it applies in any context wherein economic decisions have to be made. Typical examples that students will readily be able to relate to are their own personal budget, spending in school or college on different types of resources and family decisions such as where to go on holiday. Wider contexts with which students may already be familiar could be sustainable sourcing, renewable and non-renewable resources and topical issues from the news relating to choices which have to be made between competing options. Some students may already be aware of the role of Government and its use of The Budget when allocating resources.

### Activities

#### The basic survival problem

This activity is designed to illustrate the idea of scarce resources and how to choose between competing uses and to encourage creative thinking and reasoning skills. The activity can be based in any survival scenario with relevant goods to choose between eg marooned in a desert or in space.

- As a class students should generate an extensive list of equipment that could possibly be useful for survival in the selected scenario. Students can then individually choose items from they think will give them the best chances of survival. They either rank them according to their importance or select a limited number from the whole selection.
- At the end of the activity, link back to theory with reference to consumers ranking goods according to the benefit they give plus making choices between goods due to scarcity.

The duration of this activity can be varied depending on number of pieces of equipment suggested, stages involving individual, paired and group ranking, and time allowed for discussion/comparison of results.



# Thinking Contextually The basic economic problem

Activities	
<p><b>Economics in Society</b></p> <p><a href="http://www.ted.com/talks/pete_alcorn_s_vision_of_a_better_world">www.ted.com/talks/pete_alcorn_s_vision_of_a_better_world</a></p> <p>This three minute talk is an excellent way of showing students the role of economics in society and how changes to population and technology will make possible many future opportunities. For teachers who use economic history in their teaching, it provides a way in to Malthus' 1798 essay on the principle of population and Thomas Carlyle's subsequent description of economics as the "dismal science".</p>	
<p><b>Positive and normative</b></p> <p>Give students an explanation of these terms, together with one or two examples of each. Set them the task of finding an article from an online edition of a national newspaper which contains examples of both types of statement. They should analyse the statements so as to show what makes them either positive or normative. They should go on to evaluate the possible effects on readers of the different types of statement.</p> <p>Duration: 20-30 minutes.</p>	
<p><b>Allocating scarce resources</b></p> <p>Take a bag of sweets into the lesson. Explain that there are not enough sweets for everyone and the students need to come up with a way of allocating the sweets that they all agree on. This will probably elicit some or all of the following possibilities: teacher decides; sharing the sweets; a lottery; teacher sets a price; auction. Use this process to facilitate a discussion on how society allocates scarce resources.</p> <p>Duration 15 minutes.</p>	
<p><b>Poetical thinking</b></p> <p>Teach students the acronym CELL to help them remember the four factors of production: Capital, Enterprise, Land, Labour. Students should then write a poem which links the four factors to their respective rewards: interest, profit, rent, wages.</p> <p>Duration 20 minutes.</p>	



# Thinking Contextually

## The basic economic problem

Activities	
<p><b>Christmas shopping</b></p> <p>Students should make a list of people for whom they wish to buy presents this year. They should calculate their expected income between the current date and Christmas Day and decide what proportion of that to allocate for presents. They then need to decide how much they are going to spend on each person on their list and write down one possible present for each person.</p> <p>Duration 10 minutes.</p>	
<p><b>Corporate Social Responsibility</b></p> <p>Students should use the internet to research CSR policies of large corporations and find out how they are allocating resources between competing ends and how different stakeholder groups are influencing those decisions.</p> <p>Duration: 30-45 minutes.</p>	
<p><b>Analysing Public Spending</b></p> <p><a href="http://www.ukpublicspending.co.uk">www.ukpublicspending.co.uk</a></p> <p>Students should visit this website and analyse historical changes in public spending. They should then go on to evaluate the reasons for the changes.</p> <p>Duration 25 minutes.</p>	



# Curriculum Content The concept of the margin

**Microeconomics:** Scarcity and choice > The concept of the margin

Students should be able to:

- explain what is meant by the concept of the margin
- calculate the appropriate marginal value from a given set of data
- evaluate the extent to which the marginal concept is useful to economic agents in decision making
- evaluate the concept of rationality as a way of understanding the behaviour of economic agents.

**A Level**  
only



# Thinking Conceptually

## The concept of the margin

***Where the basic economic problem is about whether or not to produce or consume some items rather than others, the concept of the margin is about decisions concerning how much to produce or consume. Producing more units enables firms to add to their revenue but also entails costs. Consuming more units may add to utility but might instead create disutility. Analysis of these decisions allows economic agents to determine the most efficient allocation of resources by deciding on the optimum quantities to produce or consume.***

### **Approaches to teaching the content**

It may be useful to teach this concept after having studied 1.1.3 opportunity cost. In order to decide how many units to produce or consume, it is useful to consider the opportunity cost of the next best alternative foregone. Students will need to be introduced to the ideas of marginal benefit, marginal cost and cost / benefit analysis.

### **Common misconceptions or difficulties students may have**

Within this topic students frequently have difficulty with the concept of sunk costs. They need to be shown why sunk costs must be ignored when making decisions about how many more units to produce or consume. They may need to be shown several examples in different contexts.

When making calculations, students need to be aware that firms will continue to produce and sell units as long as the additional cost of a unit does not exceed the revenue that it creates.

### **Conceptual links**

The concept of the margin links with the following areas of the specification: opportunity cost; allocation of resources; supply and demand and the interaction of markets; wage determination; externalities.

Students need to know that economic decisions about resource allocation are frequently based on marginal analysis and that this should lead to an efficient allocation.



# Thinking Contextually The concept of the margin

## ACTIVITIES

### Activities

#### 'One more wafer' and the concept of margin

This activity can be used to introduce the concept of margin as an additional unit and link simply to ideas of utility/cost/benefit/productivity.

1. Use a type of food that students will enjoy eg biscuits, chocolate, strawberries. Note: check allergies first.
2. Get volunteers or the entire class to eat a mouthful/piece of the food and rate their enjoyment at each stage in a table.
3. Bring together the results on a whiteboard (students could complete this on a sheet).
4. Link to satisfaction/benefit that consumers receive from a good and the price they are willing to pay. This diminishing marginal utility could then be plotted on a graph and linked to gradient of total utility or relationship with demand.

The duration of this activity can be varied depending on number of students, number of stages to gather data and number of links made.

#### Sunk costs in context

Students should discuss the following situations wherein sunk costs must be ignored. You have paid for a "meal deal" in the canteen but you don't like the pudding. Should you eat it?

Suppose that you have gone to the cinema and you are really not enjoying the film. Should you stay until the end?

Imagine that you are on a skiing holiday and there is no snow at the resort. Should you stay there or go to another resort where snow is plentiful?

Suppose that you have bought a new set of tyres for your car but it has failed its MOT and will cost £750 to put right. What should you do?

Duration 25 minutes.



# Thinking Contextually

## The concept of the margin

### Activities

#### Marginal choices

Students should discuss the marginal benefits versus the marginal opportunity cost in the three following cases: purchasing and consuming a regular portion of fries in a fast food restaurant as opposed to a supersize portion; hitting the snooze button and having an extra fifteen minutes sleep before getting up on a school or college day; taking four A levels rather than three. The teacher should emphasise the fact that sunk costs must be ignored.

Duration 20 minutes.

#### Thinking logically

The teacher should draw the outline figure of a person on the whiteboard and label it 'homo economicus'. The teacher should tell students that homo economicus always behaves rationally when making decisions. Each student should then come to the whiteboard and write something about homo economicus or a decision that homo economicus has to make. The teacher may wish to use one or two prompts, such as "homo economicus prefers more to less" or "homo economicus will continue to consume as long as this adds to utility".

Duration 10-15 minutes.



# Curriculum Content Opportunity cost

## **Microeconomics:** Scarcity and choice > Opportunity cost

Students should be able to:

- explain the concept of opportunity cost
- explain what is meant by a trade off
- explain what is meant by a production possibility curve/frontier (PPC/F)
- explain the factors causing a PPC/F to shift
- explain how PPC/F can be used to illustrate scarcity, choice, opportunity cost and productive efficiency
- evaluate the usefulness of the concept of opportunity cost.



# Thinking Conceptually Opportunity cost

***Opportunity cost is a way of representing cost in terms of what could have been had instead of what was actually chosen. It shows an alternative which has to be given up in order to have the first choice.***

## **Approaches to teaching the content**

Opportunity cost shows students that choices are available in economic decisions and that those choices come at a cost. Choices have to be made due to the inevitable conflict between scarce resources and infinite wants, as seen in the prior study of the basic economic problem. Opportunity cost introduces the idea of trade-offs, whereby something has to be given up in order to have more of something else. Students will be introduced to the first instance of diagrammatic analysis in economics, using the Production Possibility Curve [Frontier] (an introduction to this can be found here <http://tutor2u.net/economics/revision-notes/as-markets-production-possibility-frontier.html>). This is an ideal opportunity to teach students the basic principles of diagrammatic analysis. The PPC can be used for both microeconomic and macroeconomic analysis and teachers may wish to take this opportunity to introduce macroeconomics.

## **Common misconceptions or difficulties students may have**

When studying opportunity cost, it should be made clear that an opportunity cost is the cost of just one alternative, the next best alternative foregone and not the sum of all other possible alternatives ie the opportunity cost of decision A is foregoing decision B; it is not the cost of foregoing decisions B, C, D and so forth ad infinitum.

When performing diagrammatic analysis, students need to understand the difference between a pivot of the curve and a shift of the curve. They also need to know that all points on the Frontier represent efficient choices and thus a movement along the Curve does not show an improvement but a different combination of efficient choices.

## **Conceptual links**

Opportunity cost links with the following areas of the specification: allocation of resources; the objectives of economic agents; productive and allocative efficiency; business objectives; economic growth and development; policy conflicts. Students need to see that opportunity cost can be applied in both microeconomic and macroeconomic contexts.



# Thinking Contextually Opportunity cost

## ACTIVITIES

Students should be shown how opportunity cost features in their own personal choices. They could then move on to examine how family decisions such as buying a house depend on opportunity cost. Business decisions as to which advertising media to choose or which products to make could be studied. Government budgetary decisions frequently involve choices featuring opportunity cost and these could be investigated.

### Activities

#### University Decision Time

This activity is designed to introduce students to the concept of opportunity cost.

1. Use an example of fixed resources eg time or money and then present students with a range of choices.
2. Ask students to write down their top three university courses on a whiteboard and then list benefits of both of them.
3. Ask them to select their first choice of how they will spend their time in further education.
4. Now refer to the second choice option they have given up and introduce that as the next best alternative that has been given up (this provides a good opportunity to reinforce the fact that opportunity cost only refers to the next best option, not the total cost of all rejected options).
5. This can then be reapplied to a scenario involving money eg 50p to spend and choice between Coca Cola and Pepsi.

The duration of this activity depends on how long is given for each instruction, but can be speeded up by just jumping straight to the Coca Cola and Pepsi idea.



# Thinking Contextually Opportunity cost

Activities	
<p><b>Life and Death Economics</b></p> <p><a href="http://beta.tutor2u.net/economics/blog/an-activity-for-the-first-economics-lesson-of-the-year">http://beta.tutor2u.net/economics/blog/an-activity-for-the-first-economics-lesson-of-the-year</a></p> <p>This Tutor2u activity involves students making choices about which patients should get treatment and which ones shouldn't and can be used to emphasise the idea of opportunity cost. This can be carried out in pairs and then results could be discussed as a class. This generally leads to discussion about who they think has more right to treatment than others (given the scarcity of resources) – it is important for students to realise that these choices are quite common in the health sector.</p>	
<p><b>Smart Seafood</b></p> <p><a href="http://www.ted.com/talks/barton_seaver_sustainable_seafood_let_s_get_smart">www.ted.com/talks/barton_seaver_sustainable_seafood_let_s_get_smart</a></p> <p>This nine minute talk gives a topical illustration of the practical application of opportunity cost. It contains references to well-known people such as Jamie Oliver and issues such as the true cost of a healthy diet.</p>	
<p><b>School Prom</b></p> <p>Split the class into groups and give them all the following information. They have been given the task of organising the school prom. They have an overall budget of £9500 which is fixed. They have a choice of five different live bands, each at a different cost [£2500, £4000, £5000, £6500, £8000], four different venues, priced at £600, £1500, £2000 or £3000 and four catering options, costing £500, £1000, £3000 or £5000. Teachers may wish to use local examples to add realism to the activity. They must choose some combination of music, venue and catering and justify their choice to the rest of the class with a specific focus on any trade-offs they had to make and how they took the decision where something had to be given up in order to have more of something else.</p> <p>Duration 50 minutes.</p>	
<p><b>10 Billion Budget</b></p> <p>Students should be split into small groups, representing health, education, defence, welfare and emergency services. They should be told that the Government has £10bn to spend and each department has to bid for the money by making a short presentation, setting out their objectives for the spending, resources needed, benefits to the economy and reasons why their bid should be top priority.</p> <p>Duration 50 minutes.</p>	



# Thinking Contextually Opportunity cost

## Activities

### Introducing the Production Possibility Curve [Frontier]

[www.sophia.org/tutorials/chapter-2-the-production-possibilities-frontier-cu](http://www.sophia.org/tutorials/chapter-2-the-production-possibilities-frontier-cu)

This online tutorial, which includes a work-through presentation and video tutorial links, is designed to allow students to:

1. Define a production possibilities frontier (curve).
2. Draw a PPC demonstrating what a point on, inside and outside of the curve represents.
3. Explain the difference between a bowed out PPC and a straight line PPC.

Duration 50 minutes (25 slides).

### Constructing PPCs

Students should construct a straight line Production Possibility Curve where 10 Units of capital goods need to be sacrificed in order to gain 10 Units of consumer goods.

Students should then construct a second PPC using the following points on the curve: 70 Units of capital goods, 70 Units of consumer goods; 50 Units of capital goods, 90 Units of consumer goods; 20 Units of capital goods, 100 Units of consumer goods. The class should then discuss the reasons why the PPC may bow outwards.

Duration 30 minutes.



# Curriculum Content Specialisation and trade

## **Microeconomics:** Scarcity and choice > Specialisation and trade

Students should be able to:

- explain what is meant by specialisation and the division of labour
- evaluate the role of specialisation and the division of labour in addressing the problem of scarcity
- explain how specialisation encourages trade and exchange in an economy
- explain how money facilitates trade and exchange compared to barter systems.



# Thinking Conceptually Specialisation and trade

***Specialisation is the process by which economic agents concentrate on producing specific goods or services in order to exploit an advantage. The process of specialisation can lead to improvements in productivity. This in turn creates opportunities to trade with others who specialise in other goods and services.***

## **Approaches to teaching the content**

One way of teaching this topic would be to follow a timeline, beginning with the history of money. Adam Smith and his famous example of the pin factory to show the potential efficiency savings through specialisation would come next ([www.adamsmith.org/sites/default/files/resources/condensed-WoN.pdf](http://www.adamsmith.org/sites/default/files/resources/condensed-WoN.pdf) - this 'condensed' version of Adam Smith's 'The Wealth of Nations' was produced by the Adam Smith Institute in 2011), followed by David Ricardo and his theories which showed the benefits which can accrue from international trade ([www.dallasfed.org/assets/documents/research/ei/ei0402.pdf](http://www.dallasfed.org/assets/documents/research/ei/ei0402.pdf) - this 'Economic Insights' article provides a good introduction to Ricardo's theories). It would not be necessary at this stage to go into any detail on absolute and comparative advantage. This could be followed by a brief study of Henry Ford and the application of specialisation to car production (a useful video is listed in the activities section) through the introduction of assembly lines.

## **Common misconceptions or difficulties students may have**

There are two somewhat subtle differences which are worth reinforcing as some students may find this difficult to grasp: the difference between specialisation and the division of labour; the difference between specialisation by workers and specialisation by nations.

## **Conceptual links**

Specialisation and trade links with the following areas of the specification: productive and allocative efficiency; international trade. When teaching this topic, students should be made aware of efficiency gains that can arise through specialisation and how the pursuit of these efficiencies can provide a basis for international trade.



# Thinking Contextually Specialisation and trade

## ACTIVITIES

Education is a useful context in which to discuss specialisation. Students could be guided to produce a flowchart to show how people progressively specialise from GCSE to A level, to a degree then a Masters, followed by a PhD. Other examples can show how individuals specialise in the workplace. A further context would be specialisation by firms, illustrated by examples of firms serving niche markets. Students should also consider specialisation by nations and the benefits and costs of such policies.

### Activities

#### **Jack of all trades, master of none**

This activity is designed to introduce the idea of specialisation and to initiate discussion of the effect on trade.

Split the class into 2 groups. Allow 10 minutes to make 3D paper models eg houses, cars, TVs, trains. Choose a selection of templates from the Internet. Both groups have scissors, glue, sticky tape and pencils and have to build as many models as possible in the time.

- Group 1: Students have templates for multiple models.
- Group 2: Students have templates just for one model. Give hints eg the groups can break production into stages and create a production line.

Give a running commentary to illustrate key points from specialisation such as low/high output, potential to mechanise, wastage, number of resources needed.

End with a mind map exercise where they have to think of benefits of specialisation and how this affects trade. This can then be followed up with disadvantages.

The duration of this activity is approximately 40 minutes once instructions, links to the topic given and mind maps completed.



# Thinking Contextually Specialisation and trade

Activities	
<p><b>Money through time</b></p> <p>Students should go to the two websites provided and create a timeline of the history of money, including the uses of money as a medium of exchange, a measure of worth and a store of value.</p> <p><a href="http://www.bbc.co.uk/news/business-18827269">www.bbc.co.uk/news/business-18827269</a></p> <p><a href="http://www.pbs.org/wgbh/nova/ancient/history-money.html">www.pbs.org/wgbh/nova/ancient/history-money.html</a></p> <p>Duration 30 minutes.</p>	
<p><b>Wealth of Nations</b></p> <p><a href="http://www.historyteacher.net/APEuroCourse/Readings-Open/doc-ASmith-WealthOfNations.pdf">www.historyteacher.net/APEuroCourse/Readings-Open/doc-ASmith-WealthOfNations.pdf</a></p> <p>This worksheet contains extracts from Adam Smith's 'Wealth of Nations' and includes a series of questions for students. Alternatively the extracts alone could be highlighted and annotated by students in order to assist them in creating the text for a number of tweets (restricted to 140 characters) highlighting the main points.</p> <p>Duration 30 minutes.</p>	
<p><b>Henry Ford's production line</b></p> <p><a href="http://www.bbc.co.uk/news/business-24440563">www.bbc.co.uk/news/business-24440563</a></p> <p>Once students have been introduced to the concept of specialisation, they should watch this video clip which shows Henry Ford's production line, then make a table of advantages and disadvantages of specialisation to firms and to employees.</p> <p>Duration 10 minutes.</p>	
<p><b>Efficient brewing</b></p> <p>Students could be asked to devise the most efficient method of making a cup of tea using a combination of concurrent and consecutive activities. They should then explain why their method is the most efficient.</p> <p>Duration 15 minutes.</p>	
<p><b>Specialising processes</b></p> <p>Students could devise an enterprise activity involving the making of a good or provision of a service of their choice. They should apply the concept of specialisation to the design of their production or provision process.</p> <p>Duration 20 minutes.</p>	





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